

Corporate Governance

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Dear Shareholder:

Every public corporation has a set of practices and procedures by which decisions affecting shareholders and customers are made. State law establishes a framework for corporate decision-making that protects shareholders and requires management and the Board of Directors to operate in the best interests of the Company. This is very important. Yet ensuring the Company is governed effectively, responsibly and with integrity goes way beyond simply observing legal requirements.

Excellent **Corporate Governance** has been important to the **Principal Financial Group**[®] for a very long time. Ensuring the organization is governed well through effective, independent oversight of management and Company operations has been an important part of our heritage and our success. For more than 130 years, each generation of management has been committed to focusing on what is good for those we serve and to operating with integrity.

The Nominating and Governance Committee regularly reviews our governance policies and practices and makes recommendations to the Board of Directors. The Board of Directors of Principal Financial Group, Inc. takes action based on what is best for the effective oversight and governance of the Company and for making important decisions that affect those The Principal exists to serve.

We invite you to review the corporate governance practices of the Principal Financial Group set forth below:

Board of Directors

Role of Board of Directors

The business of the Company is managed under the direction of the Board. The Board selects, and provides advice and counsel to, the Chief Executive Officer and generally oversees management. The Board reviews and discusses the strategic direction of the Company, oversees risk and monitors the Company's performance against goals the Board and management establish.

Qualifications and Responsibilities

The Nominating and Governance Committee is responsible for assessing the appropriate mix of skills and characteristics required of Board members in the context of the current make-up of the Board and the needs of the Company. The Committee periodically uses an outside consultant to help the Committee evaluate the expertise, backgrounds and competencies of the Directors in view of the current strategic initiatives and risk factors of the Company. The Board values experience as a current or former CEO or other senior executive, in financial services, in international business and with financial management or accounting responsibilities. The Committee looks for competencies like strategic-orientation, results-orientation and comprehensive decision-making. Diversity of the Board as a whole is a valued objective. In evaluating candidates, the Committee assesses personal and professional ethics, integrity, values and ability to contribute to the Board. Directors must be willing to devote the required amount of time to prepare for, attend and actively participate in Board and Board Committee meetings and to represent the interests of all shareholders. The Committee gathers input from other Board members and the Chief Executive Officer, retains search firms and manages the process of identifying, developing and interviewing candidates who have specific qualifications and competencies consistent with criteria approved by the Board. The Chairman of the Board, the Chair of the Nominating and Governance Committee and at least one other Board member personally interview prospective candidates before the Nominating and Governance Committee recommends them to the Board of Directors for action.

Majority Voting

Directors are elected by the majority of votes cast in uncontested Director elections. If an incumbent Director is not elected, and no successor is elected, the Board of Directors will decide whether to accept the resignation that was tendered by the nominee. The Board's decision and reasons for its decision will be publicly disclosed within 90 days of certification of the election results.

Independence

The Board has determined that each of the current Directors are independent except for the CEO and the President/Chief Operating Officer, who are the only members of management who are also Directors. The term "independent" means the Board has determined the Director has no material relationship with the Company as defined in the [Director Independence Standards](#).

Lead Director

The Board has appointed a Lead Director because it is important that the independent Directors have a leader in addition to the Chairman of the Board who leads the Board generally. The Board regularly reviews the effectiveness of this shared leadership. The Nominating and Governance Committee recommends independent Directors for election by the Board as Lead Director and Alternate Lead Director. The Lead Director and Chairman jointly make decisions on the Board agenda and information for Board meetings. The Lead Director and Chairman share the duties of presiding at each Board meeting. The Chairman presides when the Board is meeting as a full Board. The Lead Director leads the independent Directors in their executive sessions and provides advice and input to the CEO based on those discussions. The Lead Director leads the Board's annual self-evaluation of its performance. The Lead Director is responsible to call a special Board meeting in the event the Chairman and CEO is unable to act for any reason.

Number

The Nominating and Governance Committee has responsibility for periodically reviewing Board size, which over the last several years has been generally maintained at 11 or 12 Directors.

Conflicts of Interest

The Nominating and Governance Committee monitors potential Director and officer conflicts of interest under the Company's Global Code of Business Conduct and Ethics. Any waiver of a provision of the [Global Code of Business Conduct and Ethics](#) for any executive officer or any Director requires review by the Audit Committee and approval of the Board of Directors.

Related Person Transactions

The Nominating and Governance Committee has adopted a [related person transactions policy](#) (PDF) to help assure that officers, Directors or members of their immediate families will not improperly benefit from a transaction with The Principal. This policy applies to any transaction with a

financial aspect in which the Company or a subsidiary is a participant and in which a related person has a direct or indirect interest. Related persons include the Company's Directors and executive officers (and their immediate family members) and any holder of more than five percent of the Company's common stock (and their immediate family members). The policy lists transactions that are prohibited, and sets forth procedures and requirements for approval by the Nominating and Governance Committee of appropriate business transactions.

Review of Director Performance

The Nominating and Governance Committee reviews the performance of Directors whose terms are expiring, prior to considering whether their re-nomination should be recommended to the Board. The Committee receives input from the other Directors and an outside consultant, when one is retained by the Committee, before conducting the reviews. Director performance and capabilities are evaluated against competencies and performance factors the Nominating and Governance Committee has identified as necessary and desirable for the Company's Board. The Nominating and Governance Committee considers the same qualification standards as it would for a prospective Director, including current employment responsibilities. Following the Committee's discussion, the outside consultant, when one is retained by the Committee, or the Committee Chair provides performance feedback to the Directors who were evaluated.

Term Limits

The Board believes that a good Director performance review process is better than mandated term limits. Strict term limits would mean losing the ongoing contribution of Directors who have gained increasing insight into the Company's industry, strategies and operations through their years of service.

Director Orientation and Ongoing Education

New Directors participate in an orientation program, which includes review of materials regarding the Company's strategies, operations and financial reporting, and meetings with our Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel and the heads of our operations. Directors must complete a formal continuing education program offered by an approved outside organization once every three years. Additional education related to the businesses of the Company or specific issues is provided to the Directors by management on a regular basis and at the request of the Board or a Board Committee. The Board also benefits from the insights of outside experts who periodically make presentations on strategic topics of interest at the Board's annual retreat.

Tenure and Retirement from the Board

The Board believes it is in the best interest of the Company that (a) the term of each Director shall not extend beyond the annual meeting following the Director's 72nd birthday; (b) no more than one retired Principal CEO shall serve on the Board at any one time; and (c) a Director who experiences a significant change in his or her personal circumstances, including a change in employment or major responsibilities from those held when most recently elected or re-elected to the Board or other circumstances that reasonably may have an adverse effect on the Director's service on the Board or the Company's business or reputation, shall submit their resignation to the Chairman of the Board. The Chairman of the Board will consult with the Chair of the Nominating and Governance Committee and they will decide whether such resignation will be presented to the Board of Directors for action.

CHIEF EXECUTIVE OFFICER EVALUATION, COMPENSATION AND SUCCESSION PLANNING

Annual and Ongoing Evaluation

The Human Resources Committee annually evaluates the performance of the CEO in leading the organization, taking into account the CEO's performance against corporate and individual goals agreed upon by the Committee and the CEO during the prior year's evaluation process. The Human Resources Committee determines and approves the CEO's total compensation, which includes base salary and annual and long-term incentive opportunities and awards, benefits and perquisites. The other independent members of the Board discuss and provide input to the Human Resources Committee on the evaluation and compensation of the CEO.

Independent Compensation Consultant

The Human Resources Committee has retained a compensation consultant to advise the Committee on CEO and senior management compensation. The Committee determined that the consultant was independent after taking into consideration all relevant factors. The independent compensation consultant does not and would not be allowed to perform services for management. The independent compensation consultant receives no compensation from the Company other than for its work in advising the Board and has no other relationships with the Company.

Succession Planning

The CEO and the Human Resources Committee regularly discuss management development and succession, including succession for the position of CEO. The CEO makes a formal presentation on this subject at least once each year to the full Board of Directors. Succession planning is a responsibility of the entire Board and all members participate. In addition, the Company has an emergency succession plan for the CEO that is reviewed by the Board annually.

Committees of the Board of Directors

Audit, Finance, Human Resources and Nominating and Governance Committees

The Board has [Audit](#), [Human Resources](#) and [Nominating and Governance](#) Committees, all of which are comprised entirely of independent Directors. The Board also has a [Finance](#) Committee, not required by NYSE listing standards, which must be comprised of a majority, and is currently comprised entirely, of independent Directors. Each Committee has a written charter that complies with applicable New York Stock Exchange listing standards and is regularly reviewed and updated in conjunction with the Committee's annual performance review performed by its members. The Chair of each Committee, in consultation with management, determines the Committee's agenda and the frequency and length of Committee meetings. Each Committee has authority to retain and negotiate the terms of retention of such independent consultants and advisers as it deems advisable, have access to any members of management and meet in executive session as often as it deems advisable.

Committee Assignments and Rotation

The Nominating and Governance Committee makes recommendations to the Board of Directors on Committee member and Chair assignments and reviews Committee assignments annually. The Board does not believe that rotation should be mandated at strict intervals, in view of the experience and expertise needed on the Board's Committees.

Board Deliberations, Performance and Compensation

Board and Committee

The Board of Directors has at least four in-person meetings per year, with sufficient time at each

Meetings	meeting to devote to important matters. In addition to the regular quarterly meetings, the Board holds an annual in-person strategic retreat devoted to an in-depth review and dialogue on topics selected by the Board. The Audit, Finance, Human Resources and Nominating and Governance Committees generally meet at the time of regular Board meetings and at other times as needed, with the Audit Committee in particular meeting several additional times per year.
Meeting Materials	The Board is fully informed in advance of all major proposals. Information and materials important to the Board's understanding of the business and issues affecting the Company are distributed to all Directors in preparation for meetings and promptly between meetings as needed.
Access to Management and Independent Advisers	Members of senior management attend portions of the Company's Board and Board Committee meetings, and the Directors and the senior management interact at Board meetings. The Board and its Committees have direct access to management, employees and independent advisers as they deem necessary and appropriate.
Executive Sessions	The independent Directors generally meet in executive session both at the start and end of each regular Board meeting and at other times as they deem necessary. These sessions are led by the Lead Director. The Board believes that executive sessions are most productive if they are followed up by a discussion with the CEO.
Performance Evaluation	The Board annually conducts a self-evaluation regarding its effectiveness. In addition, the Audit, Finance, Human Resources and Nominating and Governance Committees each undertake an annual self-evaluation of their performance and report the results to the Board.
Board Compensation	The Nominating and Governance Committee is responsible to review and recommend action by the Board with respect to Director compensation for service on the Board and Board Committees. The Nominating and Governance Committee seeks input and advice from an independent compensation consultant before making recommendations to the Board, including information on competitive practice and the appropriate mix of cash and stock-based compensation. Restricted Stock Units granted to the Directors beginning in May 2005 are subject to mandatory deferral until the termination of the Director's service with the Board. Our philosophy is to pay Board compensation at about the median of other financial services companies with which we compare ourselves.
Confidentiality	In order to facilitate open discussions, the Board believes maintaining confidentiality of information and deliberations is imperative. Each Director has an obligation to maintain the confidentiality of information received in connection with his or her service as a Director or Committee member.

Stock Ownership Guidelines

Board and Management	The Board believes it is important for Directors as well as executives to have a meaningful ownership interest in the Company's stock. The Board has adopted a guideline that Directors own an amount of Company stock equal to five times the annual Board cash retainer as of the later of five years of adoption of the guideline or five years after joining the Board. Once the ownership level is met, the Director will not need to make additional share purchases because of a change in stock price, as long as any reduction in the level of ownership is not the result of a sale. The Board has also adopted stock ownership guidelines for the Company's executives in the following amounts: five times base salary for the CEO, three times base salary for Division Presidents and Executive Vice Presidents and two times base salary for Senior Vice Presidents. Executives are required to retain an applicable percentage of equity-based long-term incentive awards until the multiple of salary amount is met.
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Communication with Shareholders and Others

How to Contact the Board	The Board's policy is that management speaks for the Company. Anyone who wishes to communicate with Directors should send an e-mail message to the Lead Director at the Investor Relations section of the Company's website at www.principal.com , or address a written communication to the secretary of the Board of Directors who will forward the communication to the Lead Director. The address is: Karen E. Shaff, Executive Vice President, General Counsel and Secretary, The Principal Financial Group, Des Moines, IA 50392-0300.
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