Principal Financial Advisors, Inc.

Investment Advisory Report
City of Hallandale Beach Professional/Management Retirement Plan

Contract No. 4-47771
October 01, 2012 - December 31, 2012

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Principal Financial Advisors, Inc. Overview

As a retirement plan sponsor, you face significant challenges in managing the plan on behalf of participants – fiduciary responsibility, risk management and plan investment decisions, just to name a few. **When you appoint Principal Financial Advisors, Inc. as the plan's ERISA Section 3(38) investment manager, we team with you to address these challenges.**

For 25 years, Principal Financial Advisors (a member company of the Principal Financial Group) has been managing investment strategies. As of December 31, 2012, we manage more than $6.8 billion in assets and have more than 350 clients using our advisory services for retirement plans.

Our mission is to provide high-quality investment advisory and consulting services to help clients meet their goals and objectives by offering access to premier investment managers and customized investment strategies.

The investment advisory services of Principal Financial Advisors are consistent with the following core beliefs:

1) Strategic asset allocation selection and implementation play key roles in a retirement plan's ability to successfully meet its obligations over the long term.
2) Careful analysis of a retirement plan’s assets, liabilities and unique attributes guides asset allocation decisions.
3) Diversifying by asset class, style and investment manager is one of the most effective ways to control investment risk.
4) A portfolio's long-term success depends substantially on selecting appropriate managers and carefully monitoring their performance over time.

Principal Financial Advisors provides:

1) A customized investment strategy based on the plan's unique situation.
2) Assumption of fiduciary responsibility for asset allocation decisions.[1]
3) Benefits of the due diligence process of Principal Life Insurance Company.[2]
4) Experienced investment personnel, comprehensive reporting and top-tier client service.

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[1]The plan sponsor remains the plan's named fiduciary, but Principal Financial Advisors, Inc. has been appointed as the plan's ERISA Section 3(38) investment manager.
[2]Principal Life Insurance Company is responsible for the hiring and monitoring of investment managers made available to you through the due diligence process. Principal Financial Advisors selects from these investment options for retirement portfolios.

Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2012 through 12/31/2012				
Inv Manager or Sub-Advisor Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
Large U.S. Equity				
Large Value				
Edge Asset Management, Inc. Equity Income Separate Account-R6 [3, 11]	$779,854	6.20%	$799,729	6.19%
Principal Global Investors LargeCap Value Separate Account-R6	$794,961	6.32%	$818,548	6.34%
Large Blend				
Principal Global Investors LargeCap S&P 500 Index Separate Account-R6 [2, 8, 38]	$708,085	5.63%	$719,327	5.57%
Large Growth				
T. Rowe Price/Brown Advisory LargeCap Growth I Separate Account-R6 [3, 23, 26, 28]	$1,562,650	12.43%	$1,581,790	12.25%
Small/Mid U.S. Equity				
Mid Cap Value				
Principal Global/Barrow Hanley MidCap Value III Separate Account-R6 [1]	$248,920	1.98%	$259,229	2.01%
Mid Cap Growth				
Turner / Jacobs Levy MidCap Growth III Separate Account-R6 [1, 12, 26]	$236,264	1.88%	$238,549	1.85%
Small Value				
DFA/Vaughan Nelson/LA Capital SmallCap Value II Separate Account-R6 [1, 14, 23, 25, 26]	$247,121	1.97%	$260,983	2.02%
Small Growth				
AllianceBern / CCI / Brown SmallCap Growth I Separate Account-R6 [1, 3, 23, 26, 33]	$242,914	1.93%	$247,259	1.91%
International Equity				
Diversified Emerging Markets				
Principal Global Investors International Emerging Markets Separate Account-R6 [4]	$316,934	2.52%	$346,590	2.68%
Foreign Large Value				
Causeway / Barrow Hanley Overseas Separate Account-R6 [4, 14, 26, 32, 36]	$810,167	6.44%	$882,149	6.83%
Foreign Large Blend				
Fidelity / Schroders International I Separate Account-R6 [4, 14, 17, 26, 30]	$490,839	3.90%	$535,864	4.15%

Portfolio and Strategic Asset Allocation Review

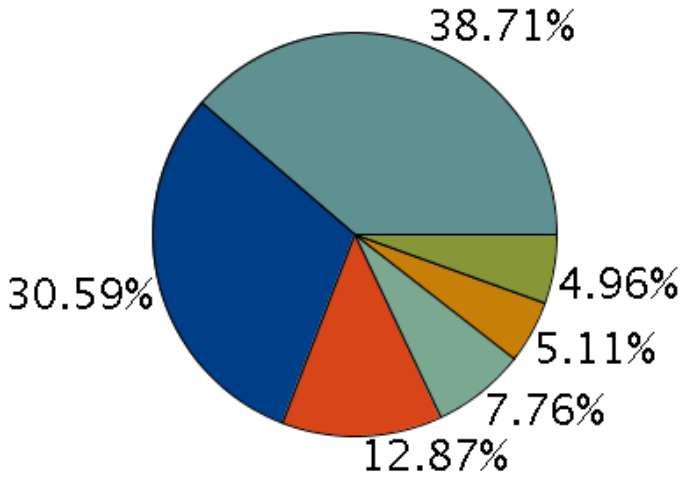
Investment Review - Allocation 10/01/2012 through 12/31/2012				
Inv Manager or Sub-Advisor	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
Real Estate				
Owned Real Estate				
Principal Real Estate Inv U.S. Property Separate Account-R6 [34]	$622,943	4.96%	$648,432	5.02%
Balanced/Asset Allocation				
Moderate Allocation				
Multiple Sub-Advisors Diversified Real Asset Separate Account-R6 [3, 11, 31, 38]	$642,978	5.11%	$652,891	5.05%
Fixed Income				
High Yield Bond				
JP Morgan / Neuberger Berman High Yield I Separate Account-R6 [5, 14, 16, 18, 19]	$505,631	4.02%	$531,757	4.12%
Intermediate-Term Bond				
PIMCO Core Plus Bond I Separate Account-R6 [14, 16, 19, 38]	$2,235,242	17.78%	$2,302,402	17.83%
Principal Global Investors Bond and Mortgage Separate Account-I2 [16, 19, 38]	$2,126,294	16.91%	$2,090,805	16.19%
TOTAL	$12,571,797	100%	$12,916,304	100%

Please see important disclosures at the end of this presentation.

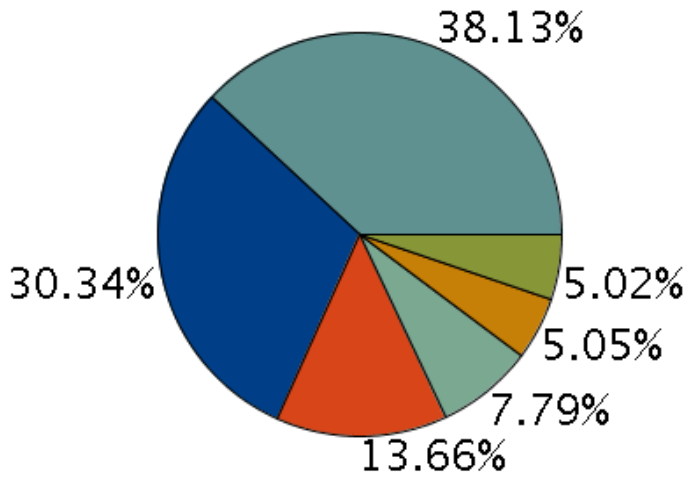
Portfolio and Strategic Asset Allocation Review

Asset Class Breakdown

Beginning % As Of 10/01/2012



Ending % As Of 12/31/2012



- Fixed Income
- Large U.S. Equity
- International Equity
- Small/Mid U.S. Equity
- Balanced/Asset Allocation
- Real Estate

Holdings of International Separate Accounts by Region as of Dec. 31, 2012

Asia	**12.761%**
China	3.212%
India	1.470%
Indonesia	0.459%
Malaysia	0.227%
Philippines	0.125%
Taiwan	2.124%
Thailand	0.049%
South Korea	5.095%

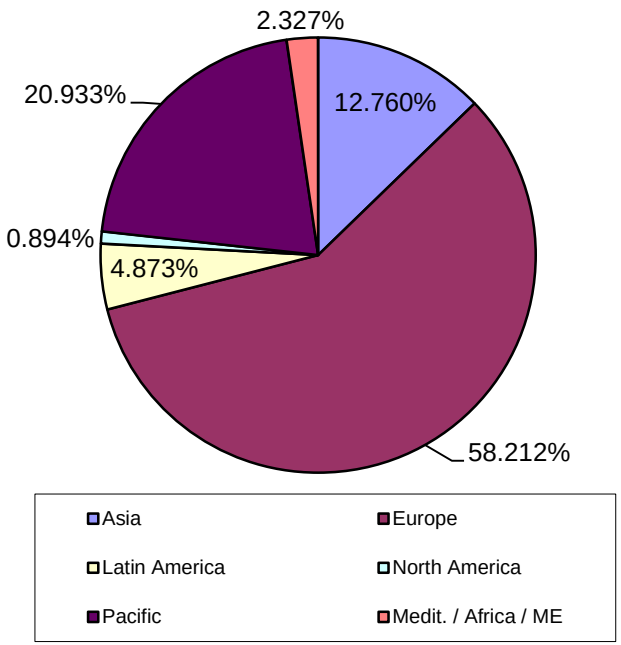
Europe	**58.212%**
Austria	0.521%
Belgium	0.260%
Denmark	0.369%
Finland	0.109%
France	9.204%
Germany	7.914%
Ireland	0.336%
Italy	1.606%
Luxembourg	0.190%
Netherlands	3.165%
Norway	2.423%
Poland	0.288%
Portugal	0.013%
Russia	1.817%
Spain	1.866%
Sweden	1.212%
Switzerland	7.659%
United Kingdom	19.262%

Latin America	**4.873%**
Brazil	2.760%
Cayman Islands	0.010%
Colombia	0.137%
Chile	0.098%
Mexico	1.672%
Peru	0.197%

North America	**0.894%**
United States	0.894%

Pacific	**20.933%**
Australia	2.412%
Hong Kong	3.383%
Japan	12.729%
New Zealand	0.036%
Singapore	2.373%

Medit. / Africa / ME	**2.327%**
Egypt	0.066%
Israel	0.629%
South Africa	1.135%
Turkey	0.497%



Asia	12.761%
Europe	58.212%
Latin America	4.873%
North America	0.894%
Pacific	20.933%
Medit. / Africa / ME	2.327%
	100.000%

Portfolio and Strategic Asset Allocation Review

The table below illustrates the plan's target allocation at the beginning and end of the reporting period.

Your plan's assets and liabilities are reviewed periodically during the year and we make changes as needed. We will continue to monitor your plan and adjust its allocation as necessary.

Target Allocation 10/01/2012 through 12/31/2012			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	Large U.S. Equity	29.90%	29.90%
	Large Value		
Edge Asset Management, Inc.	Equity Income Separate Account-R6 [3, 11]	6.10%	6.10%
Principal Global Investors	LargeCap Value Separate Account-R6	6.10%	6.10%
	Large Blend		
Principal Global Investors	LargeCap S&P 500 Index Separate Account-R6 [2, 8, 38]	5.50%	5.50%
	Large Growth		
T. Rowe Price/Brown Advisory	LargeCap Growth I Separate Account-R6 [3, 23, 26, 28]	12.20%	12.20%
	Small/Mid U.S. Equity	7.60%	7.60%
	Mid Cap Value		
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 [1]	1.90%	1.90%
	Mid Cap Growth		
Turner / Jacobs Levy	MidCap Growth III Separate Account-R6 [1, 12, 26]	1.90%	1.90%
	Small Value		
DFA/Vaughan Nelson/LA Capital	SmallCap Value II Separate Account-R6 [1, 14, 23, 25, 26]	1.90%	1.90%
	Small Growth		
AllianceBern / CCI / Brown	SmallCap Growth I Separate Account-R6 [1, 3, 23, 26, 33]	1.90%	1.90%
	International Equity	12.50%	12.50%
	Diversified Emerging Markets		
Principal Global Investors	International Emerging Markets Separate Account-R6 [4]	2.50%	2.50%
	Foreign Large Value		
Causeway / Barrow Hanley	Overseas Separate Account-R6 [4, 14, 26, 32, 36]	6.20%	6.20%
	Foreign Large Blend		
Fidelity / Schroders	International I Separate Account-R6 [4, 14, 17, 26, 30]	3.80%	3.80%
	Real Estate	5.00%	5.00%
	Owned Real Estate		
Principal Real Estate Inv	U.S. Property Separate Account-R6 [34]	5.00%	5.00%

Portfolio and Strategic Asset Allocation Review

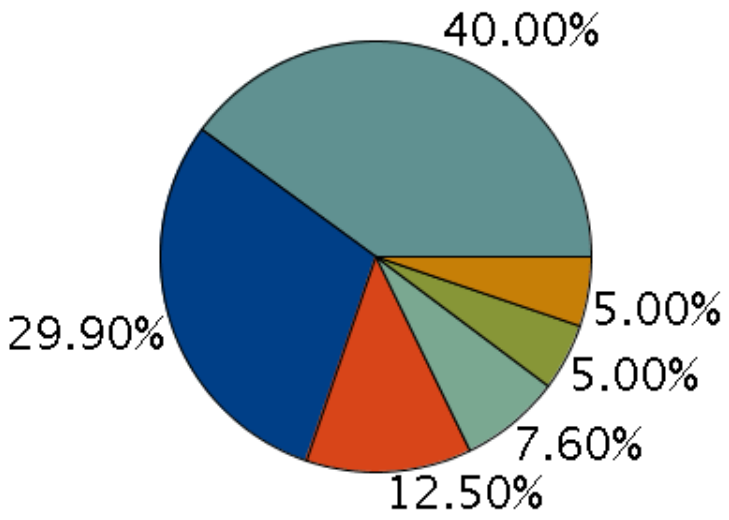
Target Allocation 10/01/2012 through 12/31/2012			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	Balanced/Asset Allocation	5.00%	5.00%
	Moderate Allocation		
Multiple Sub-Advisors	Diversified Real Asset Separate Account-R6 [3, 11, 31, 38]	5.00%	5.00%
	Fixed Income	40.00%	40.00%
	High Yield Bond		
JP Morgan / Neuberger Berman	High Yield I Separate Account-R6 [5, 14, 16, 18, 19]	4.00%	4.00%
	Intermediate-Term Bond		
PIMCO	Core Plus Bond I Separate Account-R6 [14, 16, 19, 38]	18.00%	18.00%
Principal Global Investors	Bond and Mortgage Separate Account-I2 [16, 19, 38]	18.00%	18.00%

Please see important disclosures at the end of this presentation.

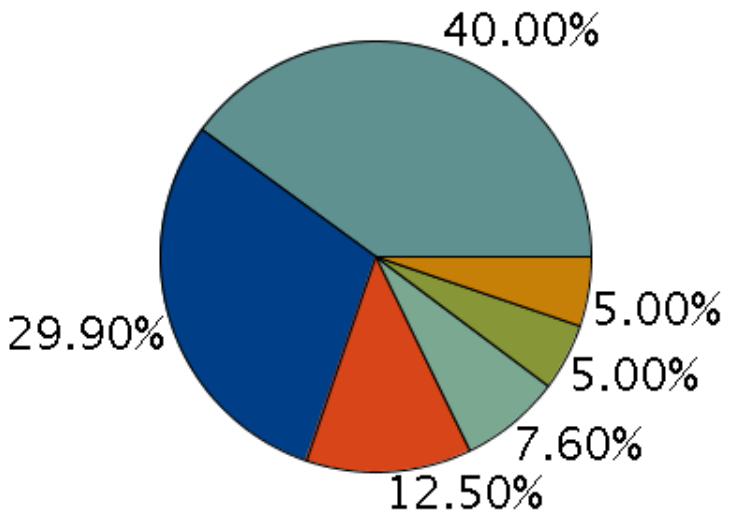
Portfolio and Strategic Asset Allocation Review

Please note that a slight variance between your plan's target allocation displayed in this report and its weightings is normal. This variance is due to changes in your account values caused by fluctuations in the market. We periodically initiate rebalancing transfers to bring the plan's assets back to its target allocation.

Beginning Target Allocation As Of October 01, 2012



Ending Target Allocation As Of December 31, 2012



- Large U.S. Equity
- Small/Mid U.S. Equity
- International Equity
- Real Estate
- Balanced/Asset Allocation
- Fixed Income

Portfolio and Strategic Asset Allocation Review

This section of your report includes all investment options with plan assets as of the end of the reporting period.

Large U.S. Equity		
Large Value	**Large Blend**	**Large Growth**
Equity Income Separate Account-R6 [3, 11] EDGE ASSET MANAGEMENT LargeCap Value Separate Account-R6 Principal Global Investors℠	LargeCap S&P 500 Index Separate Account-R6 [2, 8, 38 ++]	LargeCap Growth I Separate Account-R6 [3, 23, 26, 28] T.RowePrice INVEST WITH CONFIDENCE BrownADVISORY Thoughtful Investing.
Small/Mid U.S. Equity		
Mid Cap Value	**Mid Cap Blend**	**Mid Cap Growth**
MidCap Value III Separate Account-R6 [1] Principal Global Investors BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC		MidCap Growth III Separate Account-R6 [1, 12, 26] turner investment partners Jacobs Levy EQUITY MANAGEMENT®
Small Value	**Small Blend**	**Small Growth**
SmallCap Value II Separate Account-R6 [1, 14, 23, 25, 26] Dimensional VAUGHAN NELSON INVESTMENT MANAGEMENT, LP LOS ANGELES CAPITAL		SmallCap Growth I Separate Account-R6 [1, 3, 23, 26, 33] AllianceBernstein Columbus Circle Investors BrownADVISORY Thoughtful Investing.

Portfolio and Strategic Asset Allocation Review

International Equity	Real Estate	Balanced/Asset Allocation
Overseas Separate Account-R6 [4, 14, 26, 32, 36] Causeway BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC International I Separate Account-R6 [4, 14, 17, 26, 30] Fidelity INVESTMENTS Schroders International Emerging Markets Separate Account-R6 [4] Principal Global Investors℠	U.S. Property Separate Account-R6 [34] Principal® Real Estate Investors	Diversified Real Asset Separate Account-R6 [3, 11, 31, 38] BLACKROCK CREDIT SUISSE JENNISON ASSOCIATES Principal® Real Estate Investors Tortoise Capital Advisors Brookfield SYMPHONY ASSET MANAGEMENT
Short-Term Fixed Income	**Fixed Income**	
	High Yield I Separate Account-R6 [5, 14, 16, 18, 19] J.P.Morgan Asset Management NEUBERGER BERMAN Core Plus Bond I Separate Account-R6 [14, 16, 19, 38] PIMCO Bond and Mortgage Separate Account-I2 [16, 19, 38] Principal Global Investors℠	

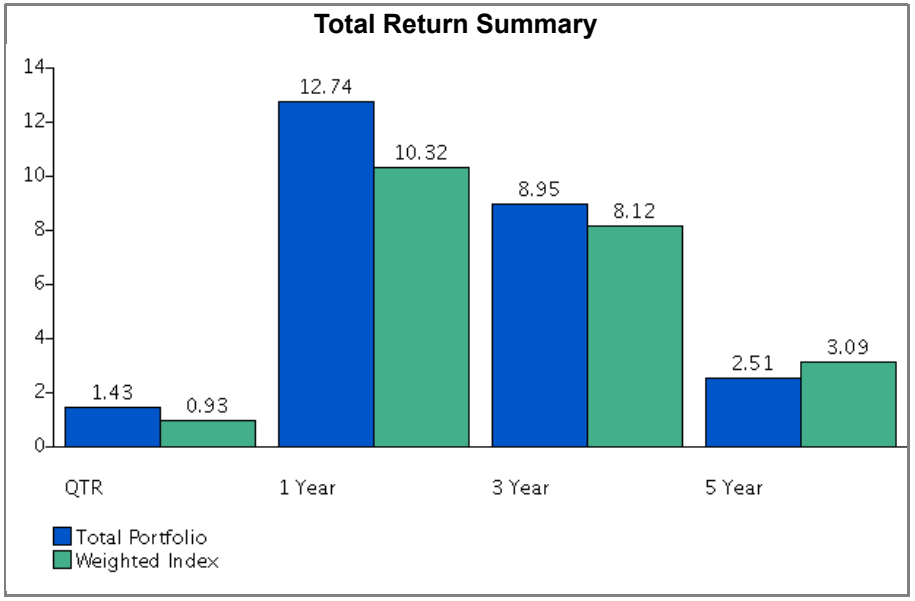
Please see important disclosures at the end of this presentation.

Portfolio Performance Review

Time & Dollar Weighted Rates of Return
December 31, 2012

Time & Dollar Weighted Returns	QTR	1 Year	3 Year	5 Year
Total Portfolio Return	1.43	12.74	8.95	2.51
Weighted Index	0.93	10.32	8.12	3.09
Excess Return	0.50	2.42	0.83	-0.58

Asset Class Return Information	QTR	1 Year	3 Year	5 Year
Your Plan's U.S. Equity Return	0.08	15.25	10.11	2.15
Standard & Poor's 1500 Total Market Stock Index	0.03	16.17	11.22	2.07
Your Plan's International Equity Return	6.86	20.21	5.37	-1.20
MSCI - EAFE Index NDTR D	6.57	17.32	3.56	-3.69
Your Plan's Real Asset Return[1]	0.66	9.94	12.63	1.94
Blended Real Asset Index	0.20	3.30	9.81	-2.02
Your Plan's Fixed Income Return	1.16	8.86	8.20	4.78
Barclays Aggregate Bond Index	0.21	4.21	6.19	5.95



We calculated performance of your plan assets with information provided to us by Principal Life Insurance Company from your December 31, 2012 Contractholder Fund Statement.

[1] As of September 30, 2011, the Real Estate asset class was changed to the Real Asset asset class. Your Plan's Real Asset Return includes the weighted investment performance from the following Separate Accounts for any reporting periods during which they were applicable to your plans allocation: US Property Separate Account, sub-advised by Principal Real Estate Investors; Real Estate Securities Separate Account, sub-advised by Principal Real Estate Investors and Diversified Real Asset Separate Account, sub-advised by multiple sub-advisors.

Please see important disclosures at the end of this presentation.

Market & Performance Commentary

Principal Financial Advisors, Inc. Fourth Quarter 2012 Market Overview and Commentary

Political uncertainty, fiscal cliff stand-off stall U.S. equities

During the quarter, U.S. equities significantly underperformed international equities in both developed and emerging markets. U.S. markets were mired in political drama that weighed on returns. In contrast, international markets continued a rally that was ignited by a late-summer 2012 decision by the European Central Bank to more aggressively support the Eurozone, in part by providing liquidity to troubled European nations. This stance helped to temper investors' concerns, despite the fact that significant political and economic pressures remain.

The broad U.S. equities market barely mustered a positive return (0.3%) during the fourth quarter as the country found itself largely preoccupied first with the presidential election, and then with the protracted fiscal policy debate.[1] Almost as soon as the election had passed, the "fiscal cliff" took center stage. The fiscal cliff resulted from Congress's inability to agree on budgetary priorities back in 2011. The impasse at that time led to a compromise requiring that automatic tax increases and spending cuts kick in if Congress failed to act by December 31, 2012. As that deadline approached, and passed, the resulting uncertainty seemed to paralyze U.S. markets.

Eventually, on January 1st, 2013, Congress avoided a potential tax hike-induced recession by passing legislation that made Bush-era tax cuts permanent for households who file with less than $450,000 of income or individuals with less than $400,000, and ended tax cuts for those with higher incomes. The legislation, which contained no budget reductions, also delayed for two months the severe budget cuts that were scheduled to begin January 1. In effect, the bill briefly postponed what is likely to be a very difficult debate over how to meaningfully reduce the federal budget and national debt. With federal spending now absorbing at least 24% of Gross Domestic Product (GDP), it is possible that any eventual agreement on credible spending cuts or long-term debt reduction would be received very positively by business and the markets.

Economy continues gradual improvement

The U.S. housing and employment situations continued to show signs of improvement during the quarter. Home prices rose 4.3% year-over-year in October 2012, surpassing analysts' forecasts, and housing rebounded to the point that it has once again begun contributing to the economy.[2] At 7.8%, the unemployment rate ended the quarter stuck where it had started.[3] However, with a more certain policy environment going forward, businesses may have renewed confidence to expand, which could help push unemployment down. Also, reconstruction efforts in the aftermath of Hurricane Sandy, which caused devastating damages in New Jersey and New York totaling more than $50 billion, are expected to benefit the job market in 2013.[4]

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[1] Broad U.S. equities market: Russell 3000 Index
[2] S&P/Case-Shiller Home Price Indices 20-City Composite, data through October 2012; released December 26, 2012
[3] U.S. Dept. of Labor, Bureau of Labor Statistics; bls.gov
[4] Content source for portions of this commentary: "On the Other Hand: Economic Insights-Fourth Quarter 2012," Bob Baur and the Economic Committee, Principal Global Investors

Market & Performance Commentary

International markets and real estate beat U.S. equities

International markets' quarterly performance trounced the broad U.S. market's 0.3% return. International developed markets returned 6.6%, with positive results in eight of the 10 economic sectors. Similar to the prior quarter, the financial sector performed best. Consumer discretionary firms, particularly auto companies, had a strong quarter as well. International emerging markets performed nearly as well, returning 5.6% with positive results across all 10 sectors. The largest sector contribution came from financials, especially diversified banks and, to a lesser extent, real estate development. [5]

Real estate also handily beat the broad U.S. market. Global real estate investment trusts (REITs) posted 5.8% for the quarter, led by the diversified REITs and malls sectors. U.S. REITs delivered a gain of 2.5%. Health care was the top-performing sector, followed by malls. [6]

Within U.S. equities, mid-caps led performance, followed by small-caps, while large-caps trailed behind. Weak performance by Apple played a significant role in holding back large-caps. From a style perspective, value outperformed growth across all market capitalizations. [7]

FOMC shifts to data-based guidance; fixed income investors search for yield

Within fixed income, the Federal Open Market Committee (FOMC) announced plans to switch from its date-based interest rate guidance to an approach based on target key economic data. Specifically, the FOMC stated it will keep its highly accommodative stance in place so long as unemployment remains above 6.5%, inflation is no more than 2.5%, and long-term inflation expectations remain well-anchored. Also, the FOMC confirmed it will continue bond purchase programs in its efforts to support the economy by keeping interest rates low for corporations and residential homeowners. [8]

Rates rose on the Fed's announcement, as investors anticipated the Fed may increase rates earlier than had previously been expected. However, the impact on rates was tempered by December's fiscal cliff drama. In the end, U.S. Treasury yields rose slightly for the quarter. The yield on the 10-year Treasury rose from 1.63% to 1.76%, while the yield on the 2-year Treasury crept up from 0.23% to 0.26%.[9]

Higher-yielding fixed income asset classes were in favor during the period. High-yield corporate bonds enjoyed a 3.28% duration-adjusted excess return. Investment-grade corporate bonds also outpaced duration-adjusted Treasuries, by 1.21%, aided by a strong rally within the banking subsector. Commercial MBS outperformed Treasuries by 1.18%. The sector benefited from its attractive yield and stabilizing fundamentals. One of the only major subcomponents of the Barclays Aggregate Bond Index to lag duration-adjusted Treasuries, agency MBS, fell 0.23% under the pressure of new issuance and higher-than-expected prepayments.[10]

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[5] International developed markets: MSCI EAFE Index; international emerging markets: MSCI Emerging Markets Index

[6] U.S. REITs: MSCI US REIT GR Index; Global REITs: FTSE/EPRA NAREIT Developed Markets Index

[7] U.S. large-cap equities: Russell 1000 Index; U.S. mid-cap equities: Russell Midcap Index; U.S. small-cap equities: Russell 2000 Index; U.S. small-cap value equities: Russell 2000 Value Index; U.S. mid-cap value equities: Russell Midcap Value Index; U.S. large-cap value equities: Russell 1000 Value Index; U.S. small-cap growth equities: Russell 2000 Growth Index; U.S. mid-cap growth equities: Russell Midcap Growth Index; U.S. large-cap growth equities: Russell 1000 Growth Index

[8] Federal Reserve Bank Federal Open Market Committee statement, released December 12, 2012; federalreserve.gov/newsevents/press/monetary/20121212a.htm

[9] Source: FactSet (U.S. Benchmark Bond 10-year and 2-year yields)

[10] Source: Barclays Point (Barclays US Corporate High Yield Index and components of the Barclays Aggregate Bond Index)

Market & Performance Commentary

Index Performance

	As of December 31, 2012	
Index	Q4 2012 (%)	12 months ending 12/31/2012 (%)
Russell 3000 (Broad Market)	0.25	16.42
Russell 2000 (Small Caps)	1.85	16.35
Russell 2000 Growth	0.45	14.59
Russell 2000 Value	3.22	18.05
Russell 1000	0.12	16.42
Russell 1000 Growth	-1.32	15.26
Russell 1000 Value	1.52	17.51
Russell Mid-Cap	2.88	17.28
Russell Mid-Cap Growth	1.69	15.81
Russell Mid-Cap Value	3.93	18.51
MSCI EAFE (Core International)	6.57	17.32
MSCI Emerging Markets (Developing Economies)	5.58	18.22
MSCI US REIT	2.50	17.77
FTSE EPRA/NAREIT Developed	5.77	28.65
Barclays Aggregate Bond	0.21	4.21
Barclays High Yield	3.29	15.81

Market & Performance Commentary

Fourth Quarter 2012 PFA Strategies Performance Summary

The asset allocation strategies of Principal Financial Advisors, Inc. posted positive absolute and index-relative returns during the quarter. Our fixed income-focused strategies generated the most significant index-relative outperformance.

U.S. Equities segment pulls ahead of the index
The U.S. Equities segment of our strategies modestly outpaced the S&P 1500 Index. Stock selection within information technology boosted performance. As Apple sold off during the quarter, our underweight finally was not a hindrance to results; in fact, it was one of our top-performing positions. Underweights to IBM and Microsoft also were rewarded. An underweight to financials, the top-performing sector within the index, hurt returns. Selection within financials was another hindrance due to underweights to Bank of America and Citigroup and weak selection within real estate investment trusts (REITs).

International Equities outpaces index
The International Equities segment of our strategies outperformed the MSCI EAFE Index. An underweight to health care as well as favorable stock selection within the sector aided returns. From a country perspective, an allocation to China hurt returns; however, stock selection was very favorable within the country, which offset that negative impact. On an individual basis, exposure to Samsung Electronics was well rewarded.

Fixed Income segment boosts performance
Sector allocation proved beneficial; in particular, out-of-index allocations to high yield corporate bonds and non-agency residential mortgage-backed securities (MBS) aided results. Security selection within corporate bonds also was favorable, due in part to an emphasis on the financial sector.

Real Assets segment aids results
The Real Assets segment[11] generated a positive absolute return and outpaced the Blended Real Asset Index. Our allocation to the U.S. Property Separate Account (sub-advised by Principal Real Estate Investors) was a primary contributor; this Separate Account outperformed due to the income return generated by cash flow from the underlying properties as well as from property value appreciation. Our exposure to infrastructure stocks, real estate securities, bank loans and TIPs through the Diversified Real Asset Separate Account[12] also contributed strongly to results.

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[11] The Real Assets segment now includes the Diversified Real Asset Separate Account, managed by Principal Management Corporation, and the U.S. Property Separate Account, sub-advised by Principal Real Estate Investors

[12] The Diversified Real Asset Separate Account, managed by Principal Management Corporation, is constructed of seven underlying "sleeves," each comprised of a different real asset class and sub-advised by the following premier investment managers: TIPS, sub-advised by Black Rock; Global Infrastructure, sub-advised by Brookfield; Floating Rate Debt, sub-advised by Symphony; REITs, sub-advised by Principal Real Estate Investors; Natural Resource Stocks, sub-advised by Jennison Associates; Commodities, sub-advised by Credit Suisse Asset Management; Master Limited Partnerships (MLPs), sub-advised by Tortoise Capital Advisors.

Market & Performance Commentary

Last 12 months ending December 31, 2012

Our asset allocation strategies outpaced their custom benchmark indexes during the year. Outperformance relative to the custom indexes was most pronounced in our fixed income-focused strategies.

U.S. Equities segment lags
The U.S. Equities segment of our strategies underperformed the broad U.S. equities market. Stock selection hampered returns, especially within consumer discretionary, where an underweight to Comcast hindered results. Selection within financials also was a hindrance due to underweights to Bank of America and Citigroup. These unfavorable results were moderated by favorable security selection within health care and a beneficial underweight to utilities as well as positive security selection within the sector. Having a slightly higher beta profile and higher relative strength profile (an overweight exposure, relative to the benchmark index, to stocks exhibiting upward price movement during the trailing 12-month period) were further positives.

International Equities outpace the index
The International Equities segment handily outperformed the MSCI EAFE Index. Returns were aided by an allocation to emerging markets and by security selection within that allocation. Out-of-index exposure to top-performing electronics company Samsung was one of the best individual contributors within the International Equities segment, followed by an underweight to Royal Dutch Shell PLC. An underweight to Japan and careful stock selection within that country were also rewarded.

Fixed Income positioning is rewarded
The Fixed Income segment of our strategies easily outpaced the Barclays Aggregate Bond Index. Themes were similar to those witnessed during the quarter: sector allocation proved beneficial (particularly, out-of-index allocations to high yield corporate bonds and non-agency residential MBS), and security selection within corporate bonds was favorable (due in part to an emphasis on the financial sector).

Positive absolute and index-relative returns in Real Assets segment
The Real Assets segment generated a positive absolute return and outpaced the Blended Real Asset Index. Performance was led by our exposure to the U.S. Property Separate Account, which benefited from income generation and property value appreciation. Our exposure to real estate securities and U.S. Treasury Inflation-Protected Securities (TIPS) through the Diversified Real Asset Separate Account also contributed strongly to results.

Due Diligence Update

The following recent actions have impacted asset allocation strategies designed by Principal Financial Advisors, Inc.

Investment Manager	Investment Option	Action Taken
Principal Global Investors℠	International Emerging Markets Separate Account	**Placed on Watch List in November 2012** – Principal Global Investors announced that a transition took place within the firm's international emerging market equities team. Following the departure of co-portfolio managers Michael Reynal and Michael Ade as well as other personnel, Mihail Dobrinov, CFA - who has served as a portfolio manager on the team since 2007 - was named head of international emerging market equities. Shortly thereafter, Mohammed Zaidi joined the firm as co-portfolio manager. There were no changes to the firm's investment process; however, due to the breadth of the personnel changes, the due diligence team of PLIC determined it was prudent to place this investment option on the qualitative Watch List for further monitoring.
Fidelity Investments / Schroders	International I Separate Account	**Removed from Watch List in December 2012; placed on Probation** – This Separate Account received a quantitative grade of "Less Favorable" for two of three quarters and was placed on the Watch List effective December 31, 2011. This was due in large part to very weak performance in 2009 (driven by Fidelity) and weak performance in 2011 (driven by Schroders). Quarterly and one-year returns have improved, and have driven improvements in returns over longer periods as well. The due diligence team of Principal Life Insurance Company (PLIC) recognizes that over the past five years, a continuous stream of macro events around the world has negatively impacted international markets, causing difficulty for many international equity managers.
Turner investment partners / Jacobs Levy Equity Management®	MidCap Growth III Separate Account	**Placed on Watch List in December 2012** – This Separate Account received a quantitative grade of "Less Favorable" for two of three quarters[1] and was placed on the Watch List effective December 31, 2012. Underperformance was driven largely by Turner, which caused MidCap Growth III's 3- and 5-year returns to lag its benchmark (Russell MidCap Growth Index) as well as rank in the bottom half of the Morningstar Mid-Cap Growth peer group.

The due diligence team of Principal Life Insurance Company will continue to monitor performance of all Separate Accounts placed on the Watch List or on Probation.[2]

Principal Financial Advisors, Inc. is a registered investment adviser and member company of the Principal Financial Group®, Des Moines, IA, 50392.

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[1] Based on the quantitative scoring criteria of the due diligence process of Principal Life Insurance Company.
[2] According to the guidelines of the due diligence process, Separate Accounts may be placed on the Watch List for a period not to exceed 12 months. Any resulting action from the due diligence process may affect the client portfolios designed by Principal Financial Advisors.

Investment Option Performance

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown.

The gross total investment expense figure does not reflect any waivers or caps on the mutual fund or underlying mutual fund in which a Separate Account invests. Returns displayed are always based on net total investment expense.

For more performance information, including most recent month-end performance, visit www.principal.com, contact your representative of the Principal Financial Group® (The Principal®), or call our Participant Call Center at 1-800-547-7754.

	Average Annual Total Returns through 12/31/2012							Percentile Rankings as of 12/31/2012					
Inv Manager or Sub-Advisor Investment Option	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Total Inv. Expense Gross
Large U.S. Equity													
Large Value													
Edge Asset Management, Inc. Equity Income Separate Account-R6 [3, 11]	0.46	12.77	11.32	1.83	8.61	8.33	06/30/2009	-	73	10	21	5	0.68
Principal Global Investors LargeCap Value Separate Account-R6	0.92	17.18	10.54	0.23	6.22	6.52	06/01/1995	-	21	20	51	67	0.61
Russell 1000 Value Index	1.52	17.51	10.86	0.59	7.38	-	-		-	-	-	-	-
Morningstar Category Average - Large Value	0.98	14.57	9.02	0.32	6.67	Total Funds in Category		1274	1208	1051	930	591	-
Large Blend													
Principal Global Investors LargeCap S&P 500 Index Separate Account-R6 [2, 8, 38]	-0.46	15.63	10.53	1.38	6.78	8.19	01/01/1990	-	43	22	35	42	0.31
Standard & Poor's 500 Index	-0.38	16.00	10.87	1.66	7.10	-	-		-	-	-	-	-
Morningstar Category Average - Large Blend	0.49	14.96	9.05	0.68	6.62	Total Funds in Category		1752	1686	1506	1324	836	-
Large Growth													
T. Rowe Price/Brown Advisory LargeCap Growth I Separate Account-R6 [3, 23, 26, 28]	-0.84	16.33	11.50	4.55	7.60	2.13	12/29/2000	-	36	15	6	34	0.79
Russell 1000 Growth Index	-1.32	15.26	11.35	3.12	7.52	-	-		-	-	-	-	-
Morningstar Category Average - Large Growth	-0.64	15.34	9.30	1.12	7.12	Total Funds in Category		1743	1681	1503	1301	863	-
Small/Mid U.S. Equity													
Mid Cap Value													
Principal Global/Barrow Hanley MidCap Value III Separate Account-R6 [1]	2.08	16.98	13.06	3.80	8.97	10.04	01/01/1991	-	45	13	34	55	0.81
Russell Midcap Value Index	3.93	18.51	13.39	3.79	10.63	-	-		-	-	-	-	-
Morningstar Category Average - Mid Cap Value	3.35	16.60	10.77	2.87	9.14	Total Funds in Category		436	425	357	311	177	-

Investment Option Performance

	Average Annual Total Returns through 12/31/2012							Percentile Rankings as of 12/31/2012					
Inv Manager or Sub-Advisor Investment Option	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Total Inv. Expense Gross
Mid Cap Growth													
Turner / Jacobs Levy MidCap Growth III Separate Account-R6 [1, 12, 26]	-1.15	9.22	9.88	-0.24	9.27	3.49	10/28/1999	-	90	67	74	46	1.13
Russell Midcap Growth Index	1.69	15.81	12.91	3.23	10.32	-	-		-	-	-	-	-
Morningstar Category Average - Mid Cap Growth	1.18	14.07	11.08	1.73	8.98	Total Funds in Category		757	737	671	591	431	-
Small Value													
DFA/Vaughan Nelson/LA Capital SmallCap Value II Separate Account-R6 [1, 14, 23, 25, 26]	3.49	17.52	12.05	3.16	-	5.62	06/01/2004	-	34	37	70	-	1.27
Russell 2000 Value Index	3.22	18.05	11.57	3.55	9.50	-	-		-	-	-	-	-
Morningstar Category Average - Small Value	3.75	16.00	11.04	4.20	9.96	Total Funds in Category		375	357	279	247	144	-
Small Growth													
AllianceBern / CCI / Brown SmallCap Growth I Separate Account-R6 [1, 3, 23, 26, 33]	-0.30	14.44	15.97	4.03	10.52	2.79	12/29/2000	-	39	7	29	18	1.25
Russell 2000 Growth Index	0.45	14.59	12.82	3.49	9.80	-	-		-	-	-	-	-
Morningstar Category Average - Small Growth	-0.03	13.15	11.74	2.55	9.14	Total Funds in Category		767	743	658	570	384	-
International Equity													
Diversified Emerging Markets													
Principal Global Investors International Emerging Markets Separate Account-R6 [4]	7.11	20.69	5.80	-2.05	16.66	10.25	01/01/1995	-	24	31	53	27	1.51
MSCI - Emerging Markets NDTR D Index	5.58	18.22	4.66	-0.92	16.52	-	-		-	-	-	-	-
Morningstar Category Average - Diversified Emerging Markets	6.10	18.15	4.26	-2.16	15.44	Total Funds in Category		611	552	358	250	150	-
Foreign Large Value													
Causeway / Barrow Hanley Overseas Separate Account-R6 [4, 14, 26, 32, 36]	6.73	20.29	4.81	-	-	6.11	09/30/2008	-	16	20	-	-	1.27
MSCI EAFE Value Index	7.39	17.69	2.19	-4.34	8.57	-	-		-	-	-	-	-
Morningstar Category Average - Foreign Large Value	6.66	16.21	3.04	-4.24	7.86	Total Funds in Category		383	369	328	263	146	-
Foreign Large Blend													
Fidelity / Schroders International I Separate Account-R6 [4, 14, 17, 26, 30]	6.99	19.13	3.97	-4.74	8.24	3.07	07/01/1999	-	32	50	73	41	1.16
MSCI - EAFE Index NDTR D	6.57	17.32	3.56	-3.69	8.21	-	-		-	-	-	-	-
Morningstar Category Average - Foreign Large Blend	6.50	18.29	3.89	-3.60	7.92	Total Funds in Category		811	786	713	589	325	-

Investment Option Performance

	Average Annual Total Returns through 12/31/2012							Percentile Rankings as of 12/31/2012					
Inv Manager or Sub-Advisor Investment Option	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Total Inv. Expense Gross
Real Estate													
Owned Real Estate													
Principal Real Estate Inv U.S. Property Separate Account-R6 [34]	1.90	11.47	14.23	-2.42	5.26	6.16	01/01/1982	-	-	-	-	-	1.15
NFI-ODCE Equal-Weight	2.07	9.93	13.32	-2.33	5.38	-	-		-	-	-	-	-
Balanced/Asset Allocation													
Moderate Allocation													
Multiple Sub-Advisors Diversified Real Asset Separate Account-R6 [3, 11, 31, 38]	-0.52	7.48	-	-	-	8.34	12/31/2010	-	93	-	-	-	1.03
Diversified Real Asset Custom Index	-0.68	8.68	-	-	-	-	-		-	-	-	-	-
Morningstar Category Average - Moderate Allocation	1.13	11.72	7.70	2.32	6.39	Total Funds in Category		1004	936	810	707	409	-
Short-Term Fixed Income													
Money Market													
Principal Global Investors Money Market Separate Account-R6 [6, 37]	-0.08	-0.26	-0.08	0.47	1.60	5.20	12/10/1980	-	-	-	-	-	0.56
Barclays Treasury Bellwethers 3 Month Index	0.04	0.12	0.13	0.57	1.82	-	-		-	-	-	-	-
Morningstar Category Average - Money Market	0.01	0.03	0.03	0.46	1.53	Total Funds in Category		978	960	911	839	624	-
Fixed Income													
High Yield Bond													
JP Morgan / Neuberger Berman High Yield I Separate Account-R6 [5, 14, 16, 18, 19]	2.99	14.77	10.75	10.65	-	8.47	12/31/2004	-	47	41	3	-	0.81
Barclays US Corp High Yld 2% Issuer Capped Index	3.29	15.78	11.78	10.45	10.60	-	-		-	-	-	-	-
Morningstar Category Average - High Yield Bond	3.07	14.67	10.49	8.02	8.86	Total Funds in Category		649	598	517	459	322	-
Intermediate-Term Bond													
PIMCO Core Plus Bond I Separate Account-R6 [14, 16, 19, 38]	0.83	8.58	6.29	-	-	7.45	09/30/2008	-	27	68	-	-	0.73
Principal Global Investors Bond and Mortgage Separate Account-I2 [16, 19, 38]	1.07	7.75	8.82	6.42	5.34	8.44	02/01/1983	-	36	12	40	40	0.55
Barclays Aggregate Bond Index	0.21	4.21	6.19	5.95	5.18	-	-		-	-	-	-	-
Morningstar Category Average - Intermediate-Term Bond	0.76	7.01	6.96	6.07	5.11	Total Funds in Category		1240	1165	1001	874	612	-

This section of your report includes all investment options with plan assets as of the end of the reporting period.

Please see important disclosures at the end of this presentation.

Disclosures

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative, if applicable, services are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. See the fact sheet for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

++ Investment options sub-advised by Principal Global Investors.

Investment Advisory Services are provided by Principal Financial Advisors, Inc., a registered investment advisor and wholly owned subsidiary of the Principal Financial Group®.

No investment strategy, such as diversification or asset allocation, can guarantee a profit or protect against loss in periods of declining value.

Asset allocation strategies are developed using Separate Accounts available through a group annuity contract of Principal Life Insurance Company.

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

Investment options are subject to investment risk. Shares or unit values will fluctuate and investments, when redeemed, may be worth more or less than their original cost. This does not apply, however, to the guaranteed portions of group annuity contracts issued by Principal Life that constitute guaranteed benefit policies as defined in ERISA §401(b)(2)(B).

This report includes investment options that contain information from a variety of sources. A primary source is Morningstar which provides holdings information, operations data, and rankings or statistics proprietary to Morningstar. Morningstar is generally the source of information on mutual funds unaffiliated with the Principal.

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Compliance number: t1301310273

1. Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

2. Each index based investment option is invested in the stocks or bonds of the index it tracks. Performance of indexes reflects the unmanaged results for the market segment the selected stocks or bonds represent. There is no assurance an index based investment option will match the performance of the index tracked.

3. This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

4. International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

5. High yield investment options are subject to greater credit risk and volatility that is associated with high yield bonds.

6. This investment option is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency. Although this investment option seeks to preserve the value of an investment, it is possible to lose money by investing in this portfolio.

8. S&P 500 is a trademark of The McGraw-Hill Companies, Inc., and has been licensed for use by Principal Life Insurance Company and Principal Management Corporation. The product is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the product.

11. These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

12. This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holder investing in the Separate Account. For further information on the underlying mutual fund see the prospectus of the fund.

14. This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

16. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

17. Effective March 31, 2007, references to Fidelity Management & Research as investment advisor were replaced with Fidelity (Pyramis Global Adv). This is a name change only and does not affect the management, objective, or strategy of this investment option.

18. Effective January 2, 2008, this portfolio is co-sub-advised by JP Morgan and Neuberger Berman Fixed Income LLC (formerly named Lehman Brothers Asset Management). Prior to January 2, 2008 Post Advisory Group was a third sub-advisor for this portfolio. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

19. Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

23. This investment option maintains a voluntary waiver which is reflected in the value displayed for Total Investment Expense - Net. This waiver may be discontinued at any time.

25. Effective May 1, 2009, LA Capital was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

26. This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

28. Effective July 14, 2009, Brown Advisory was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

30. Effective January 11, 2010, Schroders was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

31. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. or any other government entity. Concentrating investments in natural resources industries can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations and other factors. Investment in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. REIT securities are subject to risk factors associated with the real estate industry and tax factors of REIT registration. An MLP that invests in a particular industry (e.g., oil and gas) may be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income paid by an MLP to its investors.

32. Effective August 10, 2010, this portfolio is sub-advised by Causeway and Barrow Hanley. Prior to August 10, 2010, the portfolio was sub-advised by AXA Rosenberg and Causeway. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

33. Effective September 20, 2010, Brown Advisory was added as an additional sub-advisor. Effective May 1, 2009, Columbus Circle Investors was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

34. This investment option is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. If you elect to contribute funds into the U.S. Property Separate Account, withdrawals may be delayed for up to 3 years.

36. Formerly known as International Value I Separate Account.

37. The net return experienced may be negative if the costs to maintain and operate the Money Market Separate Account exceed returns. Participants may also see negative returns if plan expenses, if applicable, are netted or deducted from their accounts.

38. The risks associated with derivative investments include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.

Benchmark Descriptions

Barclays Aggregate Bond Index represents securities that are domestic, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Barclays Treasury Bellwethers 3 Month Index is composed of public obligations of the U. S. Treasury with a maturity of three months.

Barclays US Corp High Yld 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

Blended Real Asset Index through September 30, 2011, is as follows: 75% NFI-ODCE Equal-Weight and 25% MSCI US REIT Index. The NFI-ODCE Equal-Weight is the NCREIF Fund Index-Open End Diversified Core Equity. It is a fund-level equal-weighted, time-weighted return index and includes property investments at ownership share, cash balances and Leverage. The return series is net of the average fee charged by accounts that make up the index. The MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance. Effective October 1, 2011, the Blended Real Asset Index is comprised of 100% Consumer Price Index (CPI) plus 1.5%. Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Diversified Real Asset Custom Index is composed of 30% Barclays U.S. Treasury TIPS Index, 20% Dow Jones UBS Commodity Index, 10% S&P N.A. Natural Resources Index, 10% Tortoise MLP Index, 10% Dow Jones Brookfield Global Infrastructure Index, 10% Credit Suisse Leveraged Loan Index, and 10% FTSE EPRA/NAREIT Developed Index. The blended index historic returns reflect the allocation as of the time of production. Previous allocation changes are not restated.

MSCI - EAFE Index NDTR D is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

MSCI - Emerging Markets NDTR D Index measures equity market performance in the global emerging markets. It consists of 26 emerging market countries in Europe, Latin America and the Pacific Basin.

MSCI EAFE Value Index is a subset of the MSCI EAFE Index, which is an unmanaged index that measures the stock returns of companies in developed economies outside of North America. The MSCI EAFE Value Index consists of securities classified by MSCI as most representing the value style.

NFI-ODCE Equal-Weight is the NCREIF Fund Index - Open End Diversified Core Equity. It is a fund-level equal-weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage. The return series is net of the average fee charged by accounts that make up the index.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Russell Midcap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Value Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap index having lower price-to-book ratios and lower forecasted growth values.

Standard & Poor's 1500 Total Market Stock Index is an index of small, medium and large stocks. It is comprised of stocks from the Standard & Poor's 500, 400 and 600 stock indices.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

Weighted Index is composed of:
01/01/2008 - 10/31/2011: 46.1% S&P 1500 Index, 13.9% MSCI EAFE Index, and 40% Barclays Aggregate Bond Index.
11/01/2011 - present: 37.5% S&P 1500 Index, 12.5% MSCI EAFE Index, 40% Barclays Aggregate Bond Index, and 10% Blended Real Assets Index.

SmallCap Growth I Separate Account-R6 as of 12/31/2012

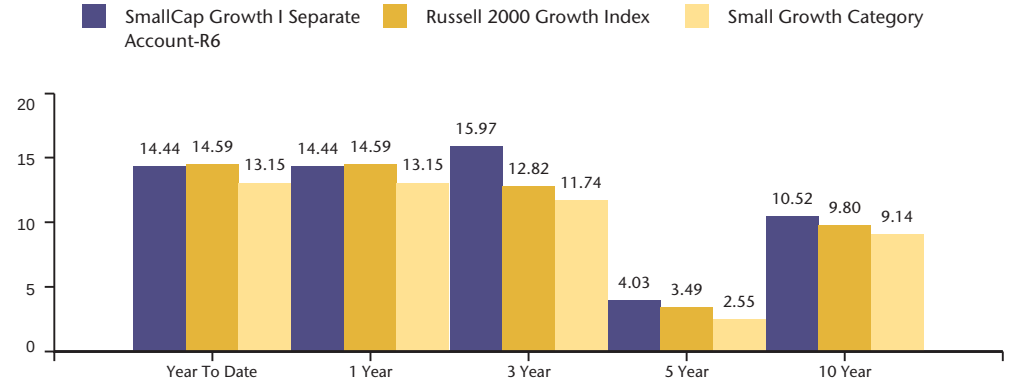
Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with small market capitalizations (those with market capitalizations equal to or smaller than the greater of: 1) $4.0 billion or 2) the highest market capitalization of the companies in the Russell 2000(R) Growth Index) at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

Portfolio managers

Bruce Aronow, CFA. Since 03/29/2003. B.A., Colgate University
N. Kumar Kirpalani, CFA. Since 03/29/2003. M.B.A., University of Chicago
Samantha S. Lau, CFA. Since 03/29/2003. B.S., University of Pennsylvania (Wharton)
Clifford G. Fox, CFA. Since 05/01/2009. M.B.A., New York University (Stern)
Mariateresa Monaco Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

Long-term returns % as of 12/31/2012



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit principal.com, contact your representative of The Principal, or call our Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	14.44	14.44	15.97	4.03	10.52
Russell 2000 Growth Index %	14.59	14.59	12.82	3.49	9.80
Small Growth Category %	13.15	13.15	11.74	2.55	9.14
Morningstar Percentile Rankings	-	39	7	29	18
# of Funds in Category	743	743	658	570	384
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	14.44	0.38	35.78	42.69	-45.25
Russell 2000 Growth Index %	14.59	-2.91	29.09	34.47	-38.54
Small Growth Category %	13.15	-3.55	26.98	35.46	-41.55
Morningstar Percentile Rankings	39	20	6	23	79
# of Funds in Category	743	764	758	778	834

Morningstar percentile rankings are based on total returns.

Morningstar category

Small Growth

Morningstar Style Box™

As of 11/30/2012

Investment style

	Value	Blend	Growth
Large			
Medium			
Small			■

Market capitalization

Risk and Return Statistics

as of 12/31/2012 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	3.04	0.62
Beta	0.98	1.01
R-Squared	97.94	97.36
Standard Deviation	20.74	25.40
Mean	15.97	4.03
Sharpe Ratio	0.81	0.27
Excess Return	3.14	0.53
Tracking Error	3.02	4.14
Information Ratio	1.04	0.13

Operations

Total Investment Expense Net	1.23%
Total Investment Expense Gross	1.25%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	12/29/2000
Total Net Assets (mil)	$1,429.74

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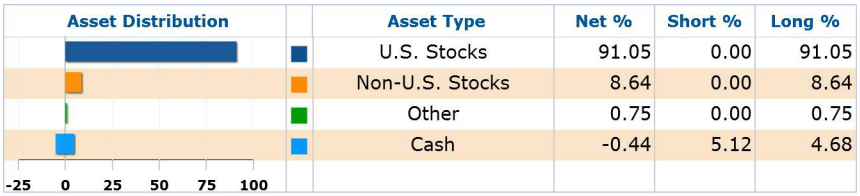
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

SmallCap Growth I Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Stocks	91.05	0.00	91.05
Non-U.S. Stocks	8.64	0.00	8.64
Other	0.75	0.00	0.75
Cash	-0.44	5.12	4.68

Top ten holdings	% of net assets
1. Russell 2000 Mini Dec12	5.12
2. CoStar Group, Inc.	1.55
3. Vitamin Shoppe, Inc.	1.30
4. Catamaran Corp	1.23
5. Hexcel Corporation	1.19
6. Valmont Industries, Inc.	1.15
7. United Rentals Inc	1.14
8. Idex Corporation	1.09
9. Cadence Design Systems, Inc.	1.03
10. Genesee & Wyoming, Inc. Class A	0.93
% of net assets in top ten holdings*	15.74

Analysis

# of Stock Hldgs	915
# of Bond Hldgs	0
# of Other Hldgs	11
AvgMktCap (mil)	$1,928.46
Turnover Ratio	80%
P/C Ratio	11.37
P/E Ratio	22.67
P/B Ratio	2.80

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**25.09**	**Defensive**	**19.33**	**Sensitive**	**55.59**
Consumer Cyclical	17.63	Healthcare	15.85	Technology	24.43
Basic Materials	3.48	Consumer Defensive	3.40	Industrials	26.12
Financial Svcs	3.37	Utilities	0.08	Energy	4.87
Real Estate	0.61			Comm Svcs	0.17

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal SmallCap Growth I Separate Account-R6.

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Past performance is no guarantee of future results. Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Average Market Cap - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitaliation of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. **Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

† The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit principal.com.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

This investment option maintains a voluntary waiver which is reflected in the value displayed for Total Investment Expense - Net. This waiver may be discontinued at any time.

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

Effective September 20, 2010, Brown Advisory was added as an additional sub-advisor. Effective May 1, 2009, Columbus Circle Investors was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Overseas Separate Account-R6 as of 12/31/2012

Investment Strategy

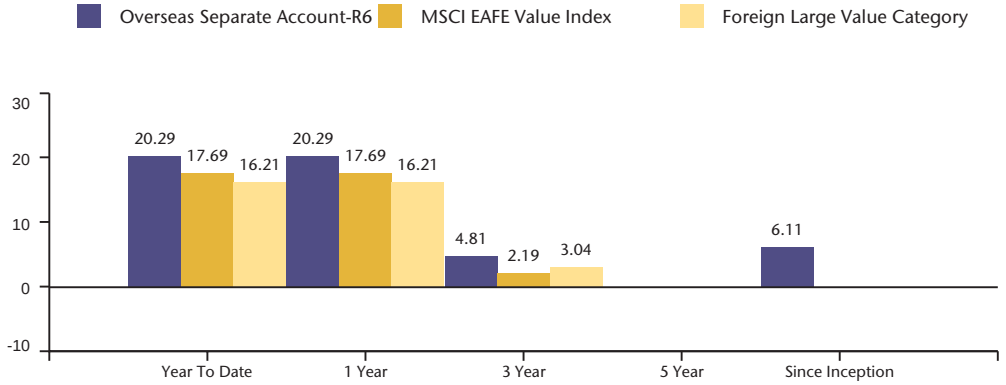
The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets in equity securities of foreign companies. Its investments will normally be diversified across many different countries and regions, including countries with emerging markets. The fund will invest in equity securities of small, medium, and large capitalization companies.

BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC

Portfolio managers

James Doyle Since 09/30/2008. M.B.A., University of Pennsylvania (Wharton)
Harry Hartford Since 09/30/2008. M.S., Oklahoma State University
Sarah H. Ketterer Since 09/30/2008. M.B.A., Dartmouth College
Mariateresa Monaco Since 06/02/2009. M.B.A., Massachusetts Institute of Technology
David A. Hodges, Jr., CFA. Since 08/10/2010. J.D., University of Arkansas

Long-term returns % as of 12/31/2012



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	20.29	20.29	4.81	-	6.11
MSCI EAFE Value Index %	17.69	17.69	2.19	-4.34	-
Foreign Large Value Category %	16.21	16.21	3.04	-4.24	-
Morningstar Percentile Rankings	-	16	20	-	-
# of Funds in Category	369	369	328	263	-
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	20.29	-11.40	8.02	26.68	-
MSCI EAFE Value Index %	17.69	-12.17	3.25	34.23	-44.09
Foreign Large Value Category %	16.21	-12.77	7.48	30.33	-42.41
Morningstar Percentile Rankings	16	31	42	68	-
# of Funds in Category	369	376	364	340	307

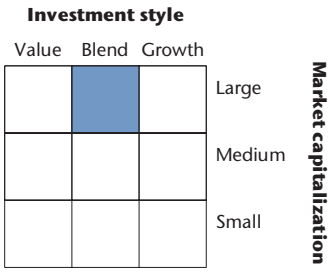
Morningstar percentile rankings are based on total returns.

Morningstar category

Foreign Large Value

Morningstar Style Box™

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to MSCI EAFE Value Index

	3Yr	5Yr
Alpha	2.58	-
Beta	1.02	-
R-Squared	97.64	-
Standard Deviation	21.23	-
Mean	4.81	-
Sharpe Ratio	0.32	-
Excess Return	2.62	-
Tracking Error	3.29	-
Information Ratio	0.79	-

Operations

Total Investment Expense Net	1.24%
Total Investment Expense Gross	1.27%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	09/30/2008
Total Net Assets (mil)	$1,803.69

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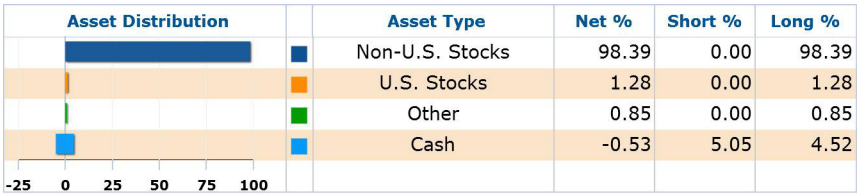
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

Overseas Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Distribution	Asset Type	Net %	Short %	Long %
	Non-U.S. Stocks	98.39	0.00	98.39
	U.S. Stocks	1.28	0.00	1.28
	Other	0.85	0.00	0.85
	Cash	-0.53	5.05	4.52

Top ten holdings	% of net assets
1. Mini Msci Eafe Dec12	3.55
2. Sanofi	2.89
3. Novartis AG	2.80
4. Vodafone Group PLC	2.09
5. Reed Elsevier NV	1.79
6. Barclays PLC	1.77
7. Jardine Cycle & Carriage Ltd.	1.59
8. HSBC Holdings PLC	1.56
9. Zurich Insurance Group AG	1.53
10. Akzo Nobel NV	1.53
% of net assets in top ten holdings*	21.09

Analysis	
# of Stock Hldgs	439
# of Bond Hldgs	0
# of Other Hldgs	13
AvgMktCap (mil)	$24,261.97
Turnover Ratio	28%
P/C Ratio	3.62
P/E Ratio	11.60
P/B Ratio	1.20

Top 5 Countries	% of net assets
United Kingdom	22.94
Japan	15.46
Germany	10.51
France	10.39
Switzerland	8.95

Regional exposure	% of net assets
Europe	70.00
Japan	15.46
Pacific Rim	11.59
United States	1.36
Latin America	1.02
Other	0.58

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

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MSCI EAFE Value Index is a subset of the MSCI EAFE Index, which is an unmanaged index that measures the stock returns of companies in developed economies outside of North America. The MSCI EAFE Value Index consists of securities classified by MSCI as most representing the value style.

Past performance is no guarantee of future results. Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Average Market Cap - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitaliation of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. **Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

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International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

Effective August 10, 2010, this portfolio is sub-advised by Causeway and Barrow Hanley. Prior to August 10, 2010, the portfolio was sub-advised by AXA Rosenberg and Causeway. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

Formerly known as International Value I Separate Account.

* Values may exceed 100% if both long and short positions are included in the portfolio.

SmallCap Value II Separate Account-R6 as of 12/31/2012

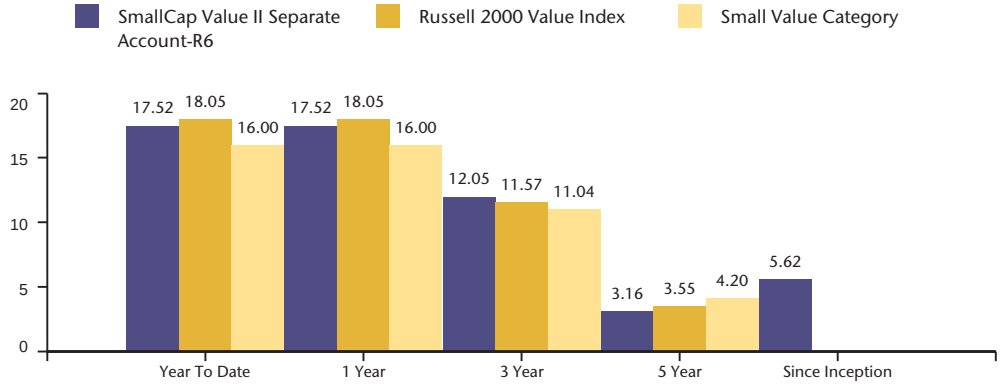
Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of U.S. companies with small market capitalizations (those with market capitalizations similar to companies in the Russell 2000(R) Value Index) or in securities with market capitalizations of $3.5 billion or less at the time of purchase. It invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The fund will also invest in real estate investment trusts.

Portfolio managers

Chris D. Wallis, CPA, CFA. Since 10/03/2005. M.B.A., Harvard University
Scott J. Weber, CFA. Since 10/03/2005. M.B.A., Tulane University
Thomas D. Stevens, CFA. Since 05/01/2009. M.B.A., University of Wisconsin
Mariateresa Monaco Since 06/02/2009. M.B.A., Massachusetts Institute of Technology
Hal W. Reynolds, CFA. Since 03/01/2010. M.B.A., University of Pittsburgh

Long-term returns % as of 12/31/2012



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	17.52	17.52	12.05	3.16	5.62
Russell 2000 Value Index %	18.05	18.05	11.57	3.55	-
Small Value Category %	16.00	16.00	11.04	4.20	-
Morningstar Percentile Rankings	-	34	37	70	-
# of Funds in Category	357	357	279	247	-
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	17.52	-5.92	27.26	32.13	-37.14
Russell 2000 Value Index %	18.05	-5.50	24.50	20.58	-28.92
Small Value Category %	16.00	-4.45	26.17	31.32	-32.24
Morningstar Percentile Rankings	34	67	34	36	81
# of Funds in Category	357	352	342	370	438

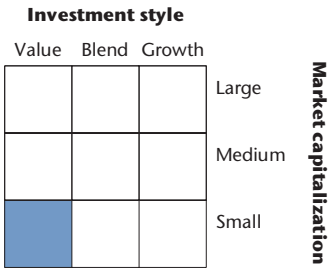
Morningstar percentile rankings are based on total returns.

Morningstar category

Small Value

Morningstar Style Box™

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	0.16	-0.34
Beta	1.03	1.03
R-Squared	99.39	98.73
Standard Deviation	20.88	25.82
Mean	12.05	3.16
Sharpe Ratio	0.64	0.24
Excess Return	0.48	-0.38
Tracking Error	1.75	3.04
Information Ratio	0.27	-0.13

Operations

Total Investment Expense Net	1.19%
Total Investment Expense Gross	1.27%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	06/01/2004
Total Net Assets (mil)	$1,147.51

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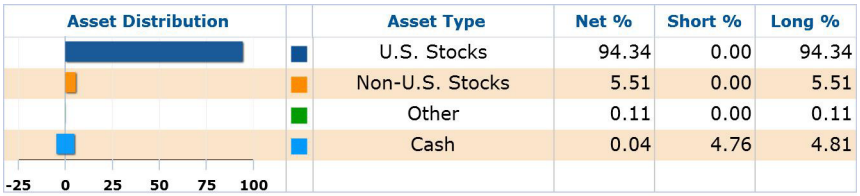
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

SmallCap Value II Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Stocks	94.34	0.00	94.34
Non-U.S. Stocks	5.51	0.00	5.51
Other	0.11	0.00	0.11
Cash	0.04	4.76	4.81

Top ten holdings	% of net assets
1. Russell 2000 Mini Dec12	4.76
2. CNO Financial Group, Inc.	0.90
3. Webster Financial Corp	0.67
4. Ares Capital Corporation	0.66
5. Corrections Corporation of America	0.64
6. Firstmerit Corp	0.63
7. Group 1 Automotive Inc	0.60
8. Actuant Corp Class A	0.57
9. Silgan Holdings, Inc.	0.56
10. Rent-A-Center, Inc.	0.55
% of net assets in top ten holdings*	10.55

Analysis

# of Stock Hldgs	1688
# of Bond Hldgs	0
# of Other Hldgs	12
AvgMktCap (mil)	$1,079.52
Turnover Ratio	53%
P/C Ratio	5.47
P/E Ratio	13.89
P/B Ratio	1.14

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**52.01**	**Defensive**	**11.55**	**Sensitive**	**36.43**
Consumer Cyclical	14.45	Healthcare	4.56	Technology	10.60
Basic Materials	6.35	Consumer Defensive	3.76	Industrials	19.49
Financial Svcs	24.85	Utilities	3.23	Energy	5.65
Real Estate	6.36			Comm Svcs	0.69

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal SmallCap Value II Separate Account-R6.

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Past performance is no guarantee of future results. Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Average Market Cap - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitaliation of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. **Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

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Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

This investment option maintains a voluntary waiver which is reflected in the value displayed for Total Investment Expense - Net. This waiver may be discontinued at any time.

Effective May 1, 2009, LA Capital was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Equity Income Separate Account-R6 as of 12/31/2012

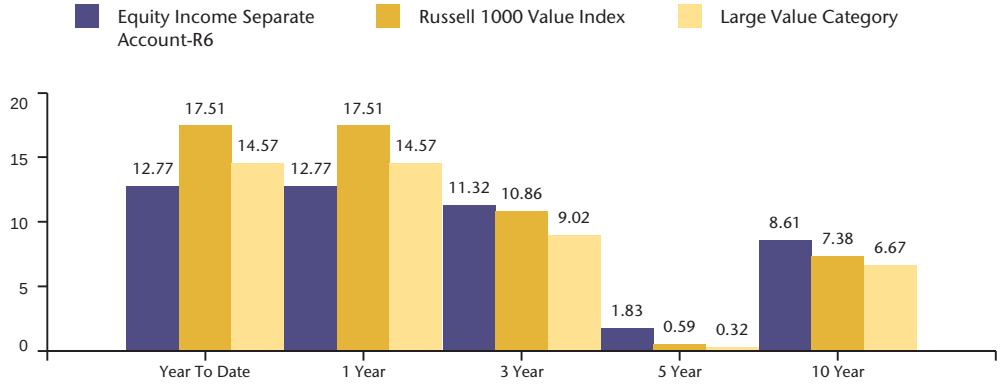
Investment Strategy

The investment seeks to provide a relatively high level of current income and long-term growth of income and capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in dividend-paying equity securities. It usually invests in equity securities of companies with large market capitalizations, but may also invest in equity securities of companies with medium market capitalizations. The fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. It will also invest in real estate investment trusts and securities of foreign issuers.

Portfolio managers

David W. Simpson, CFA. Since 03/31/2008. M.B.A., University of Wisconsin
Daniel R. Coleman Since 05/19/2010. M.B.A., New York University

Long-term returns % as of 12/31/2012



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit principal.com, contact your representative of The Principal, or call our Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	12.77	12.77	11.32	1.83	8.61
Russell 1000 Value Index %	17.51	17.51	10.86	0.59	7.38
Large Value Category %	14.57	14.57	9.02	0.32	6.67
Morningstar Percentile Rankings	-	73	10	21	5
# of Funds in Category	1208	1208	1051	930	591
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	12.77	5.34	16.11	-	-
Russell 1000 Value Index %	17.51	0.39	15.51	19.69	-36.85
Large Value Category %	14.57	-0.75	13.66	24.13	-37.09
Morningstar Percentile Rankings	73	15	18	-	-
# of Funds in Category	1208	1258	1240	1272	1433

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style Box™

As of 11/30/2012

Investment style

	Value	Blend	Growth	
Large	■			
Medium				
Small				

Market capitalization

Risk and Return Statistics

as of 12/31/2012 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	2.19	1.09
Beta	0.81	0.87
R-Squared	94.63	96.23
Standard Deviation	13.15	17.90
Mean	11.32	1.83
Sharpe Ratio	0.88	0.17
Excess Return	0.45	1.24
Tracking Error	4.24	4.36
Information Ratio	0.11	0.29

Operations

Total Investment Expense Net	0.68%
Total Investment Expense Gross	0.68%
Inception Date	06/30/2009
Extended Performance Inception Date#	05/31/1939
Total Net Assets (mil)	$4,310.83

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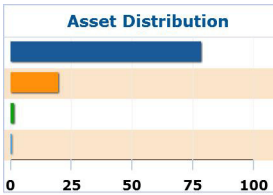
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

Equity Income Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Stocks	78.43	0.00	78.43
Non-U.S. Stocks	19.63	0.00	19.63
Cash	1.48	0.00	1.48
Other	0.46	0.00	0.46

Top ten holdings	% of net assets
1. Mattel, Inc.	2.21
2. ACE Ltd	2.14
3. Merck & Co Inc	2.10
4. Digital Realty Trust, Inc.	2.09
5. Pfizer Inc	1.97
6. Abbott Laboratories	1.93
7. JPMorgan Chase & Co	1.90
8. Marathon Petroleum Corp	1.87
9. Genuine Parts Company	1.87
10. BlackRock Inc	1.81
% of net assets in top ten holdings*	19.89

Analysis

# of Stock Hldgs	89
# of Bond Hldgs	0
# of Other Hldgs	5
AvgMktCap (mil)	$35,206.92
Turnover Ratio	24%
P/C Ratio	6.18
P/E Ratio	12.79
P/B Ratio	1.69

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**36.68**	**Defensive**	**23.40**	**Sensitive**	**39.92**
Consumer Cyclical	9.60	Healthcare	13.05	Technology	6.74
Basic Materials	2.83	Consumer Defensive	5.00	Industrials	13.11
Financial Svcs	18.99	Utilities	5.35	Energy	16.55
Real Estate	5.26			Comm Svcs	3.52

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#These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

* Values may exceed 100% if both long and short positions are included in the portfolio.

International I Separate Account-R6 as of 12/31/2012

Investment Strategy

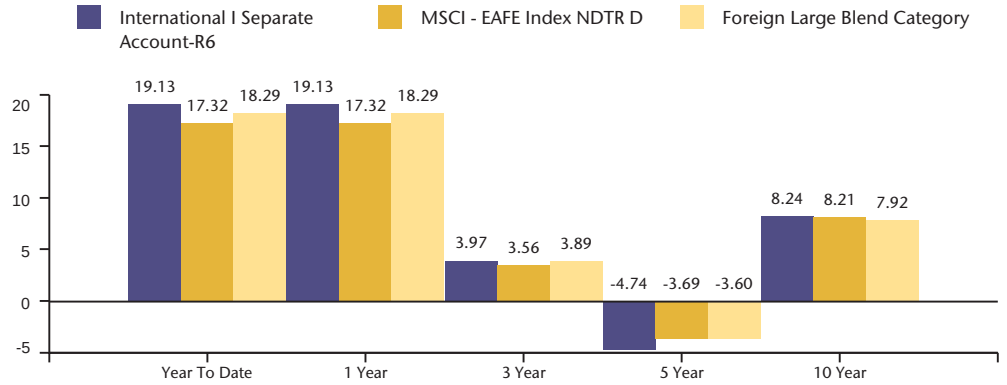
The investment seeks long-term growth of capital. The fund invests primarily in equity securities of foreign companies. Its investments will normally be diversified across many different countries and regions, including countries with emerging markets. The fund will invest in equity securities of small, medium, and large capitalization companies. It invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued.

Fidelity INVESTMENTS Schroders

Portfolio managers

Cesar Hernandez, CFA. Since 12/29/2003. M.B.A., Babson College
Mariateresa Monaco Since 06/02/2009. M.B.A., Massachusetts Institute of Technology
Virginie Maisonneuve, CFA. Since 01/11/2010. M.B.A., ESLSCA
Simon Webber, CFA. Since 01/11/2010. B.S., University of Manchester

Long-term returns % as of 12/31/2012



Performance disclosure

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In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	19.13	19.13	3.97	-4.74	8.24
MSCI - EAFE Index NDTR D %	17.32	17.32	3.56	-3.69	8.21
Foreign Large Blend Category %	18.29	18.29	3.89	-3.60	7.92
Morningstar Percentile Rankings	-	32	50	73	41
# of Funds in Category	786	786	713	589	325
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	19.13	-14.64	10.53	25.40	-44.35
MSCI - EAFE Index NDTR D %	17.32	-12.14	7.75	31.78	-43.38
Foreign Large Blend Category %	18.29	-13.97	10.24	31.24	-43.99
Morningstar Percentile Rankings	32	62	46	80	55
# of Funds in Category	786	817	829	823	778

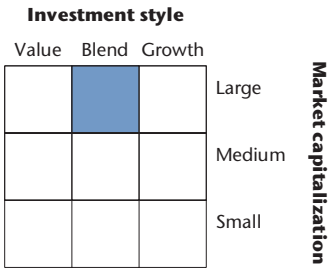
Morningstar percentile rankings are based on total returns.

Morningstar category

Foreign Large Blend

Morningstar Style Box™

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to MSCI - EAFE Index NDTR D

	3Yr	5Yr
Alpha	0.42	-0.85
Beta	1.04	1.02
R-Squared	97.53	97.87
Standard Deviation	20.60	24.26
Mean	3.97	-4.74
Sharpe Ratio	0.29	-0.09
Excess Return	0.41	-1.04
Tracking Error	3.31	3.59
Information Ratio	0.13	-0.29

Operations

Total Investment Expense Net	1.13%
Total Investment Expense Gross	1.16%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	07/01/1999
Total Net Assets (mil)	$1,162.95

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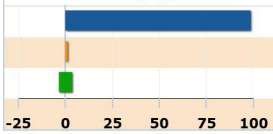
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

International I Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Distribution	Asset Type	Net %	Short %	Long %
	Non-U.S. Stocks	98.60	0.00	98.60
	Other	1.20	0.00	1.20
	Cash	0.20	3.41	3.61

Top ten holdings	% of net assets
1. Nestle SA	2.51
2. Mini Msci Eafe Dec12	2.39
3. Roche Holding AG	1.92
4. Sanofi	1.78
5. BHP Billiton PLC	1.76
6. HSBC Holdings PLC	1.63
7. Schneider Electric	1.50
8. Sumitomo Mitsui Financial Group Inc	1.50
9. Fanuc Corp	1.48
10. Credit Suisse Group	1.41
% of net assets in top ten holdings*	17.90

Analysis	
# of Stock Hldgs	761
# of Bond Hldgs	0
# of Other Hldgs	16
AvgMktCap (mil)	$30,744.68
Turnover Ratio	57%
P/C Ratio	2.33
P/E Ratio	12.86
P/B Ratio	1.43

Top 5 Countries	% of net assets
United Kingdom	21.43
Japan	16.01
France	13.23
Switzerland	10.93
Australia	8.10

Regional exposure	% of net assets
Europe	64.05
Japan	16.01
Pacific Rim	14.95
Other	4.07
Latin America	0.91

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MSCI - EAFE Index NDTR D is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

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International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

Effective March 31, 2007, references to Fidelity Management & Research as investment advisor were replaced with Fidelity (Pyramis Global Adv). This is a name change only and does not affect the management, objective, or strategy of this investment option.

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

Effective January 11, 2010, Schroders was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

* Values may exceed 100% if both long and short positions are included in the portfolio.

High Yield I Separate Account-R6 as of 12/31/2012

Investment Strategy

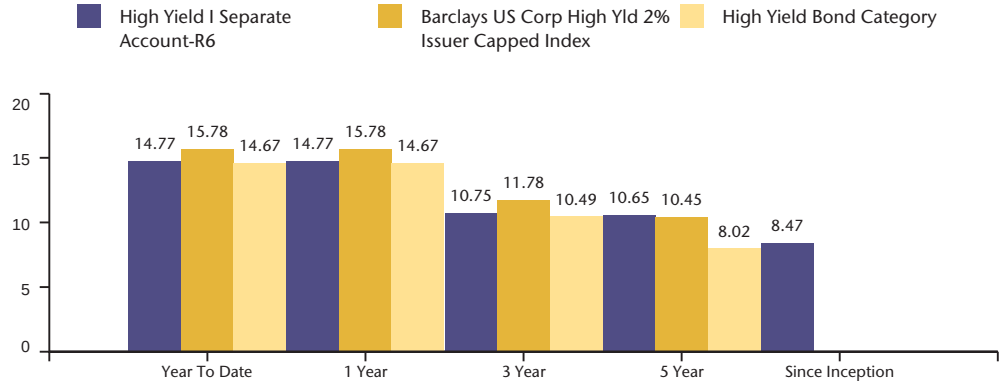
The investment seeks high current income. The fund normally invests at least 80% of its net assets in high yield, below investment grade quality debt (sometimes called "junk bonds" and rated at the time of purchase BB+ or lower by S&P or rated Ba1 or lower by Moody's or of equivalent quality as determined by the Sub-Advisors). It may also invest in corporate loan participations and assignments.

J.P.Morgan Asset Management | NEUBERGER BERMAN

Portfolio managers

Ann H. Benjamin Since 07/19/2007. Master, Carnegie Mellon University
James E. Gibson Since 07/19/2007. B.S., University of Cincinnati
William J. Morgan Since 07/19/2007. M.B.A., Xavier University
Thomas P. O'Reilly, CFA. Since 07/19/2007. M.B.A., Loyola University
James Shanahan Since 07/19/2007. J.D., University of Cincinnati

Long-term returns % as of 12/31/2012



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit principal.com, contact your representative of The Principal, or call our Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	14.77	14.77	10.75	10.65	8.47
Barclays US Corp High Yld 2% Issuer Capped Index %	15.78	15.78	11.78	10.45	-
High Yield Bond Category %	14.67	14.67	10.49	8.02	-
Morningstar Percentile Rankings	-	47	41	3	-
# of Funds in Category	598	598	517	459	-
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	14.77	3.09	14.81	52.86	-20.12
Barclays US Corp High Yld 2% Issuer Capped Index %	15.78	4.96	14.94	58.76	-25.88
High Yield Bond Category %	14.67	2.83	14.24	46.70	-26.41
Morningstar Percentile Rankings	47	57	32	24	14
# of Funds in Category	598	573	574	543	559

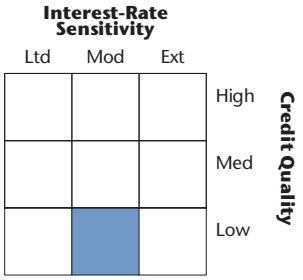
Morningstar percentile rankings are based on total returns.

Morningstar category

High Yield Bond

Morningstar Style Box™ **

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Barclays US Corp High Yld 2% Issuer Capped Index

	3Yr	5Yr
Alpha	-1.92	1.40
Beta	1.09	0.86
R-Squared	99.57	97.81
Standard Deviation	7.83	12.07
Mean	10.75	10.65
Sharpe Ratio	1.33	0.87
Tracking Error	0.83	2.63
Information Ratio	-1.25	0.08

Operations

Total Investment Expense Net	0.81%
Total Investment Expense Gross	0.81%
Inception Date	12/31/2004
Total Net Assets (mil)	$1,320.88

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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

High Yield I Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Bonds	74.50	0.00	74.50
	Non-U.S. Bonds	10.58	0.00	10.58
	Other	8.48	0.00	8.48
	Cash	5.16	0.00	5.16
	Preferred	0.78	0.00	0.78
	U.S. Stocks	0.47	0.00	0.47
	Convertibles	0.03	0.00	0.03

0 25 50 75

Top ten holdings	% of net assets
1. Berry Plastics 9.75%	0.88
2. Donnelley R R & Sons 7.25%	0.84
3. Cit Grp 6.625%	0.76
4. Everest Acq Llc/Finance 144A 9.375%	0.76
5. Dish Dbs 5.875%	0.69
6. Intelsat Bermuda 11.5%	0.69
7. Sears Hldgs 6.625%	0.64
8. Dish Dbs 6.75%	0.62
9. Nrg Engy 7.875%	0.60
10. Icahn Enterprises Lp/Corp 8%	0.59
% of net assets in top ten holdings*	7.07

Analysis

# of Stock Hldgs	7
# of Bond Hldgs	747
# of Other Hldgs	166
Turnover Ratio	75%
P/C Ratio	4.59
P/E Ratio	7.36
P/B Ratio	1.42

Credit Analysis

As of 11/30/2012

	% Bonds
AAA	2.83
AA	0.00
A	0.00
BBB	2.10
BB	30.84
B	46.67
Below B	16.72
Not Rated	0.84

Statistics

Avg Eff Duration (Yrs)	3.87
Avg Eff Maturity (Yrs)	6.52
Avg Weighted Price	106.05

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal High Yield I Separate Account-R6.

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**The Morningstar Style Box™ reveals a fund's investment strategy. For equity funds the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend or growth). For fixed-income funds, the vertical axis shows the credit quality of the bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information, Morningstar instructs fund companies to only use ratings that have been assigned by the following Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's, Standard & Poor's, Fitch, and Egan-Jones. If two NRSROs have rated a security, fund companies are to report the lowest rating; if three or more NRSROs have rated the same security differently, fund companies are to report the rating that is in the middle. For example, if NRSRO X rates a security AA-, NRSRO Y rates the same security an A and NRSRO Z rates it a BBB+, the fund company should use the credit rating of 'A' in its reporting to Morningstar. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the fund. An NRSRO rating on a fixed-income security can change from time-to-time.

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For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

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The credit analysis shows the percentage of fixed-income securities that fall within each credit-quality rating, as assigned by Standard & Poor's or Moody's, and depicts the quality of bonds in the portfolio. Higher ratings indicate a lower credit risk, and lower ratings indicate a higher credit risk. Per the Morningstar Fixed Income Survey guidelines, if two rating agencies rate a security, then the lowest rating is used. The credit analysis may not reflect the current portfolio composition. AAA-rated securities include cash and cash equivalents.

Barclays US Corp High Yld 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

Past performance is no guarantee of future results. Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Average Market Cap - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitaliation of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. **Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

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High yield investment options are subject to greater credit risk and volatility that is associated with high yield bonds.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

Effective January 2, 2008, this portfolio is co-sub-advised by JP Morgan and Neuberger Berman Fixed Income LLC (formerly named Lehman Brothers Asset Management). Prior to January 2, 2008 Post Advisory Group was a third sub-advisor for this portfolio. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Diversified Real Asset Separate Account-R6 as of 12/31/2012

Investment Strategy

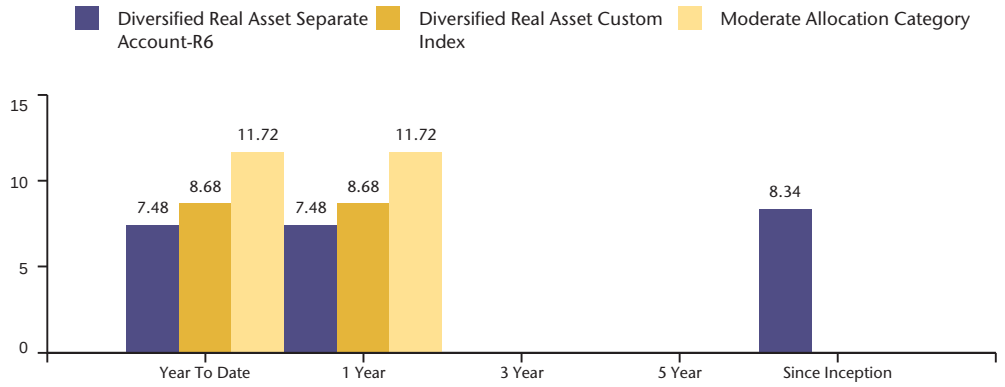
The investment seeks a long-term total return in excess of inflation. The fund allocates its assets among the following general investment categories: inflation-indexed bonds, securities of real estate companies, commodity index-linked notes, fixed-income securities, securities of natural resource companies, master limited partnerships (MLPs), publicly-listed infrastructure companies, and floating rate debt. It concentrates its investments (invests more than 25% of its net assets) in securities in the real estate and energy/natural resources industries.

BlackRock Credit Suisse Jennison Associates
Principal Real Estate Investors Tortoise Capital Advisors Brookfield Symphony Asset Management

Portfolio managers

Michael P. Finnegan, CFA. Since 03/16/2010. M.A., University of Iowa
Kelly Grossman Since 03/16/2010. B.A., University of Northern Iowa
Dave Reichart, CFA. Since 12/30/2011. M.B.A., Drake University

Long-term returns % as of 12/31/2012



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	7.48	7.48	-	-	8.34
Diversified Real Asset Custom Index %	8.68	8.68	-	-	-
Moderate Allocation Category %	11.72	11.72	7.70	2.32	-
Morningstar Percentile Rankings	-	93	-	-	-
# of Funds in Category	936	936	810	707	-
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	7.48	0.71	-	-	-
Diversified Real Asset Custom Index %	8.68	2.80	-	-	-
Moderate Allocation Category %	11.72	-0.11	11.83	24.13	-28.00
Morningstar Percentile Rankings	93	38	-	-	-
# of Funds in Category	936	963	1074	1177	1206

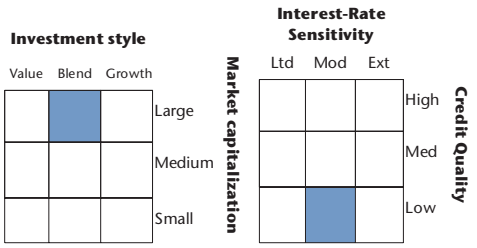
Morningstar percentile rankings are based on total returns.

Morningstar category

Moderate Allocation

Morningstar Style Box™ **

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Diversified Real Asset Custom Index

	3Yr	5Yr
Alpha	-	-
Beta	-	-
R-Squared	-	-
Standard Deviation	-	-
Mean	-	-
Sharpe Ratio	-	-
Excess Return	-	-
Tracking Error	-	-
Information Ratio	-	-

Operations

Total Investment Expense Net	1.03%
Total Investment Expense Gross	1.03%
Inception Date	12/31/2010
Extended Performance Inception Date#	03/16/2010
Total Net Assets (mil)	$1,402.41

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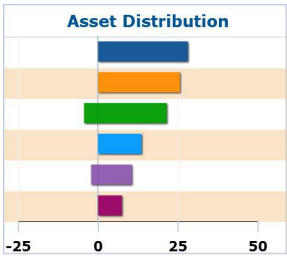
Diversified Real Asset Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Bonds	28.05	0.00	28.05
U.S. Stocks	25.54	0.00	25.54
Cash	17.06	4.42	21.48
Non-U.S. Stocks	13.57	0.00	13.57
Non-U.S. Bonds	8.33	2.20	10.53
Other	7.44	0.00	7.44

Top ten holdings	% of net assets
1. US Treasury Note	2.91
2. Interest Rate Swap Pay Fixed	1.98
3. US Treasury Bond 2.375%	1.77
4. US Treasury Note	1.63
5. US Treasury Bond 3.875%	1.36
6. US Treasury Note 0.5%	1.29
7. US Treasury Bond	1.23
8. Ibrd; Dow Jones - Ubs Commodity Index Linked Note	1.19
9. US Treasury Note	1.15
10. US Treasury Bond 3.625%	1.12
% of net assets in top ten holdings*	15.61

Analysis

# of Stock Hldgs	225
# of Bond Hldgs	190
# of Other Hldgs	47
AvgMktCap (mil)	$10,261.66
Turnover Ratio	107%
P/C Ratio	6.68
P/E Ratio	19.03
P/B Ratio	1.75

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**34.67**	**Defensive**	**9.80**	**Sensitive**	**55.54**
Consumer Cyclical	0.00	Healthcare	0.00	Technology	0.21
Basic Materials	5.48	Consumer Defensive	0.19	Industrials	4.73
Financial Svcs	0.00	Utilities	9.61	Energy	48.78
Real Estate	29.19			Comm Svcs	1.82

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Diversified Real Asset Custom Index is composed of 30% Barclays U.S. Treasury TIPS Index, 20% Dow Jones UBS Commodity Index, 10% S&P N.A. Natural Resources Index, 10% Tortoise MLP Index, 10% Dow Jones Brookfield Global Infrastructure Index, 10% Credit Suisse Leveraged Loan Index, and 10% FTSE EPRA/NAREIT Developed Index. The blended index historic returns reflect the allocation as of the time of production. Previous allocation changes are not restated.

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This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

#These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. or any other government entity. Concentrating investments in natural resources industries can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations and other factors. Investment in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. REIT securities are subject to risk factors associated with the real estate industry and tax factors of REIT registration. An MLP that invests in a particular industry (e.g., oil and gas) may be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income paid by an MLP to its investors.

The risks associated with derivative investments include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Core Plus Bond I Separate Account-R6 as of 12/31/2012

Investment Strategy

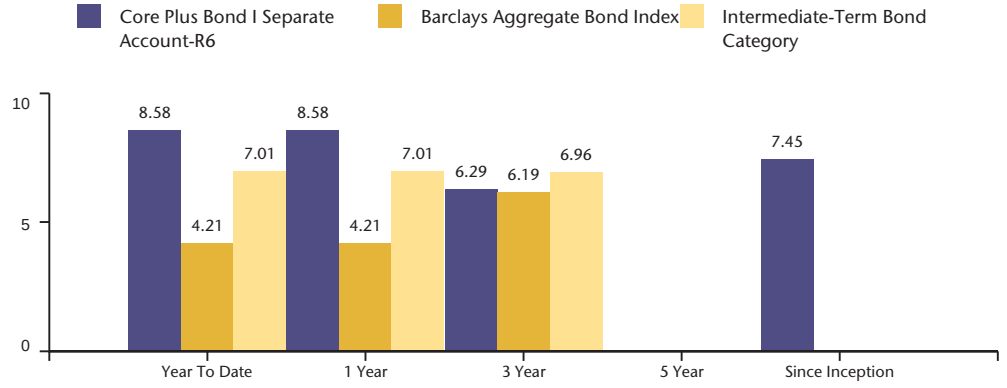
The investment seeks maximum total return, consistent with preservation of capital and prudent investment management. The fund normally invests at least 80% of its net assets in a diversified portfolio of fixed-income instruments of varying maturities. It invests primarily in investment grade debt securities, but may invest up to 20% of its total assets in high yield securities ("junk bonds") rated at the time of purchase Ba1 or lower by Moody's, or BB+ or lower by S&P, or, if unrated, determined by the Sub-Advisor to be of comparable quality.

PIMCO

Portfolio managers

William H. Gross Since 09/30/2008. M.B.A., University of California, Los Angeles (Anderson)

Long-term returns % as of 12/31/2012



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit principal.com, contact your representative of The Principal, or call our Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	8.58	8.58	6.29	-	7.45
Barclays Aggregate Bond Index %	4.21	4.21	6.19	5.95	-
Intermediate-Term Bond Category %	7.01	7.01	6.96	6.07	-
Morningstar Percentile Rankings	-	27	68	-	-
# of Funds in Category	1165	1165	1001	874	-
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	8.58	3.53	6.82	6.76	-
Barclays Aggregate Bond Index %	4.21	7.84	6.54	5.93	5.24
Intermediate-Term Bond Category %	7.01	5.86	7.72	13.97	-4.70
Morningstar Percentile Rankings	27	90	65	85	-
# of Funds in Category	1165	1195	1164	1123	1135

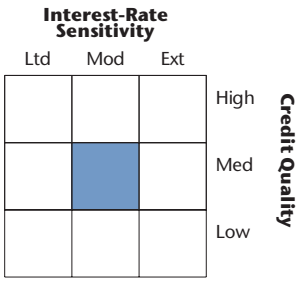
Morningstar percentile rankings are based on total returns.

Morningstar category

Intermediate-Term Bond

Morningstar Style Box™ **

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Barclays Aggregate Bond Index

	3Yr	5Yr
Alpha	1.37	-
Beta	0.79	-
R-Squared	37.41	-
Standard Deviation	3.12	-
Mean	6.29	-
Sharpe Ratio	1.94	-
Tracking Error	2.52	-
Information Ratio	0.04	-

Operations

Total Investment Expense Net	0.73%
Total Investment Expense Gross	0.73%
Inception Date	09/30/2008
Total Net Assets (mil)	$3,480.53

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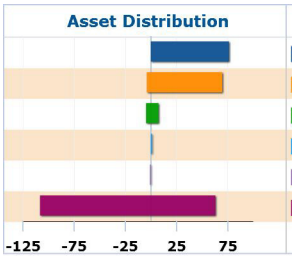
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

Core Plus Bond I Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Bonds	76.34	0.00	76.34
Non-U.S. Bonds	65.83	3.99	69.81
Other	2.84	4.70	7.54
Preferred	1.02	0.00	1.02
Non-U.S. Stocks	-0.72	0.72	0.00
Cash	-45.31	108.35	63.04

Top ten holdings	% of net assets
1. Interest Rate Swap Receive Fixed	6.84
2. US Treasury Note 0.375%	5.74
3. Interest Rate Swap Receive Fixed	5.64
4. FNMA 4.5%	5.59
5. 90day Euro$ Futr Dec15	3.64
6. Fannie Mae Single Family TBA 3.5% 2042-12-01	3.46
7. US Treasury Note 1%	2.57
8. US Treasury Bond 2.375%	2.56
9. Interest Rate Swap Receive Fixed	2.54
10. Interest Rate Swap Receive Fixed	2.52
% of net assets in top ten holdings*	41.10

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	1030
# of Other Hldgs	42
Turnover Ratio	275%

Credit Analysis

As of 11/30/2012

	% Bonds
AAA	63.51
AA	10.58
A	6.25
BBB	12.54
BB	3.95
B	1.29
Below B	1.88
Not Rated	0.00

Statistics

Avg Eff Duration (Yrs)	4.66
Avg Eff Maturity (Yrs)	6.52
Avg Weighted Price	108.81

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal Core Plus Bond I Separate Account-R6.

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

**The Morningstar Style Box™ reveals a fund's investment strategy. For equity funds the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend or growth). For fixed-income funds, the vertical axis shows the credit quality of the bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information, Morningstar instructs fund companies to only use ratings that have been assigned by the following Nationally Recognized Statistical Rating Organizations (NRSROs): Moody's, Standard & Poor's, Fitch, and Egan-Jones. If two NRSROs have rated a security, fund companies are to report the lowest rating; if three or more NRSROs have rated the same security differently, fund companies are to report the rating that is in the middle. For example, if NRSRO X rates a security AA-, NRSRO Y rates the same security an A and NRSRO Z rates it a BBB+, the fund company should use the credit rating of 'A' in its reporting to Morningstar. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the fund. An NRSRO rating on a fixed-income security can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond fund. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

For municipal bond funds, Morningstar also obtains from fund companies the average effective duration. In these cases static breakpoints are utilized. These breakpoints are as follows: (i) Limited: 4.5 years or less; (ii) Moderate: more than 4.5 years but less than 7 years; and (iii) Extensive: more than 7 years. In addition, for non-US taxable and non-US domiciled fixed income funds static duration breakpoints are used: (i) Limited: less than or equal to 3.5 years; (ii) Moderate: greater than 3.5 and less than or equal to 6 years; (iii) Extensive: greater than 6 years.

The credit analysis shows the percentage of fixed-income securities that fall within each credit-quality rating, as assigned by Standard & Poor's or Moody's, and depicts the quality of bonds in the portfolio. Higher ratings indicate a lower credit risk, and lower ratings indicate a higher credit risk. Per the Morningstar Fixed Income Survey guidelines, if two rating agencies rate a security, then the lowest rating is used. The credit analysis may not reflect the current portfolio composition. AAA-rated securities include cash and cash equivalents.

Barclays Aggregate Bond Index represents securities that are domestic, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Past performance is no guarantee of future results. Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

† The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit principal.com.

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Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

The risks associated with derivative investments include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Bond and Mortgage Separate Account-I2 as of 12/31/2012

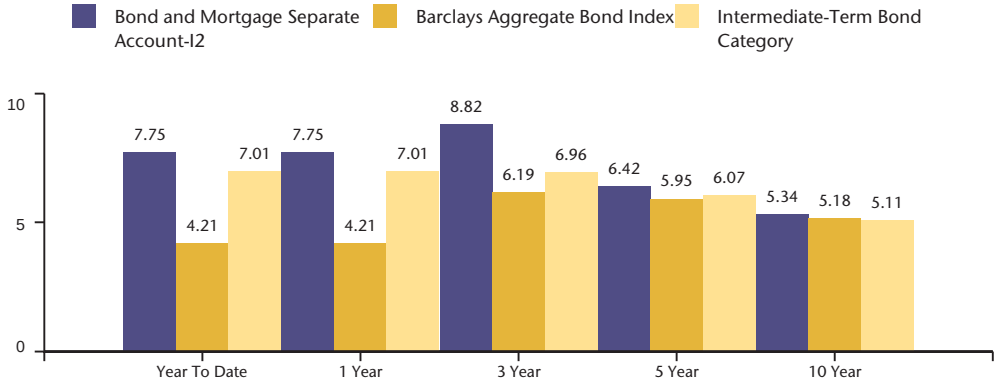
Investment Strategy

The investment option invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security selection. The Separate Account may enter into reverse repurchase agreements to attempt to enhance portfolio return and income.

Portfolio managers

William C. Armstrong, CFA. Since 01/01/1997. Master, University of Iowa
Timothy R. Warrick, CFA. Since 06/01/2002. M.B.A., Drake University

Long-term returns % as of 12/31/2012



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	7.75	7.75	8.82	6.42	5.34
Barclays Aggregate Bond Index %	4.21	4.21	6.19	5.95	5.18
Intermediate-Term Bond Category %	7.01	7.01	6.96	6.07	5.11
Morningstar Percentile Rankings	-	36	12	40	40
# of Funds in Category	1165	1165	1001	874	612

Annual Returns	2012	2011	2010	2009	2008
Total Return %	7.75	7.01	11.77	21.81	-13.06
Barclays Aggregate Bond Index %	4.21	7.84	6.54	5.93	5.24
Intermediate-Term Bond Category %	7.01	5.86	7.72	13.97	-4.70
Morningstar Percentile Rankings	36	27	3	11	89
# of Funds in Category	1165	1195	1164	1123	1135

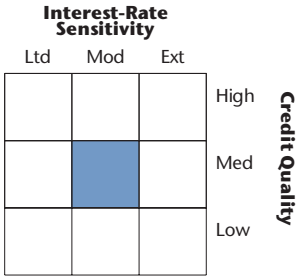
Morningstar percentile rankings are based on total returns.

Morningstar category

Intermediate-Term Bond

Morningstar Style Box™ **

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Barclays Aggregate Bond Index

	3Yr	5Yr
Alpha	3.32	0.51
Beta	0.86	1.01
R-Squared	55.31	35.50
Standard Deviation	2.79	5.96
Mean	8.82	6.42
Sharpe Ratio	3.02	1.00
Tracking Error	1.89	4.84
Information Ratio	1.38	0.10

Operations

Total Investment Expense Net	0.55%
Total Investment Expense Gross	0.55%
Inception Date	02/01/1983
Total Net Assets (mil)	$4,216.19

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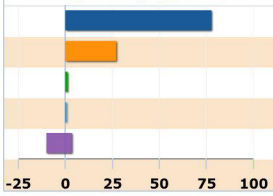
Bond and Mortgage Separate Account-I2 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Bonds	77.69	0.00	77.69
Non-U.S. Bonds	27.10	0.00	27.10
Cash	1.19	0.00	1.19
Preferred	0.60	0.00	0.60
Other	-6.58	10.09	3.51

Top ten holdings	% of net assets
1. Bond & Mtg Mortgage Holding	3.60
2. Separate Account Li-Mm	2.24
3. Fannie Mae Single Family TBA 2.5% 2027-12-01	2.23
4. Ginnie Mae Single Family TBA 3.5% 2042-12-01	1.96
5. US Treasury Bond 6.25%	1.76
6. US Treasury Note 1.5%	1.43
7. FNMA 4%	1.31
8. Ginnie Mae Single Family TBA 4% 2042-12-01	1.25
9. US Treasury Note 1.875%	1.12
10. US Treasury Note 4%	1.09
% of net assets in top ten holdings*	18.00

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	1521
# of Other Hldgs	80
Turnover Ratio	259%

Credit Analysis

As of 11/30/2012

	% Bonds
AAA	53.58
AA	2.62
A	12.38
BBB	20.01
BB	5.12
B	4.73
Below B	1.56
Not Rated	0.00

Statistics

Avg Eff Duration (Yrs)	5.17
Avg Eff Maturity (Yrs)	8.04
Avg Weighted Price	0.00

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

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Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

The risks associated with derivative investments include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.

* Values may exceed 100% if both long and short positions are included in the portfolio.

International Emerging Markets Separate Account-R6 as of 12/31/2012

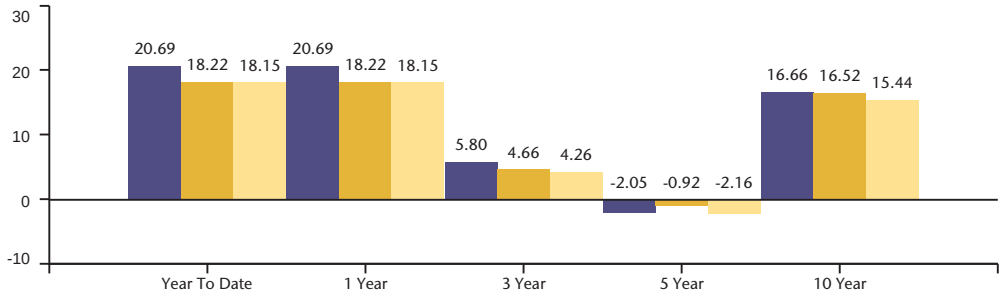
Investment Strategy

The investment option normally invests the majority of assets in equities of companies in emerging market countries. It invests in securities of companies with their principal place of business or principal office in emerging market countries; companies for which the principal securities trade in an emerging market; or companies, regardless of where their securities are traded, that derive 50% of their total revenue from either goods or services produced in emerging market countries. The fund may invest in securities of companies with small to medium market capitalizations.

Portfolio managers

Mihail Dobrinov, CFA. Since 05/30/2007. M.B.A., University of Iowa
Mohammed Zaidi, CFA. Since 12/06/2012. M.B.A., Massachusetts Institute of Technology (Sloan)

Long-term returns % as of 12/31/2012



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	20.69	20.69	5.80	-2.05	16.66
MSCI - Emerging Markets NDTR D Index %	18.22	18.22	4.66	-0.92	16.52
Diversified Emerging Markets Category %	18.15	18.15	4.26	-2.16	15.44
Morningstar Percentile Rankings	-	24	31	53	27
# of Funds in Category	552	552	358	250	150
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	20.69	-17.27	18.61	68.87	-54.93
MSCI - Emerging Markets NDTR D Index %	18.22	-18.42	18.88	78.51	-53.33
Diversified Emerging Markets Category %	18.15	-19.86	19.26	73.81	-54.44
Morningstar Percentile Rankings	24	25	45	64	55
# of Funds in Category	552	458	386	367	312

Morningstar percentile rankings are based on total returns.

Morningstar category

Diversified Emerging Markets

Morningstar Style Box™

As of 11/30/2012

Investment style

	Value	Blend	Growth	Market capitalization
Large		■		
Medium				
Small				

Risk and Return Statistics

as of 12/31/2012 Relative to MSCI - Emerging Markets NDTR D Index

	3Yr	5Yr
Alpha	1.12	-1.08
Beta	1.02	1.00
R-Squared	97.13	98.08
Standard Deviation	22.58	29.21
Mean	5.80	-2.05
Sharpe Ratio	0.36	0.07
Excess Return	1.13	-1.13
Tracking Error	3.85	4.05
Information Ratio	0.29	-0.28

Operations

Total Investment Expense Net	1.51%
Total Investment Expense Gross	1.51%
Inception Date	01/01/1995
Total Net Assets (mil)	$1,027.83

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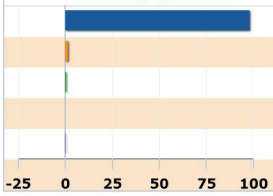
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

International Emerging Markets Separate Account-R6

Portfolio information†

Composition as of 11/30/2012



Asset Distribution	Asset Type	Net %	Short %	Long %
	Non-U.S. Stocks	98.13	0.00	98.13
	U.S. Stocks	1.41	0.00	1.41
	Cash	0.53	0.00	0.53
	Preferred	0.01	0.00	0.01
	Other	-0.08	0.14	0.06

Top ten holdings	% of net assets
1. Samsung Electronics Co Ltd	4.87
2. Taiwan Semiconductor Manufacturing	2.63
3. Industrial And Commercial Bank Of China Ltd. H Shares	1.80
4. OAO Lukoil ADR	1.78
5. ICICI Bank Ltd ADR	1.73
6. Sberbank of Russia OJSC	1.59
7. Hon Hai Precision Ind. Co., Ltd.	1.57
8. China Mobile Ltd.	1.43
9. Vale SA Pfd Shs -A-	1.42
10. Companhia de Bebidas das Americas Ambev ADR	1.42
% of net assets in top ten holdings*	20.25

Analysis	
# of Stock Hldgs	178
# of Bond Hldgs	0
# of Other Hldgs	4
AvgMktCap (mil)	$17,553.49
Turnover Ratio	81%
P/C Ratio	4.53
P/E Ratio	10.26
P/B Ratio	1.44

Top 5 Countries	% of net assets
China	19.78
South Korea	16.18
Brazil	10.61
Taiwan	9.88
Russia	7.19

Regional exposure	% of net assets
Pacific Rim	61.35
Latin America	20.12
Other	16.75
United States	1.43
Europe	0.35

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal International Emerging Markets Separate Acct-R6.

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

MSCI - Emerging Markets NDTR D Index measures equity market performance in the global emerging markets. It consists of 26 emerging market countries in Europe, Latin America and the Pacific Basin.

Past performance is no guarantee of future results. Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Average Market Cap - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitaliation of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. **Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

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International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

* Values may exceed 100% if both long and short positions are included in the portfolio.

LargeCap S&P 500 Index Separate Account-R6 as of 12/31/2012

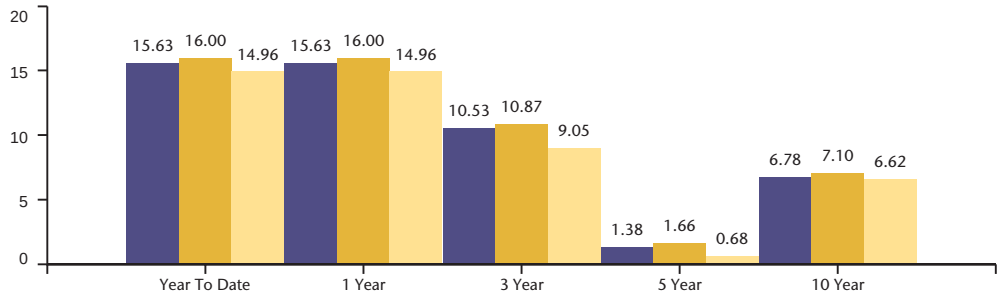
Investment Strategy

The investment option normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Management attempts to mirror the investment performance of the index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, management seeks a very close correlation between the performance of the Separate Account before expenses and that of the S&P 500 Index.

Portfolio managers

Thomas L. Kruchten, CFA. Since 03/01/2011. B.A., University of Northern Iowa

Long-term returns % as of 12/31/2012



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	15.63	15.63	10.53	1.38	6.78
Standard & Poor's 500 Index %	16.00	16.00	10.87	1.66	7.10
Large Blend Category %	14.96	14.96	9.05	0.68	6.62
Morningstar Percentile Rankings	-	43	22	35	42
# of Funds in Category	1686	1686	1506	1324	836

Annual Returns	2012	2011	2010	2009	2008
Total Return %	15.63	1.82	14.68	26.09	-37.10
Standard & Poor's 500 Index %	16.00	2.11	15.06	26.46	-37.00
Large Blend Category %	14.96	-1.27	14.01	28.17	-37.79
Morningstar Percentile Rankings	43	20	36	59	40
# of Funds in Category	1686	1786	2010	2027	2086

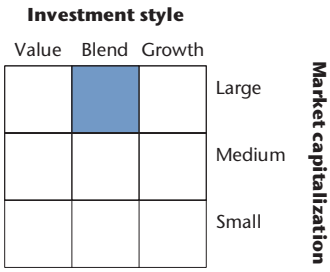
Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style Box™

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.30	-0.28
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	15.28	19.00
Mean	10.53	1.38
Sharpe Ratio	0.73	0.15
Excess Return	-0.34	-0.28
Tracking Error	0.04	0.06
Information Ratio	-9.48	-4.71

Operations

Total Investment Expense Net	0.31%
Total Investment Expense Gross	0.31%
Inception Date	01/01/1990
Total Net Assets (mil)	$8,638.67

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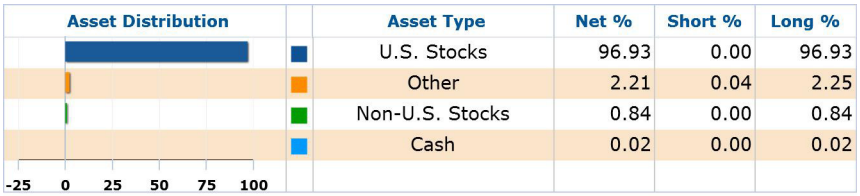
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

LargeCap S&P 500 Index Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Stocks	96.93	0.00	96.93
Other	2.21	0.04	2.25
Non-U.S. Stocks	0.84	0.00	0.84
Cash	0.02	0.00	0.02

Top ten holdings	% of net assets
1. Apple, Inc.	4.23
2. Exxon Mobil Corporation	3.16
3. Separate Account Li-Mm	2.15
4. General Electric Co	1.72
5. Chevron Corp	1.61
6. International Business Machines Corp	1.58
7. Microsoft Corporation	1.56
8. AT&T Inc	1.52
9. Johnson & Johnson	1.49
10. Procter & Gamble Co	1.48
% of net assets in top ten holdings*	20.50

Analysis

# of Stock Hldgs	499
# of Bond Hldgs	0
# of Other Hldgs	6
AvgMktCap (mil)	$55,107.18
Turnover Ratio	2%
P/C Ratio	7.03
P/E Ratio	14.14
P/B Ratio	2.04

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**28.35**	**Defensive**	**27.24**	**Sensitive**	**44.40**
Consumer Cyclical	10.32	Healthcare	12.03	Technology	17.77
Basic Materials	3.28	Consumer Defensive	11.77	Industrials	10.97
Financial Svcs	12.72	Utilities	3.44	Energy	11.18
Real Estate	2.03			Comm Svcs	4.48

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Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

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Each index based investment option is invested in the stocks or bonds of the index it tracks. Performance of indexes reflects the unmanaged results for the market segment the selected stocks or bonds represent. There is no assurance an index based investment option will match the performance of the index tracked.

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LargeCap Value Separate Account-R6 as of 12/31/2012

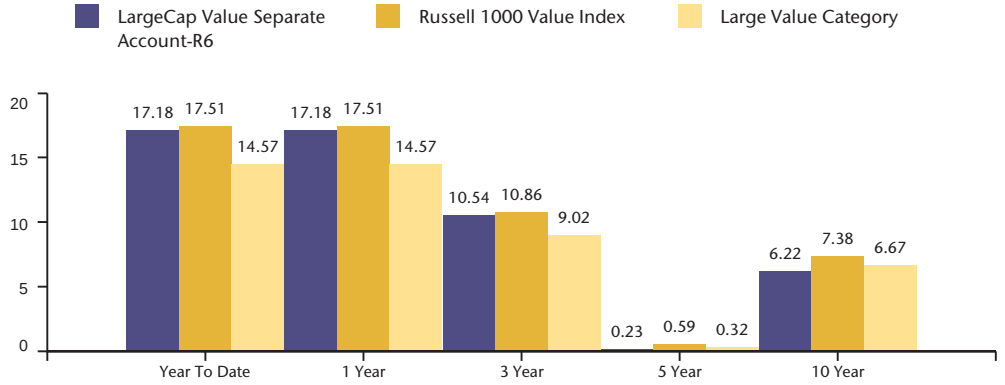
Investment Strategy

The investment option normally invests the majority of assets in companies with large market capitalizations at the time of purchase. Management selects investments primarily on the basis of fundamental security analysis, focusing on the company's financial stability, sales, earnings, dividend trends, return on equity and industry trends. It may invest up to 25% of assets in foreign securities.

Portfolio managers

Arild Holm, CFA. Since 05/18/2007. M.B.A., University of Colorado
Jeffrey A. Schwarte, CPA, CFA. Since 02/01/2010. B.A., University of Northern Iowa

Long-term returns % as of 12/31/2012



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	17.18	17.18	10.54	0.23	6.22
Russell 1000 Value Index %	17.51	17.51	10.86	0.59	7.38
Large Value Category %	14.57	14.57	9.02	0.32	6.67
Morningstar Percentile Rankings	-	21	20	51	67
# of Funds in Category	1208	1208	1051	930	591
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	17.18	1.12	14.00	15.57	-35.20
Russell 1000 Value Index %	17.51	0.39	15.51	19.69	-36.85
Large Value Category %	14.57	-0.75	13.66	24.13	-37.09
Morningstar Percentile Rankings	21	32	40	90	33
# of Funds in Category	1208	1258	1240	1272	1433

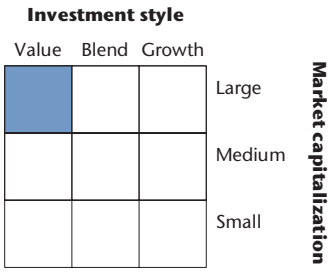
Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style Box™

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-0.58	-0.39
Beta	1.04	0.96
R-Squared	98.22	98.48
Standard Deviation	16.45	19.60
Mean	10.54	0.23
Sharpe Ratio	0.69	0.09
Excess Return	-0.32	-0.36
Tracking Error	2.27	2.53
Information Ratio	-0.14	-0.14

Operations

Total Investment Expense Net	0.61%
Total Investment Expense Gross	0.61%
Inception Date	06/01/1995
Total Net Assets (mil)	$490.84

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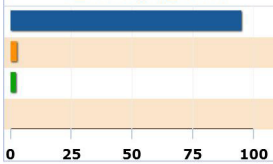
LargeCap Value Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	95.10	0.00	95.10
	Non-U.S. Stocks	2.63	0.00	2.63
	Other	2.26	0.00	2.26
	Cash	0.01	0.00	0.01

Top ten holdings	% of net assets
1. JPMorgan Chase & Co	3.88
2. Exxon Mobil Corporation	3.76
3. Chevron Corp	3.71
4. Wells Fargo & Co	3.61
5. Comcast Corp Class A	2.79
6. Pfizer Inc	2.58
7. Goldman Sachs Group Inc	2.54
8. Cisco Systems Inc	2.45
9. U.S. Bancorp	2.42
10. Eli Lilly and Company	2.22
% of net assets in top ten holdings*	29.96

Analysis

# of Stock Hldgs	73
# of Bond Hldgs	0
# of Other Hldgs	5
AvgMktCap (mil)	$37,954.45
Turnover Ratio	106%
P/C Ratio	5.40
P/E Ratio	11.68
P/B Ratio	1.53

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**38.46**	**Defensive**	**23.42**	**Sensitive**	**38.12**
Consumer Cyclical	7.83	Healthcare	11.60	Technology	7.47
Basic Materials	4.34	Consumer Defensive	5.63	Industrials	7.97
Financial Svcs	23.46	Utilities	6.19	Energy	17.46
Real Estate	2.83			Comm Svcs	5.22

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal LargeCap Value Separate Account-R6.

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Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Past performance is no guarantee of future results. Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Average Market Cap - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitaliation of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. **Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

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* Values may exceed 100% if both long and short positions are included in the portfolio.

MidCap Value III Separate Account-R6 as of 12/31/2012

Investment Strategy

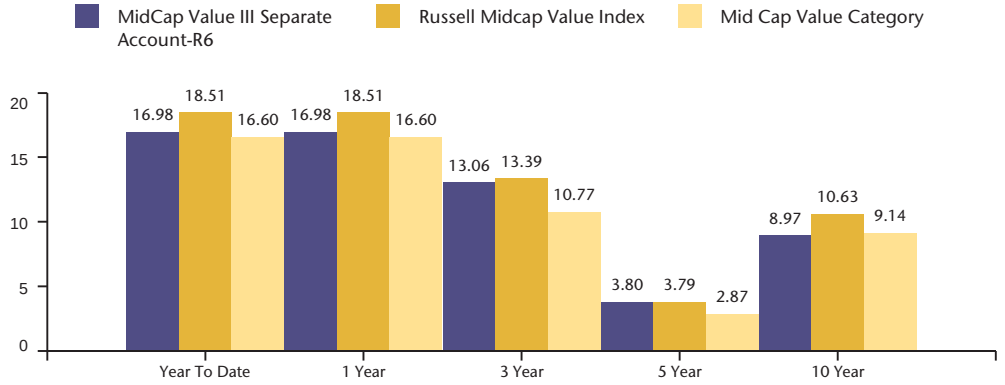
The investment seeks long-term growth of capital and normally invests the majority of assets in companies with market capitalizations similar to those of companies in the Russell MidCap Value Index. Management selects investments primarily on the basis of fundamental security analysis, focusing on the company's financial stability, sales, earnings, dividend trends, return on equity and industry trends. It may invest up to 25% of assets in foreign securities.

BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC

Portfolio managers

Jeffrey A. Schwarte, CPA, CFA. Since 02/01/2005. B.A., University of Northern Iowa
Mark Giambrone, CPA. Since 07/01/2005. M.B.A., University of Chicago
James P. Barrow Since 07/12/2005. B.S., University of South Carolina
Mariateresa Monaco Since 12/31/2009. M.B.A., Massachusetts Institute of Technology
Joel Fortney, CFA. Since 09/16/2011. B.B.A., University of Iowa

Long-term returns % as of 12/31/2012



Performance disclosure

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In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	16.98	16.98	13.06	3.80	8.97
Russell Midcap Value Index %	18.51	18.51	13.39	3.79	10.63
Mid Cap Value Category %	16.60	16.60	10.77	2.87	9.14
Morningstar Percentile Rankings	-	45	13	34	55
# of Funds in Category	425	425	357	311	177
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	16.98	2.57	20.46	30.11	-35.92
Russell Midcap Value Index %	18.51	-1.38	24.75	34.21	-38.44
Mid Cap Value Category %	16.60	-3.96	21.92	35.41	-36.77
Morningstar Percentile Rankings	45	7	67	68	41
# of Funds in Category	425	422	420	416	442

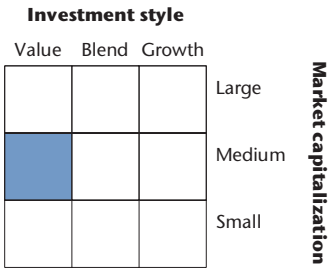
Morningstar percentile rankings are based on total returns.

Morningstar category

Mid Cap Value

Morningstar Style Box™

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Russell Midcap Value Index

	3Yr	5Yr
Alpha	-0.02	0.15
Beta	0.98	0.89
R-Squared	98.27	97.56
Standard Deviation	16.75	20.84
Mean	13.06	3.80
Sharpe Ratio	0.81	0.27
Excess Return	-0.32	0.00
Tracking Error	2.23	4.18
Information Ratio	-0.15	0.00

Operations

Total Investment Expense Net	0.81%
Total Investment Expense Gross	0.81%
Inception Date	01/01/1991
Total Net Assets (mil)	$596.42

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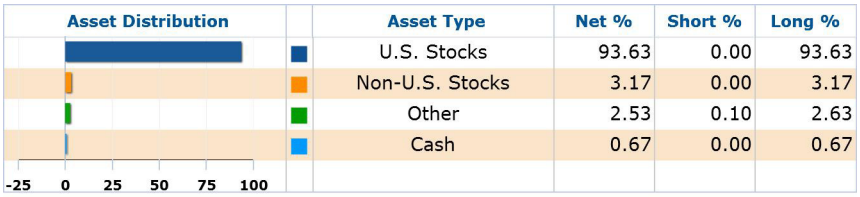
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

MidCap Value III Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Stocks	93.63	0.00	93.63
Non-U.S. Stocks	3.17	0.00	3.17
Other	2.53	0.10	2.63
Cash	0.67	0.00	0.67

Top ten holdings	% of net assets
1. Cigna Corp	2.85
2. Fifth Third Bancorp	2.81
3. Separate Account Li-Mm	2.24
4. Discover Financial Services	2.20
5. Omnicare Inc	2.03
6. CA, Inc.	1.74
7. Pinnacle West Capital	1.64
8. Capital One Financial Corp	1.58
9. Royal Caribbean Cruises, Ltd.	1.53
10. Lorillard, Inc.	1.47
% of net assets in top ten holdings*	20.10

Analysis

# of Stock Hldgs	471
# of Bond Hldgs	0
# of Other Hldgs	16
AvgMktCap (mil)	$7,369.07
Turnover Ratio	82%
P/C Ratio	6.99
P/E Ratio	12.34
P/B Ratio	1.51

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**48.69**	**Defensive**	**19.41**	**Sensitive**	**31.90**
Consumer Cyclical	13.54	Healthcare	7.57	Technology	9.77
Basic Materials	4.79	Consumer Defensive	4.30	Industrials	13.13
Financial Svcs	22.23	Utilities	7.54	Energy	8.86
Real Estate	8.13			Comm Svcs	0.14

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Russell Midcap Value Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap index having lower price-to-book ratios and lower forecasted growth values.

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Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

* Values may exceed 100% if both long and short positions are included in the portfolio.

U.S. Property Separate Account-R6 as of 12/31/2012

Investment Strategy

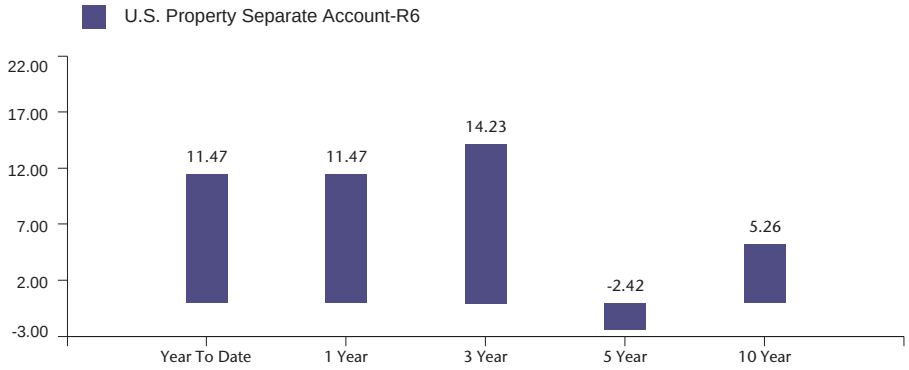
The investment invests the majority of assets in commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail sectors. This investment option is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. You may not be able to immediately withdraw funds contributed to this Separate Account. A contractual limitation in the group annuity contract that provides access to this Separate Account may be implemented, which will allow management of this Separate Account, and satisfy withdrawal requests over time and fairly amongst all those who request a withdrawal.

Principal® Real Estate Investors

Portfolio managers

John Berg Since 12/01/2003. M.B.A., University of Iowa

Long-term returns % as of 12/31/2012



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	11.47	11.47	14.23	-2.42	5.26

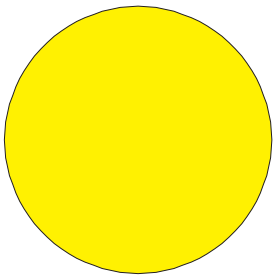
Annual Returns	2012	2011	2010	2009	2008
Total Return %	11.47	15.34	15.93	-31.59	-13.23

Operations

Total Investment Expense Net	1.15%
Total Investment Expense Gross	1.15%
Inception Date	01/01/1982
Total Net Assets (mil)	$4,078.16

Portfolio information

Composition as of 11/30/2012



% of Assets

Other	100.00

Analysis

Total Number of Hldgs	115

Portfolio composition

Top ten holdings	% of net assets
Office New York, NY	5.51
Office Seattle, WA	4.16
Retail Los Angeles, CA	3.92
Multi-family/Retail Cambridge, MA	3.29
Office Washington, D.C.	3.19
Hotel San Antonio, TX	2.64
Office Cambridge, MA	2.62
Multi-family New York, NY	2.47
Office San Francisco, CA	2.34
Office Phoenix, AZ	2.28

% of net assets in top ten holdings* 32.43%

*Values may exceed 100% if both long and short positions are included in the portfolio.

Geographical diversity	% of properties
West	39.98
East	25.90
South	23.42
Midwest	10.70

Property type	% of account
Office	39.57
Retail	21.39
Industrial Park	17.31
Apartments	17.28
Other	4.45

U.S. Property Separate Account-R6 as of 12/31/2012

Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

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Due to the unique composition of the portfolio, Morningstar does not track an index or peer group that provides an appropriate comparison for this Separate Account.

Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit principal.com.

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This investment option is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. If you elect to contribute funds into the U.S. Property Separate Account, withdrawals may be delayed for up to 3 years.

LargeCap Growth I Separate Account-R6 as of 12/31/2012

Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations (those with market capitalization ranges similar to the companies in the Russell 1000(R) Growth Index) at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The fund may also invest in securities of foreign companies.

Portfolio managers

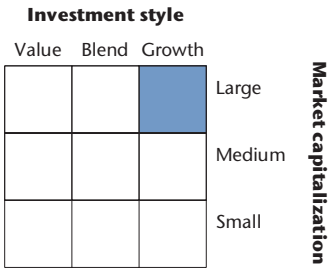
Robert W. Sharps, CPA, CFA. Since 08/19/2004. M.B.A., University of Pennsylvania (Wharton)
Mariateresa Monaco Since 06/02/2009. M.B.A., Massachusetts Institute of Technology
Kenneth M. Stuzin, CFA. Since 07/14/2009. M.B.A., Columbia University

Morningstar category

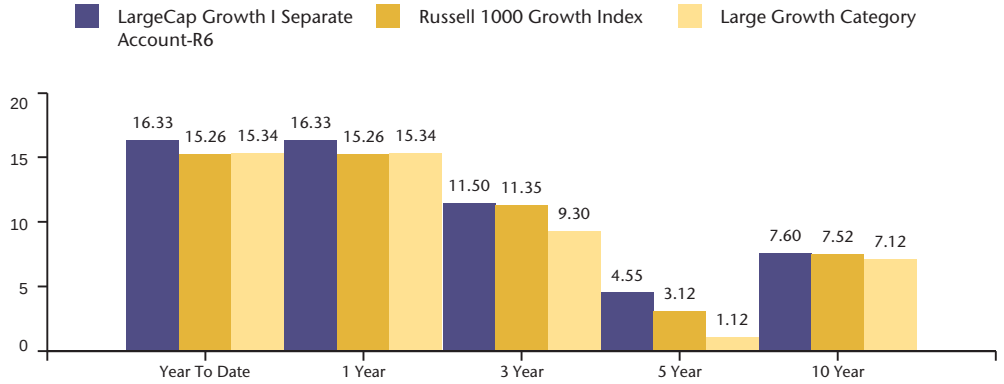
Large Growth

Morningstar Style Box™

As of 11/30/2012



Long-term returns % as of 12/31/2012



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	16.33	16.33	11.50	4.55	7.60
Russell 1000 Growth Index %	15.26	15.26	11.35	3.12	7.52
Large Growth Category %	15.34	15.34	9.30	1.12	7.12
Morningstar Percentile Rankings	-	36	15	6	34
# of Funds in Category	1681	1681	1503	1301	863
Annual Returns	**2012**	**2011**	**2010**	**2009**	**2008**
Total Return %	16.33	-0.47	19.72	51.92	-40.69
Russell 1000 Growth Index %	15.26	2.64	16.71	37.21	-38.44
Large Growth Category %	15.34	-2.46	15.53	35.68	-40.67
Morningstar Percentile Rankings	36	33	16	6	51
# of Funds in Category	1681	1683	1718	1796	1809

Morningstar percentile rankings are based on total returns.

Risk and Return Statistics

as of 12/31/2012 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-1.11	1.39
Beta	1.14	1.11
R-Squared	97.54	96.60
Standard Deviation	18.30	21.79
Mean	11.50	4.55
Sharpe Ratio	0.68	0.30
Excess Return	0.14	1.43
Tracking Error	3.61	4.54
Information Ratio	0.04	0.31

Operations

Total Investment Expense Net	0.77%
Total Investment Expense Gross	0.79%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	12/29/2000
Total Net Assets (mil)	$5,171.28

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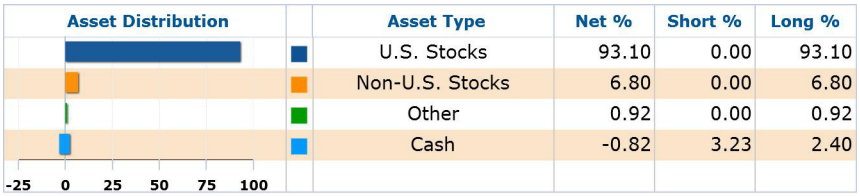
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

LargeCap Growth I Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Stocks	93.10	0.00	93.10
Non-U.S. Stocks	6.80	0.00	6.80
Other	0.92	0.00	0.92
Cash	-0.82	3.23	2.40

Top ten holdings	% of net assets
1. Apple Inc	7.17
2. Google, Inc. Class A	4.31
3. S&P500 Emini Fut Dec12	3.23
4. MasterCard Incorporated Class A	2.83
5. Qualcomm, Inc.	2.76
6. Danaher Corporation	2.60
7. Express Scripts	2.44
8. Starbucks Corporation	2.25
9. Amazon.com Inc	1.78
10. Salesforce.com, Inc.	1.77
% of net assets in top ten holdings*	31.13

Analysis

# of Stock Hldgs	411
# of Bond Hldgs	0
# of Other Hldgs	9
AvgMktCap (mil)	$32,181.00
Turnover Ratio	34%
P/C Ratio	11.34
P/E Ratio	20.00
P/B Ratio	3.69

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**23.64**	**Defensive**	**20.06**	**Sensitive**	**56.30**
Consumer Cyclical	15.66	Healthcare	13.72	Technology	32.48
Basic Materials	1.78	Consumer Defensive	6.32	Industrials	15.00
Financial Svcs	5.86	Utilities	0.02	Energy	7.15
Real Estate	0.34			Comm Svcs	1.67

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

The full name of this investment option is Principal LargeCap Growth I Separate Account-R6.

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Past performance is no guarantee of future results. Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Average Market Cap - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitaliation of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. **Price/Cash Flow Ratio** - An investment option's current price divided by the trailing 12 month cash flow per share. **Price/Earnings Ratio** - The weighted average of the price/earnings ratios of the stocks in an investment option's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. **Price/Book Ratio** - The weighted average of the price/book ratios of all the stocks in an investment option's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

† The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit principal.com.

This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

This investment option maintains a voluntary waiver which is reflected in the value displayed for Total Investment Expense - Net. This waiver may be discontinued at any time.

This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

Effective July 14, 2009, Brown Advisory was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

* Values may exceed 100% if both long and short positions are included in the portfolio.

MidCap Growth III Separate Account-R6 as of 12/31/2012

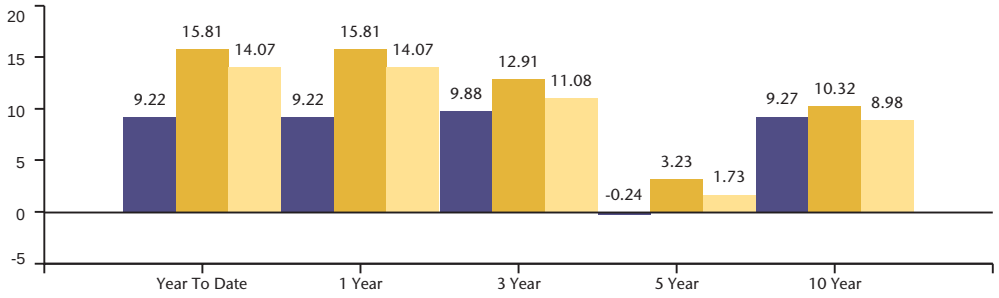
Investment Strategy

The investment seeks long-term growth of capital. The fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations (those with market capitalizations similar to companies in the Russell Midcap(R) Growth Index) at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The fund may actively trade portfolio securities.

Portfolio managers

Christopher K. McHugh Since 12/06/2000. M.B.A., St. Joseph's University
Bruce I. Jacobs Since 05/01/2009. Ph.D., University of Pennsylvania (Wharton)
Ken Levy, CFA. Since 05/01/2009. M.B.A., University of Pennsylvania (Wharton)
Mariateresa Monaco Since 06/02/2009. M.B.A., Massachusetts Institute of Technology

Long-term returns % as of 12/31/2012



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit principal.com, contact your representative of The Principal, or call our Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	9.22	9.22	9.88	-0.24	9.27
Russell Midcap Growth Index %	15.81	15.81	12.91	3.23	10.32
Mid Cap Growth Category %	14.07	14.07	11.08	1.73	8.98
Morningstar Percentile Rankings	-	90	67	74	46
# of Funds in Category	737	737	671	591	431

Annual Returns	2012	2011	2010	2009	2008
Total Return %	9.22	-4.57	27.27	44.81	-48.56
Russell Midcap Growth Index %	15.81	-1.65	26.38	46.29	-44.32
Mid Cap Growth Category %	14.07	-3.96	24.61	39.11	-43.77
Morningstar Percentile Rankings	90	54	34	31	81
# of Funds in Category	737	751	759	812	934

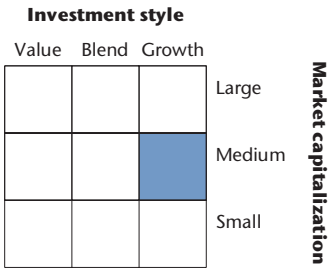
Morningstar percentile rankings are based on total returns.

Morningstar category

Mid Cap Growth

Morningstar Style Box™

As of 11/30/2012



Risk and Return Statistics

as of 12/31/2012 Relative to Russell Midcap Growth Index

	3Yr	5Yr
Alpha	-3.26	-3.39
Beta	1.05	1.03
R-Squared	98.71	98.31
Standard Deviation	19.22	23.95
Mean	9.88	-0.24
Sharpe Ratio	0.58	0.09
Excess Return	-3.02	-3.47
Tracking Error	2.38	3.19
Information Ratio	-1.27	-1.09

Operations

Total Investment Expense Net	1.11%
Total Investment Expense Gross	1.13%
Contractual Cap Expiration Date	02/28/2013
Waiver Expiration Date	02/28/2013
Inception Date	10/28/1999
Total Net Assets (mil)	$1,422.80

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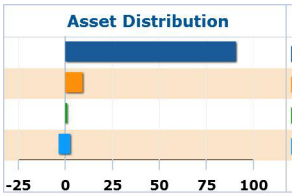
Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

MidCap Growth III Separate Account-R6 as of 12/31/2012

Portfolio information†

Composition as of 11/30/2012



Asset Type	Net %	Short %	Long %
U.S. Stocks	90.73	0.00	90.73
Non-U.S. Stocks	9.24	0.00	9.24
Other	0.95	0.00	0.95
Cash	-0.93	3.59	2.66

Top ten holdings	% of net assets
1. S&P Mid 400 Emini Dec12	3.59
2. PPG Industries, Inc.	1.69
3. LinkedIn Corp	1.48
4. Concho Resources, Inc.	1.39
5. Alexion Pharmaceuticals, Inc.	1.35
6. F5 Networks, Inc.	1.27
7. IntercontinentalExchange, Inc.	1.23
8. Cavium Inc	1.23
9. Ralph Lauren Corp	1.23
10. Tractor Supply	1.20
% of net assets in top ten holdings*	15.66

Analysis

# of Stock Hldgs	432
# of Bond Hldgs	0
# of Other Hldgs	9
AvgMktCap (mil)	$6,601.90
Turnover Ratio	128%
P/C Ratio	11.34
P/E Ratio	19.78
P/B Ratio	3.57

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	**37.31**	**Defensive**	**18.32**	**Sensitive**	**44.37**
Consumer Cyclical	23.90	Healthcare	10.81	Technology	21.91
Basic Materials	5.16	Consumer Defensive	7.45	Industrials	15.05
Financial Svcs	5.76	Utilities	0.06	Energy	5.21
Real Estate	2.49			Comm Svcs	2.20

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Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

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