

OFFICE OF THRIFT SUPERVISION

Approval of Organization and Acquisition of a Federal
De Novo Stock Savings Bank

Order No.:97-117

Date:November 14, 1997

Principal Mutual Life Insurance Company, Des Moines, Iowa, and its wholly owned subsidiary, Principal Holding Company, Des Moines, Iowa (jointly, the "Holding Company") have applied to the Office of Thrift Supervision ("OTS") to organize and acquire a federal de novo stock savings bank to be known as Principal Bank, Des Moines, Iowa ("Institution"), pursuant to Sections 5(e) and 10(e) of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. Sections 1464(e) and 1467a(e) and 12 C.F.R. Sections 543.2, 552.2-1 and 574.3 thereunder.

The OTS has considered the applications under the standards set forth at 12 U.S.C. Sections 1464(e) and 1467a(e), and at 12 C.F.R. Sections 543.2, 543.3, 552.2-1 and 574.3. In addition, the OTS has considered the digests prepared by the Midwest Regional Office and Corporate Activities, and a legal opinion from the Business Transactions Division. Also, the OTS has considered the proposed transaction under the Community Reinvestment Act, 12 U.S.C. Section 2901 et seq., and OTS regulations thereunder at 12 C.F.R. Part 563e.

This approval order shall also serve as notice to the Institution that the OTS reserves the authority to evaluate the appropriateness of marketing disclosures as they pertain to the differentiation between insured and uninsured products by having its examiners periodically, and without identification as OTS employees, solicit the Call Center, the Institution or individual Agent offices for information on nondeposit investment or insured products.

Based on the foregoing statutes, regulations and other materials, the OTS has concluded that the organization of the Institution and the acquisition of the Institution by the Holding Company would be in compliance with all applicable statutes and regulations. Accordingly, the application is hereby approved, provided that the following conditions are complied with in a manner satisfactory to the Midwest Regional Director, or his designee:

1. The Holding Company and the Institution must receive all required regulatory approvals prior to establishment of the Institution with copies of all such approvals supplied to the Midwest Regional Office;

2. On the business day prior to opening for business, the Institution must advise the OTS that there have been no material adverse changes with respect to the information currently before the OTS, including but not limited to directors, proposed shareholders or the business plan; and that no additional information having a material adverse bearing on any feature of the application exists;
3. The de novo institution shall provide for employment of Senior Executive Officers who shall be charged with full administrative and managerial responsibilities of the de novo institution under policies established by its board of directors. The performance of such individuals will be periodically reviewed and their continued employment will be subject to the Midwest Regional Director's, or his designee's, approval for a period of three years;
4. No later than 10 calendar days from the later of receipt of insurance of accounts or opening for business, the officers, organizers and directors must file with the Midwest Regional Director a certification by legal counsel stating the effective date of the completion of the organization of the Institution, and that the completion of the organization of the Institution has been consummated in accordance with the provisions of all applicable laws and regulations (including state and federal securities law requirements), the Application, and this Order;
5. The Institution shall submit independent audit reports to the Midwest Regional Office for its first three fiscal years. These reports shall be in compliance with the audit rules set forth in 12 C.F.R. Section 562.4;
6. The Institution and the Holding Company's subsidiary securities brokerage entity, or any Holding Company subsidiary that engages in securities brokerage ("Broker Dealer") must be operated as separate legal entities so that: 1) their respective accounts and records are not intermingled, 2) each observes the procedural formalities of separate legal titles, 3) each is held out to the public as a separate enterprise, and 4) neither dominates the other to the extent that one is treated as a mere department of the other;
7. A majority of the Institution's board of directors must not be comprised of individuals that are directors or employees of any securities affiliate;

8. The Institution and the Broker Dealer are prohibited from sharing common officers unless prior approval is obtained from the Midwest Regional Director, or his designee, which shall be based on criteria such as regulatory compliance, experience, character, integrity and the ability to perform both duties;
9. The Institution and the Broker Dealer must take measures necessary to ensure that their officers and directors adhere to the principles set forth in OTS regulations on conflicts of interest, 12 C.F.R. Section 563.200; corporate opportunity, 12 C.F.R. Section 563.201; self dealing, 12 C.F.R. Section 550.10; and any other additional or successor statements of policy or regulations addressing these subjects. The officers and directors of the Institution and the Broker Dealer are prohibited from using their influence to: a) take advantage of a business opportunity for the securities affiliate's benefit when the opportunity is of present or potential advantage to the Institution; or b) place the securities affiliate in a position that leads to, or could create the appearance of a potential conflict of interest;
10. The Institution, its Holding Company and the Broker Dealer are subject to the provisions of 12 C.F.R. Section 563.76, Offers and Sales of Securities at an Office of Savings Association, and related policy established in OTS Thrift Bulletins 23-2, Interagency Statement on Retail Sales of Nondeposit Investment Products, and 23a, Limited Exceptions to Prohibitions on Sales of Savings Institution's Securities, and any additional or successor statements of policy or regulations addressing these subjects;
11. The Institution shall operate within the parameters of the submitted business plan. Any proposed major deviations or material changes from the submitted plan, in particular, changes pertaining to Internet operations, shall receive the prior written approval of the Regional Director, or his designee. The request for approval shall be submitted a minimum of 30 days before the proposed change is anticipated. In the event of a proposed contractual change involving service providers, a revised plan shall be submitted a minimum of 15 days prior to entering into the contract;

12. The SHAZAM contract shall be amended to contain the following provisions as required by OTS Thrift Bulletin Number 46:

"By entering into this contract, the EDP services vendor agrees that the Office of Thrift Supervision will have the authority and responsibility provided to the other regulatory agencies pursuant to the Bank Service Corporation Act, 12 U.S.C 1867(c) relating to services performed by contract or otherwise."

13. The Institution shall cause to be performed an independent review of the implementation of the Internet banking platform to document that the security measures set forth in the design and implementation phases have been adequately implemented, are operating as required and have been tested by various means to measure their effectiveness. Such review shall be performed by independent computer security specialists and must include attempts to gain unauthorized and/or undetected access to its operations. The report should confirm, in writing, that the computer system does not allow unauthorized or undetected access to customer accounts, with reasonable certainty. This review shall be performed and the report delivered to OTS no later than December 31, 1997, unless such date is extended by the Regional Director or his designee. The Institution further agrees that it will attempt to correct all deficiencies noted in the report within a reasonable amount of time. In addition, the Institution shall agree to perform such a review prior to the initial implementation of any new Internet service delivery providers and shall provide the report to the Regional Director. These reviews shall be subject to any additional standards or requirements set by the Regional Director, or his designee, including prior OTS review of the qualifications of the independent computer security specialists;
14. The Institution shall adhere to the guidance contained in the June 23, 1997 OTS Statement on Retail On-Line Personal Computer Banking and shall retain reports and other materials documenting such adherence that may be made available to the OTS whenever requested;
15. Neither the Institution, the Holding Company nor their Affiliates shall represent that the OTS' approval of these applications constitutes an endorsement of the Institution's

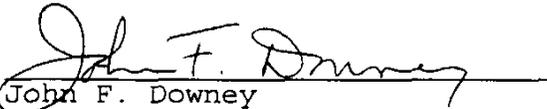
products or services by the OTS, and the Institution or the Holding Company shall not indicate in any of its marketing efforts or materials that OTS has approved or endorsed the security, functionality, or effectiveness of products or services offered by the Institution;

16. The Institution shall provide a copy of its Electronic Data Processing policy to the Midwest Regional Office for review and approval prior to commencing operations;
 17. Mr. James Jacobson, proposed Vice President of the Institution, shall submit appropriate background information and receive the written approval of the Midwest Regional Office prior to being appointed to this position;
 18. At least 30 days prior to the implementation of any joint cross-marketing, the Institution and the Holding Company shall provide the Regional Director with copies of their policies and training standards pertaining to the joint cross-marketing of insured and uninsured products, including any standard statements that Call Center customer service representatives and Institution employees will be advised to provide to customers, and shall obtain the written non-objection of the Regional Director, or his designee, to such policies and standards prior to marketing or delivering the Institution's products;
 19. At least 30 days prior to the implementation of any joint cross-marketing, the contract between the Call Center and the Institution shall be provided to the Regional Director for review. Written non-objection to the contract by the Regional Director, or his designee, shall be obtained prior to execution;
 20. The Holding Company and the Institution shall comply with OTS Thrift Bulletin 23-2, the Interagency Statement on Retail Sales of Nondeposit Investment Products, dated February 22, 1994, as if the savings bank's premises include the Internet, personal computers, ATMs, telephone and direct mail and as if the guidance in the Bulletin is applicable to all insurance products;
 21. Any material changes in the arrangement, as described in the Application, between the Institution and Principal Residential Mortgage, Inc., pertaining to the total dollar amount of loans to be purchased by the Institution or the percentage of that purchase as it compares to the entire volume of loans originated by Principal Residential Mortgage, Inc., are subject to the prior approval of the Regional Director, or his designee;
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22. The Institution's CRA plan shall be subject to any future changes in requirements contained in regulatory policies or regulations that the OTS, on its own, or acting in concert with other financial institution regulatory agencies, determines are appropriate for depository institutions operating primarily through the Internet, telephone or other nontraditional channels; and
23. Any changes that the Institution initiates to its CRA plan within the three year period following approval of the application shall be subject to the approval of the Regional Director, or his designee.

Any time period specified herein may be extended by the Midwest Regional Director, or his designee, for good cause, for up to 120 calendar days.

By order of the Director of the Office of Thrift Supervision, or his designee, effective November 14, 1997.


John F. Downey
Executive Director, Supervision