

SECURITIES AND EXCHANGE COMMISSION

FORM 485BPOS

Post-effective amendments [Rule 485(b)]

Filing Date: **1997-12-18**
SEC Accession No. **0000915758-97-000063**

([HTML Version](#) on secdatabase.com)

FILER

PRINCIPAL BALANCED FUND INC

CIK: **811810** | State of Incorpor.: **MD** | Fiscal Year End: **0630**
Type: **485BPOS** | Act: **33** | File No.: **033-12867** | Film No.: **97740701**

Mailing Address
*PRINCIPAL FINANCIAL
DES MOINES IA 50392-0200*

Business Address
*PRINCIPAL FINANCIAL
GROUP
DES MOINES IA 50392-0200
515-248-9155*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

POST-EFFECTIVE AMENDMENT NO. 13 TO
FORM N-1A

REGISTRATION STATEMENT

under

THE SECURITIES ACT OF 1933

and

REGISTRATION STATEMENT

under

THE INVESTMENT COMPANY ACT OF 1940

PRINCIPAL BALANCED FUND, INC.
(Exact name of Registrant as specified in Charter)

The Principal Financial Group
Des Moines, Iowa 50392
(Address of principal executive offices)

Telephone Number (515) 248-3842

MICHAEL D. ROUGHTON
The Principal Financial Group
Des Moines, Iowa 50392

Copy to:
JOHN W. BLOUCH, L.L.P.
Suite 405 West
1025 Thomas Jefferson Street, N.W.
Washington, DC 20007-0805

(Name and address of agent for service)

It is proposed that this filing will become effective (check appropriate box)
immediately upon filing pursuant to paragraph (b) of Rule 485
X on December 31, 1997 pursuant to paragraph (b) of Rule 485
60 days after filing pursuant to paragraph (a)(1) of Rule 485
on (date) pursuant to paragraph (a)(1) of Rule 485
75 days after filing pursuant to paragraph (a)(2) of Rule 485
on (date) pursuant to paragraph (a)(2) of Rule 485

If appropriate, check the following box:

This post-effective amendment designates a new effective date for
a previously filed post-effective amendment.

The Principal Variable Contracts Fund, Inc. described in this Prospectus is
a diversified, open-end management investment company offering a variety of
Accounts each of which was formerly a separately incorporated investment
company. Together, the Accounts provide the following range of investment
objectives:

Growth-Oriented Accounts

Aggressive Growth Account (formerly known as Principal Aggressive Growth Fund,
Inc.) seeks to provide long-term capital appreciation by investing primarily
in growth-oriented common stocks of medium and large capitalization U.S.
corporations and, to a limited
extent, foreign corporations.

Asset Allocation Account (formerly known as Principal Asset Allocation
Fund, Inc.) seeks to generate a total investment return consistent with the
preservation of capital.

Balanced Account (formerly known as Principal Balanced Fund, Inc.) seeks to
generate a total return consisting of current income and capital appreciation
while assuming reasonable risks in furtherance of the investment objective.

Capital Value Account (formerly known as Principal Capital Accumulation Fund,
Inc.) seeks to achieve primarily long-term capital appreciation and secondary
growth of investment income through the purchase primarily of common stocks, but

the Account may invest in other securities.

Growth Account (formerly known as Principal Growth Fund, Inc.) seeks growth of capital through the purchase primarily of common stocks, but the Account may invest in other securities.

International Account (formerly known as Principal World Fund, Inc.) seeks long-term growth of capital by investing in a portfolio of equity securities of companies domiciled in any of the nations of the world.

MidCap Account (formerly known as Principal Emerging Growth Fund, Inc.) seeks to achieve capital appreciation by investing primarily in securities of emerging and other growth-oriented companies.

Income-Oriented Accounts

Bond Account (formerly known as Principal Bond Fund, Inc.) seeks to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

Government Securities Account (formerly known as Principal Government Securities Fund, Inc.) seeks a high level of current income, liquidity and safety of principal. The Account seeks to achieve its objective through the purchase of obligations issued or guaranteed by the United States Government or its agencies, with emphasis on Government National Mortgage Association Certificates ("GNMA Certificates"). Account shares are not guaranteed by the United States Government.

Money Market Account

Money Market Account (formerly known as Principal Money Market Fund, Inc.) seeks as high a level of income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing all of its assets in a portfolio of money market instruments.

An investment in the Money Market Account is neither insured nor guaranteed by the U.S. Government. There can be no assurance the Money Market Account will be able to maintain a stable net asset value of \$1.00 per share.

This Prospectus concisely states information about the Principal Variable Contracts Fund, Inc. that an investor ought to know before investing. It should be read and retained for future reference.

Additional information about the Fund has been filed with the Securities and Exchange Commission, including a document called Statement of Additional Information, dated December 31, 1997. The Statement of Additional Information is incorporated by reference into this Prospectus. A copy of the Statement of Additional Information can be obtained free of charge by writing or telephoning:

Principal Variable Contracts Fund, Inc.
The Principal Financial Group
Des Moines, IA 50392
Telephone 1-800-247-4123

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Date of this Prospectus is December 31, 1997.

TABLE OF CONTENTS

	Page
Summary	2
Financial Highlights.....	5
Investment Objectives, Policies and Restrictions.....	11
Certain Investment Policies and Restrictions.....	20
Manager and Sub-Advisors	23
Duties Performed by the Manager and Sub-Advisors.....	24
Managers' Comments.....	25
Determination of Net Asset Value of Account Shares.....	31
Performance Calculation.....	32
Income Dividends, Distributions and Tax Status.....	33
Eligible Purchasers and Purchase of Shares.....	34
Shareholder Rights	34

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, shares of the Account in any jurisdiction in which such sale, offer to sell, or solicitation may not be lawfully made. No dealer, salesperson, or other person has been authorized to give any information or to make any representations, other than those contained in this Prospectus, in connection with the offer contained in this Prospectus, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Fund or the Fund's Manager.

SUMMARY

The following summarized information should be read in conjunction with the detailed information appearing elsewhere in this Prospectus.

The Principal Variable Contracts Fund, Inc. is an open-end diversified management investment company offering multiple accounts.

Who may purchase shares of the Accounts?

Shares of the Accounts are available only to Eligible Purchasers which are limited to: (a) separate accounts of Principal Mutual Life Insurance Company or of other insurance companies; (b) Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof; (c) trustees or other managers of any qualified profit sharing, incentive or bonus plan established by Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof for the employees of such company, subsidiary or affiliate. The Board of Directors of the Fund reserves the right to broaden or limit the designation of Eligible Purchasers.

What does the Fund offer investors?

Professional Investment Management: Experienced securities analysts provide each Account with professional investment management.

Diversification: Each Account will diversify by investing in securities issued by a number of issuers doing business in a variety of industries and/or located in different geographical regions. Diversification reduces investment risk.

Economies of Scale: Pooling individual shareholder's investments in any of the Accounts creates administrative efficiencies.

Redeemability: Upon request each Account will redeem its shares and promptly pay the investor the current net asset value of the shares redeemed. See "Redemption of Shares."

What are the Accounts' investment objectives?

Growth-Oriented Accounts

The investment objective of the Aggressive Growth Account is to provide long-term capital appreciation by investing primarily in growth-oriented common stocks of medium and large capitalization U.S. corporations and, to a limited extent, foreign corporations.

The investment objective of the Asset Allocation Account is to generate a total investment return consistent with the preservation of capital. The Account intends to pursue a flexible investment policy in seeking to achieve this investment objective.

The investment objective of the Balanced Account is to seek to generate a total return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of this objective.

The primary investment objective of the Capital Value Account is long-term capital appreciation and its secondary investment objective is growth of investment income. The Account seeks to achieve its investment objectives through the purchase primarily of common stocks, but the Account may invest in other securities.

The investment objective of the Growth Account is growth of capital. The Account seeks to achieve its objective through the purchase primarily of common stocks, but the Account may invest in other securities.

The investment objective of the International Account is to seek long-term growth of capital by investing in a portfolio of equity securities domiciled in any of the nations of the world.

The investment objective of the MidCap Account is to achieve capital appreciation by investing primarily in securities of emerging and other growth-oriented companies.

Income-Oriented Accounts

The investment objective of the Bond Account is to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

The investment objective of the Government Securities Account is to seek a high level of current income, liquidity and safety of principal. The Account seeks to achieve its objective through the purchase of obligations issued or guaranteed by the United States Government or its agencies, with emphasis on Government National Mortgage Association Certificates ("GNMA Certificates"). Account shares are not guaranteed by the United States Government.

Money Market Account

The investment objective of the Money Market Account is to seek as high a level of current income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing all of its assets in a portfolio of money market instruments.

There can be no assurance that the investment objectives of any of the Accounts will be realized. See "Investment Objectives, Policies and Restrictions."

Who serves as Manager for the Accounts?

Principal Management Corporation (formerly known as Princor Management Corporation) ("Manager"), a corporation organized in 1969 by Principal Mutual Life Insurance Company, is the Manager for each of the Accounts. It is also the dividend disbursing and transfer agent for the Fund. In order to provide investment advisory services for certain Accounts the Manager has executed sub-advisory agreements with Invista Capital Management, Inc. (Balanced, Capital Value, Government Securities, Growth, International and MidCap Accounts) and Morgan Stanley Asset Management Inc. (Aggressive Growth Account and Asset Allocation Account). Subsequent references to these corporations may be as "Invista", "MSAM" or "Sub-Advisor". See "Manager and Sub-Advisors."

What fees and expenses apply to ownership of shares of the Accounts?

The following table depicts fees and expenses applicable to the purchase and ownership of shares of each of the Accounts.

ANNUAL ACCOUNT OPERATING EXPENSES (As a Percentage of Average Net Assets)

Account	Management Fee	Other Expenses	Total Operating Expenses
Aggressive Growth Account	.80%	.05%	.85%
Asset Allocation Account	.80%	.07%	.87%
Balanced Account	.60%	.03%	.63%
Bond Account	.50%	.03%	.53%
Capital Value Account	.48%	.01%	.49%
Government Securities Account	.50%	.02%	.52%
Growth Account	.50%	.02%	.52%
International Account	.75%	.15%	.90%
MidCap Account	.64%	.02%	.66%
Money Market Account	.50%	.06%	.56%

EXAMPLE

You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:

Account	Period (in years)			
	1	3	5	10
Aggressive Growth Account	\$9	\$27	\$47	\$105
Asset Allocation Account	\$9	\$28	\$48	\$107
Balanced Account	\$6	\$20	\$35	\$79
Bond Account	\$5	\$17	\$30	\$66
Capital Value Account	\$5	\$16	\$27	\$62
Government Securities Account	\$5	\$17	\$29	\$65
Growth Account	\$5	\$17	\$29	\$65
International Account	\$9	\$29	\$50	\$111
MidCap Account	\$7	\$21	\$37	\$82
Money Market Account	\$6	\$18	\$31	\$70

This Example is based on the Annual Account Operating expenses for each Account described above. Please remember that the Example should not be considered a representation of past or future expenses and that actual expenses may be greater or less than shown.

The purpose of the above table is to assist you in understanding the various expenses that an investor in the Accounts will bear directly or indirectly. See "Duties Performed by the Manager and Sub-Advisors."

FINANCIAL HIGHLIGHTS

The following financial highlights are derived from financial statements which, for the five years in the period ended December 31, 1996, have been audited by Ernst & Young LLP, independent auditors, whose report has been incorporated by reference herein. The financial highlights should be read in conjunction with the financial statements, related notes, and other financial information incorporated by reference herein. Audited financial statements may be obtained by shareholders, without charge, by telephoning 1-800-451-5447.

<TABLE>

<CAPTION>

<S>	Income from Investment Operations				Less Distributions			
	Net Asset Value at Beginning of Period <C>	Net Investment Income <C>	Net Realized and Unrealized Gain (Loss) on Investments <C>	Total from Investment Operations <C>	Dividends from Net Investment Income <C>	Distrib- utions from Capital Gains <C>	Excess Distrib- utions from Capital Gains (a) <C>	Total Distrib- utions <C>
Aggressive Growth Account(b)								
Six Months Ended June 30, 1997(c)	\$14.52	\$.02	\$1.91	\$1.93	--	\$ (.45)	--	\$ (.45)
Year Ended December 31,								
1996	12.94	.11	3.38	3.49	\$.11	(1.80)	--	(1.91)
1995	10.11	.13	4.31	4.44	(.13)	(1.48)	--	(1.61)
Period Ended December 31, 1994(f)	9.92	.05	.24	.29	(.05)	(.05)	--	(.10)
Asset Allocation Account(b)								
Six Months Ended June 30, 1997(c)	11.48	.16	1.14	1.30	--	(.21)	--	(.21)
Year Ended December 31,								
1996	11.11	.36	1.06	1.42	(.36)	(.69)	--	(1.05)
1995	9.79	.40	1.62	2.02	(.40)	(.30)	--	(.70)
Period Ended December 31, 1994(f)	9.98	.23	(.18)	.05	(.23)	--	\$(.01)	(.24)
Balanced Account(b) (f)								
Six Months Ended June 30, 1997(c)	14.44	.22	1.19	1.41	--	(.01)	--	(.01)
Year Ended December 31,								
1996	13.97	.40	1.41	1.81	(.40)	(.94)	--	(1.34)
1995	11.95	.45	2.44	2.89	(.45)	(.42)	--	(.87)
1994	12.77	.37	(.64)	(.27)	(.37)	(.18)	--	(.55)
1993	12.58	.42	.95	1.37	(.42)	(.76)	--	(1.18)
Six Months Ended December 31, 1992(h)	12.93	.23	.75	.98	(.47)	(.86)	--	(1.33)
Year Ended June 30,								
1992	11.33	.47	1.61	2.08	(.48)	--	--	(.48)
1991	10.79	.54	.59	1.13	(.57)	(.02)	--	(.59)
1990	11.89	.60	(.48)	.12	(.63)	(.59)	--	(1.22)
1989	11.75	.62	.30	.92	(.55)	(.23)	--	(.78)
Period Ended June 30, 1988(i)	10.00	.27	1.51	1.78	(.03)	--	--	(.03)
Bond Account(b)								
Six Months Ended June 30, 1997(c)	11.33	.38	(.04)	.34	--	--	--	--
Year Ended December 31,								
1996	11.73	.68	(.40)	.28	(.68)	--	--	(.68)
1995	10.12	.62	1.62	2.24	(.63)	--	--	(.63)
1994	11.16	.72	(1.04)	(.32)	(.72)	--	--	(.72)
1993	10.77	.88	.38	1.26	(.87)	--	--	(.87)
Six Months Ended December 31, 1992(h)	11.08	.45	.13	.58	(.89)	--	--	(.89)
Year Ended June 30,								
1992	10.64	.91	.46	1.37	(.93)	--	--	(.93)
1991	10.72	.94	(.06)	.88	(.96)	--	--	(.96)
1990	10.92	.95	(.21)	.74	(.94)	--	--	(.94)
1989	10.68	1.15	.17	1.32	(.96)	(.12)	--	(1.08)
Period Ended June 30, 1988(i)	10.00	.32	.40	.72	(.04)	--	--	(.04)
Capital Value Account(b)								
Six Months Ended June 30, 1997(c)	29.84	.32	3.81	4.13	--	(1.07)	--	(1.07)
Year Ended December 31,								
1996	27.80	.57	5.82	6.39	(.58)	(3.77)	--	(4.35)
1995	23.44	.60	6.69	7.29	(.60)	(2.33)	--	(2.93)
1994	24.61	.62	(.49)	.13	(.61)	(.69)	--	(1.30)
1993	25.19	.61	1.32	1.93	(.60)	(1.91)	--	(2.51)
Six Months Ended December 31, 1992(h)	26.03	.31	1.84	2.15	(.64)	(2.35)	--	(2.99)
Year Ended June 30,								
1992	23.35	.65	2.70	3.35	(.67)	--	--	(.67)
1991	22.48	.74	1.22	1.96	(.79)	(.30)	--	(1.09)
1990	23.63	.79	.14	.93	(.81)	(1.27)	--	(2.08)

1989	23.23	.77	1.32	2.09	(.68)	(1.01)	--	(1.69)
1988	27.51	.60	(1.50)	(.90)	(.69)	(2.69)	--	(3.38)
1987	25.48	.40	4.46	4.86	(.50)	(2.33)	--	(2.83)

</TABLE>

<TABLE>

<CAPTION>

Ratios/Supplemental Data

<S>	Net Asset Value at End of Period <C>	Total Return <C>	Net Assets at End of Period (in thousands) <C>	Ratio of Expenses to Average Net Assets <C>	Ratio of Net Investment Income to Average Net Assets <C>	Portfolio Turnover Rate <C>	Average Commission Rate <C>
Aggressive Growth Account (b)							
Six Months Ended June 30, 1997 (c)	\$16.00	13.60% (d)	\$109,514	.83% (e)	.31% (e)	179.5% (e)	\$.0563
Year Ended December 31,							
1996	14.52	28.05%	90,106	.85%	1.05%	166.9%	.0541
1995	12.94	44.19%	33,643	.90%	1.34%	172.9%	N/A
Period Ended December 31, 1994 (f)	10.11	2.59% (d)	13,770	1.03% (e)	1.06% (e)	105.6% (e)	N/A
Asset Allocation Account (b)							
Six Months Ended June 30, 1997 (c)	12.57	11.47% (d)	71,892	.88% (e)	2.83% (e)	149.4% (e)	.0559
Year Ended December 31,							
1996	11.48	12.92%	61,631	.87%	3.45%	108.2%	.0497
1995	11.11	20.66%	41,074	.89%	4.07%	47.1%	N/A
Period Ended December 31, 1994 (f)	9.79	.52% (d)	28,041	.95% (e)	4.27% (e)	60.7% (e)	N/A
Balanced Account (b) (f)							
Six Months Ended June 30, 1997 (c)	15.84	9.74% (d)	113,288	.62% (e)	3.19% (e)	33.5% (e)	.0374
Year Ended December 31,							
1996	14.44	13.13%	93,158	.63%	3.45%	22.6%	.0417
1995	13.97	24.58%	45,403	.66%	4.12%	25.7%	N/A
1994	11.95	(2.09)%	25,043	.69%	3.42%	31.5%	N/A
1993	12.77	11.06%	21,399	.69%	3.30%	15.8%	N/A
Six Months Ended December 31, 1992 (h)	12.58	8.00% (d)	18,842	.73% (e)	3.71% (e)	38.4% (e)	N/A
Year Ended June 30,							
1992	12.93	18.78%	17,344	.72%	3.80%	26.6%	N/A
1991	11.33	11.36%	14,555	.73%	5.27%	27.1%	N/A
1990	10.79	.87%	13,016	.74%	5.52%	33.1%	N/A
1989	11.89	8.55%	12,751	.74%	5.55%	29.3%	N/A
Period Ended June 30, 1988 (i)	11.75	17.70% (d)	11,469	.80% (e)	4.96% (e)	41.7% (e)	N/A
Bond Account (b)							
Six Months Ended June 30, 1997 (c)	11.67	3.00% (d)	71,812	.52% (e)	7.07% (e)	8.7% (e)	N/A
Year Ended December 31,							
1996	11.33	2.36%	63,387	.53%	7.00%	1.7%	N/A
1995	11.73	22.17%	35,878	.56%	7.28%	5.9%	N/A
1994	10.12	(2.90)%	17,108	.58%	7.86%	18.2%	N/A
1993	11.16	11.67%	14,387	.59%	7.57%	14.0%	N/A
Six Months Ended December 31, 1992 (h)	10.77	5.33% (d)	12,790	.62% (e)	8.10% (e)	6.7% (e)	N/A
Year Ended June 30,							
1992	11.08	13.57%	12,024	.62%	8.47%	6.1%	N/A
1991	10.64	8.94%	10,552	.63%	9.17%	2.7%	N/A
1990	10.72	7.15%	9,658	.64%	9.09%	0.0%	N/A
1989	10.92	13.51%	9,007	.64%	9.18%	12.2%	N/A
Period Ended June 30, 1988 (i)	10.68	6.06% (d)	17,598	.58% (e)	8.11% (e)	68.8% (e)	N/A
Capital Value Account (b)							
Six Months Ended June 30, 1997 (c)	32.90	14.28% (d)	249,077	.48% (e)	2.22% (e)	29.0% (e)	.0427
Year Ended December 31,							
1996	29.84	23.50%	205,019	.49%	2.06%	48.5%	.0426
1995	27.80	31.91%	135,640	.51%	2.25%	49.2%	N/A
1994	23.44	.49%	120,572	.51%	2.36%	44.5%	N/A
1993	24.61	7.79%	128,515	.51%	2.49%	25.8%	N/A
Six Months Ended December 31, 1992 (h)	25.19	8.81% (d)	105,355	.55% (e)	2.56% (e)	39.7% (e)	N/A
Year Ended June 30,							
1992	26.03	14.53%	94,596	.54%	2.65%	34.8%	N/A
1991	23.35	9.46%	76,537	.53%	3.53%	14.0%	N/A
1990	22.48	3.94%	74,008	.56%	3.56%	30.2%	N/A
1989	23.63	10.02%	68,132	.57%	3.53%	23.5%	N/A
1988	23.23	(2.67)%	62,696	.60%	2.76%	26.7%	N/A
1987	27.51	22.17%	57,478	.63%	1.99%	16.1%	N/A

</TABLE>

<TABLE>

<CAPTION>

Net Asset	Income from Investment Operations		Less Distributions		
	Net Realized and Unrealized	Total	Dividends	Distri-butions	Excess Distri-butions

<S>	Value at Beginning of Period <C>	Net Investment Income <C>	Gain (Loss) on Investments <C>	from Investment Operations <C>	from Net Investment Income <C>	from Capital Gains <C>	from Capital Gains (a) <C>	Total Distributions <C>
Government Securities Account (b)								
Six Months Ended June 30, 1997(c)	\$10.31	\$.33	\$.01	\$.34	\$(.01)	\$ --	\$ --	\$(.01)
Year Ended December 31,								
1996	10.55	.59	(.24)	.35	(.59)	--	--	(.59)
1995	9.38	.60	1.18	1.78	(.61)	--	--	(.61)
1994	10.61	.76	(1.24)	(.48)	(.75)	--	--	(.75)
1993	10.28	.71	.33	1.04	(.71)	--	--	(.71)
Six Months Ended December 31, 1992(h)	10.93	.40	.04	.44	(.78)	--	(.31)	(1.09)
Year Ended June 30,								
1992	10.24	.80	.71	1.51	(.81)	--	(.01)	(.82)
1991	10.05	.80	.24	1.04	(.81)	--	(.04)	(.85)
1990	10.05	.78	--	.78	(.78)	--	--	(.78)
1989	9.37	.80	.34	1.14	(.46)	--	--	(.46)
1988	9.47	.78	(.09)	.69	(.79)	--	--	(.79)
Period Ended June 30, 1987(j)	10.00	.18	(.59)	(.41)	(.12)	--	--	(.12)
Growth Account (b)								
Six Months Ended June 30, 1997(c)	13.79	.09	2.01	2.10	--	--	--	--
Year Ended December 31,								
1996	12.43	.16	1.39	1.55	(.16)	(.03)	--	(.19)
1995	10.10	.17	2.42	2.59	(.17)	--	(.09)	(.26)
Period Ended December 31, 1994(k)	9.60	.07	.51	.58	(.08)	--	--	(.08)
International Account (b)								
Six Months Ended June 30, 1997(c)	13.02	.17	2.03	2.20	--	--	(.04)	(.04)
Year Ended December 31,								
1996	10.72	.22	2.46	2.68	(.22)	(.16)	--	(.38)
1995	9.56	.19	1.16	1.35	(.18)	--	(.01)	(.19)
Period Ended December 31, 1994(k)	9.94	.03	(.33)	(.30)	(.05)	(.02)	(.01)	(.08)
MidCap Account (b) (l)								
Six Months Ended June 30, 1997(c)	29.74	.15	3.53	3.68	--	(.10)	--	(.10)
Year Ended December 31,								
1996	25.33	.22	5.07	5.29	(.22)	(.66)	--	(.88)
1995	19.97	.22	5.57	5.79	(.22)	(.21)	--	(.43)
1994	20.79	.14	.03	.17	(.14)	(.85)	--	(.99)
1993	18.91	.17	3.47	3.64	(.17)	(1.59)	--	(1.76)
Six Months Ended December 31, 1992(h)	15.97	.10	3.09	3.19	(.21)	(.04)	--	(.25)
Year Ended June 30,								
1992	13.93	.21	2.04	2.25	(.21)	--	--	(.21)
1991	14.25	.20	.50	.70	(.23)	(.79)	--	(1.02)
1990	13.35	.24	.87	1.11	(.20)	(.01)	--	(.21)
1989	12.85	.16	1.35	1.51	(.11)	(.90)	--	(1.01)
Period Ended June 30, 1988(i)	10.00	.05	2.83	2.88	(.03)	--	--	(.03)
Money Market Account (b)								
Six Months Ended June 30, 1997(c)	1.000	.025	--	.025	(.025)	--	--	(.025)
Year Ended December 31,								
1996	1.000	.049	--	.049	(.049)	--	--	(.049)
1995	1.000	.054	--	.054	(.054)	--	--	(.054)
1994	1.000	.037	--	.037	(.037)	--	--	(.037)
1993	1.000	.027	--	.027	(.027)	--	--	(.027)
Six Months Ended December 31, 1992(h)	1.000	.016	--	.016	(.016)	--	--	(.016)
Year Ended June 30,								
1992	1.000	.046	--	.046	(.046)	--	--	(.046)
1991	1.000	.070	--	.070	(.070)	--	--	(.070)
1990	1.000	.077	--	.077	(.077)	--	--	(.077)
1989	1.000	.083	--	.083	(.083)	--	--	(.083)
1988	1.000	.064	--	.064	(.064)	--	--	(.064)
1987	1.000	.057	--	.057	(.057)	--	--	(.057)

</TABLE>
<TABLE>

Ratios/Supplemental Data

<S>	Net Asset Value at End of Period <C>	Total Return <C>	Net Assets at End of Period (in thousands) <C>	Ratio of Expenses to Average Net Assets <C>	Ratio of Net Investment Income to Average Net Assets <C>	Portfolio Turnover Rate <C>	Average Commission Rate <C>
Government Securities Account (b)							
Six Months Ended June 30, 1997(c)	\$10.64	3.26% (d)	\$84,656	.53% (e)	6.48% (e)	11.0% (e)	N/A
Year Ended December 31,							
1996	10.31	3.35%	85,100	.52%	6.46%	8.4%	N/A
1995	10.55	19.07%	50,079	.55%	6.73%	9.8%	N/A
1994	9.38	(4.53)%	36,121	.56%	7.05%	23.2%	N/A
1993	10.61	10.07%	36,659	.55%	7.07%	20.4%	N/A
Six Months Ended December 31, 1992(h)	10.28	4.10% (d)	31,760	.59% (e)	7.35% (e)	34.5% (e)	N/A
Year Ended June 30,							

1992	10.93	15.34%	33,022	.58%	7.84%	38.9%	N/A
1991	10.24	10.94%	26,021	.59%	8.31%	4.2%	N/A
1990	10.05	8.16%	21,488	.61%	8.48%	18.7%	N/A
1989	10.05	12.61%	15,890	.63%	8.68%	3.7%	N/A
1988	9.37	7.69%	12,902	.66%	8.47%	2.7%	N/A
Period Ended June 30, 1987(j)	9.47	(.94)%(d)	10,778	.64%(e)	8.50%(e)	0.2%(e)	N/A
Growth Account (b)							
Six Months Ended June 30, 1997(c)	15.89	15.23%(d)	132,259	.51%(e)	1.36%(e)	7.5%(e)	\$.0452
Year Ended December 31,							
1996	13.79	12.51%	99,612	.52%	1.61%	2.0%	.0401
1995	12.43	25.62%	42,708	.58%	2.08%	6.9%	N/A
Period Ended December 31, 1994(k)	10.10	5.42%(d)	13,086	.75%(e)	2.39%(e)	0.9%(e)	N/A
International Account (b)							
Six Months Ended June 30, 1997(c)	15.18	16.98%(d)	107,095	.84%(e)	2.92%(e)	25.4%(e)	.0186
Year Ended December 31,							
1996	13.02	25.09%	71,682	.90%	2.28%	12.5%	.0120
1995	10.72	14.17%	30,566	.95%	2.26%	15.6%	N/A
Period Ended December 31, 1994(k)	9.56	(3.37)%(d)	13,746	1.24%(e)	1.31%(e)	14.4%(e)	N/A
MidCap Account (b) (l)							
Six Months Ended June 30, 1997(c)	33.32	12.39%(d)	180,072	.65%(e)	1.05%(e)	10.9%(e)	.0390
Year Ended December 31,							
1996	29.74	21.11%	137,161	.66%	1.07%	8.8%	.0379
1995	25.33	29.01%	58,520	.70%	1.23%	13.1%	N/A
1994	19.97	.78%	23,912	.74%	1.15%	12.0%	N/A
1993	20.79	19.28%	12,188	.78%	.89%	22.4%	N/A
Six Months Ended December 31, 1992(h)	18.91	20.12%(d)	9,693	.81%(e)	1.24%(e)	8.6%(e)	N/A
Year Ended June 30,							
1992	15.97	16.19%	7,829	.82%	1.33%	10.1%	N/A
1991	13.93	5.72%	6,579	.89%	1.70%	11.1%	N/A
1990	14.25	8.32%	6,067	.88%	1.74%	17.9%	N/A
1989	13.35	13.08%	5,509	.90%	1.31%	21.4%	N/A
Period Ended June 30, 1988(i)	12.85	28.72%(d)	4,857	.94%(e)	.64%(e)	4.6%(e)	N/A
Money Market Account (b)							
Six Months Ended June 30, 1997(c)	1.000	2.50%(d)	43,688	.55%(e)	5.06%(e)	N/A	N/A
Year Ended December 31,							
1996	1.000	5.07%	46,244	.56%	5.00%	N/A	N/A
1995	1.000	5.59%	32,670	.58%	5.32%	N/A	N/A
1994	1.000	3.76%	29,372	.60%	3.81%	N/A	N/A
1993	1.000	2.69%	22,753	.60%	2.64%	N/A	N/A
Six Months Ended December 31, 1992(h)	1.000	1.54%(d)	27,680	.59%(e)	3.10%(e)	N/A	N/A
Year Ended June 30,							
1992	1.000	4.64%	25,194	.57%	4.54%	N/A	N/A
1991	1.000	7.20%	26,509	.56%	6.94%	N/A	N/A
1990	1.000	8.37%	26,588	.57%	8.05%	N/A	N/A
1989	1.000	8.59%	20,707	.61%	8.40%	N/A	N/A
1988	1.000	6.61%	14,571	.64%	6.39%	N/A	N/A
1987	1.000	5.78%	11,902	.65%	5.68%	N/A	N/A

</TABLE>

Notes to Financial Highlights

(a) Due to the timing of dividend distributions and the differences in accounting for income and realized gains (losses) for financial statement and federal income tax purposes, the fiscal year in which amounts are distributed may differ from the year in which the income and realized gains (losses) are recorded for financial statement purposes by the fund. The differences between the income and gains distributed on a book versus tax basis are shown in the Financial Highlights as excess distributions from net investment income and from capital gains.

(b) Effective January 1, 1998, the following Fund names were changed:

Principal Aggressive Growth Fund, Inc. became Aggressive Growth Account
Principal Asset Allocation Fund became Asset Allocation Account
Principal Balanced Fund, Inc. became Balanced Account
Principal Bond Fund, Inc. became Bond Account
Principal Capital Accumulation Fund, Inc. became Capital Value Account
Principal Emerging Growth Fund, Inc. became MidCap Account
Principal Government Securities Fund, Inc. became Government Securities Account
Principal Growth Fund, Inc. became Growth Account
Principal Money Market Fund, Inc. became Money Market Account
Principal World Fund, Inc. became International Account

(c) Unaudited.

(d) Total return amounts have not been annualized.

(e) Computed on an annualized basis.

(f) Period from June 1, 1994, date shares first offered to public, through

December 31, 1994. Net investment income, aggregating \$.01 per share for Aggressive Growth Account and \$.01 per share for the Asset Allocation Account for the period from the initial purchase of shares on May 23, 1994 through May 31, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, the Aggressive Growth Account and the Asset Allocation Account incurred unrealized losses on investments of \$.09 and \$.03 per share, respectively, during the initial interim period. This represented activities of each Account prior to the initial public offering of Account shares.

- (g) Effective May 1, 1994, the name of Principal Managed Fund, Inc. was changed to Principal Balanced Fund, Inc.
- (h) Effective July 1, 1992 the Account changed its fiscal year end from June 30 to December 31.
- (i) Period from December 18, 1987, date shares first offered to eligible purchasers, through June 30, 1988. Net investment income aggregating \$.01 per share for the period from the initial purchase of shares on December 10, 1987 through December 17, 1987 was recognized, all of which was distributed to the Account's sole stockholder, Principal Mutual Life Insurance Company. This represented activity of the Account prior to the initial offering of shares to eligible purchasers.
- (j) Period from April 9, 1987, date shares first offered to the public, through June 30, 1987. Net investment income, aggregating \$.01 per share for the period from the initial purchase of shares on October 31, 1987 through December 17, 1987 was recognized, all of which was distributed to the Account's sole stockholder, Principal Mutual Life Insurance Company. This represented activity of the Account prior to the initial offering of shares to eligible purchasers.
- (k) Period from May 1, 1994, date shares first offered to the public, through December 31, 1994. Net investment income, aggregating \$.01 per share for the Growth Account and \$.04 per share for the International Account for the period from the initial purchase of shares on March 23, 1994 through April 30, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, the Growth Account and the International Account incurred unrealized losses on investments of \$.41 and \$.10 per share, respectively, during the initial interim period. This represented activities of each Account prior to the initial public offering of Account shares.
- (l) Effective May 1, 1992, the name of Principal Aggressive Growth Fund, Inc. was changed to Principal Emerging Growth Fund, Inc.

INVESTMENT OBJECTIVES, POLICIES AND RESTRICTIONS

The investment objectives and policies of each Account are described below. There can be no assurance that the objectives of the Accounts will be realized.

GROWTH-ORIENTED ACCOUNTS

The Fund currently includes five Accounts which seek capital appreciation through investments in equity securities (Aggressive Growth Account, Capital Value Account, Growth Account, International Account and MidCap Account) and two Accounts which seek a total investment return including both capital appreciation and income through investments in equity and debt securities (Asset Allocation Account and Balanced Account). These seven Accounts are collectively referred to as the Growth-Oriented Accounts.

The Growth-Oriented Accounts may invest in the following equity securities: common stocks; preferred stocks and debt securities that are convertible into common stock, that carry rights or warrants to purchase common stock or that carry rights to participate in earnings; rights or warrants to subscribe to or purchase any of the foregoing securities; and American Depository Receipts based on any of the foregoing securities. The Aggressive Growth, Capital Value, Growth, International and MidCap Accounts will seek to be fully invested under normal conditions in equity securities. When, in the opinion of the Manager or Sub-Advisor, current market or economic conditions warrant, a Growth-Oriented Account may for temporary defensive purposes place all or a portion of its assets in cash, on which the Account would earn no income, cash equivalents, bank certificates of deposit, bankers acceptances, repurchase agreements, commercial paper, commercial paper master notes which are floating rate debt instruments without a fixed maturity, United States Government securities, and preferred stocks and debt securities, whether or not convertible into or carrying rights for common stock. A Growth-Oriented Account may also maintain reasonable amounts in cash or short-term debt securities for daily cash management purposes or pending selection of particular long-term investments.

Aggressive Growth Account

The Aggressive Growth Account's investment objective is to provide long-term capital appreciation by investing primarily in growth-oriented common stocks of medium and large capitalization U.S. corporations and, to a limited extent, foreign corporations. Common stocks for this purpose include common stocks and equivalents, such as securities convertible into common stocks and securities having common stock characteristics, such as rights and warrants to purchase common stocks. Under normal circumstances, the Account will invest at least 65% of the value of its total assets in common stocks.

The Account employs a flexible and eclectic investment process in pursuit of its investment objective. In selecting stocks for the Account, the Sub-Advisor, MSAM, concentrates on a universe of rapidly growing, high quality companies and lower but accelerating earnings growth situations. The Sub-Advisor's universe of potential investments generally comprises companies with market capitalizations of \$750 million or more and is not restricted to specific market sectors. The Sub-Advisor uses its research capabilities, analytical resources and judgment to assess economic, industry and market trends, as well as individual company developments, to select promising growth investments for the Account. The Sub-Advisor concentrates on companies with strong, communicative managements and clearly defined strategies for growth. In addition, the Sub-Advisor rigorously assesses company developments, including changes in strategic direction, management focus and current and likely future earnings results. Valuation is important to the Sub-Advisor but is viewed in the context of prospects for sustainable earnings growth and the potential for positive earnings surprises vis-a-vis consensus expectations. The Account is free to invest in any common stock which in the Sub-Advisor's judgment provides above average potential for capital appreciation.

In selecting investments for the Account, the Sub-Advisor emphasizes individual security selection. The Account's investments will generally be diversified by industry but concentrated sector positions may result from the investment process. The Account has a long-term investment perspective; however, the Sub-Advisor may take advantage of short-term opportunities that are consistent with its objective by selling recently purchased securities which have increased in value.

The Account may invest in common stock and convertible securities of domestic and foreign corporations. However, the Account does not expect to invest more than 25% of its total assets at the time of purchase in securities of foreign companies. The Account may invest in securities of foreign issuers directly or in the form of Depository Receipts. The Account may enter into forward foreign currency exchange contracts which provide for the purchase or sale of foreign currencies in connection with the settlement of foreign securities transactions or to hedge the underlying currency exposure related to foreign investments. The Account will not enter into these commitments for speculative purposes. Investors should recognize that investing in foreign companies involves certain special considerations which are not typically associated with investing in U.S. companies. See "Foreign Securities" and "Currency Contracts."

The Account may invest in convertible securities of domestic and, subject to the above restrictions, foreign issuers on occasions when, due to market conditions, it is more advantageous to purchase such securities than common stock. Convertible securities entitle the holder to exchange the securities for a specified number of shares of common stock, usually of the same company, at specified prices within a certain period of time and to receive interest or dividends until the holder elects to exercise the conversion privilege. Since the Account invests in both common stocks and convertible securities, the risks of investing in the general equity markets may be tempered to a degree by the Account's investments in convertible securities which are often not as volatile as equity securities.

Asset Allocation Account

The Asset Allocation Account seeks to generate a total investment return consistent with preservation of capital. In seeking to achieve its objective, the Account intends to pursue a flexible investment policy by investing primarily in the common stock and other securities having common stock characteristics of large and small domestic or foreign companies that appear to be undervalued relative to their earnings results or potential, or whose earnings growth prospects appear to be more attractive than the economy as a whole, and domestic or foreign fixed-income securities, including high yield securities when, in the judgement of the Sub-Advisor, MSAM, it is appropriate to do so.

The securities in which the Account invests will be identified as belonging to an "asset class." Asset classes may include, but are not limited to, small capitalization (companies whose market value is less than \$1 billion) value stocks, large capitalization (companies with a market value in excess of \$1 billion) value stocks, small capitalization growth stocks, large capitalization growth stocks, common stocks of foreign corporations, domestic fixed-income securities, domestic high yield fixed-income securities, foreign fixed-income securities, and money market instruments (debt securities maturing in one year or less). "Value" stocks are generally defined as companies with distinctly below average stock price to earnings ratios and stock price to book value

ratios, and higher than average dividend yields. "Growth" stocks are generally defined as those companies whose earnings are expected to grow more rapidly than the economy as a whole.

The allocation among asset classes is designed to lessen overall investment risk through participation in a variety of types of investments in several markets. Reallocation among asset classes, or the elimination of an asset class for a period of time, will occur when in the Sub-Advisor's judgement such shift offers the investor better prospects of achieving the overall investment objective of the Account. Under normal conditions, abrupt shifts among asset classes will not occur and it is not the policy of the Sub-Advisor to attempt market timing. The Sub-Advisor does not undertake to maintain a specific portion of the Account in any asset class, but expects that over time the investment mix will be within the following ranges: 25% to 75% in equities, 20% to 60% in fixed-income securities and 0% to 40% in money market instruments. Factors involved with this decision will depend upon the judgement of the Sub-Advisor as to general market and economic conditions, trends and investment yields and interest rates and changes in fiscal or monetary policies. The Sub-Advisor will seek to minimize declines in the net asset value per share; however, there is no guarantee this goal can be achieved.

The Account may invest in all types of common stocks and other equities and investments, without regard to any objective investment criteria such as size of the issue or issuer, exchange listing or seasoning. The Account may invest in both exchange listed and over-the-counter securities, including American Depository Receipts ("ADRs") and closed end mutual funds. The Account's investments in corporate bonds and debentures and money market instruments are not restricted by credit ratings or other objective investment criteria, except with respect to bank certificates of deposit as set forth below. See "Below-Investment Grade Bonds" for a discussion of the risks associated with these securities. Normally, investments in below investment grade bonds are not expected to exceed 20% of Account assets. Securities purchases may be either U.S. dollar or Non-U.S. dollar denominated.

To achieve its investment objective, the Account may at times emphasize the generation of interest income by investing in short, medium or long-term fixed-income securities. Investment in those securities may also be made with a view to realizing capital appreciation when the Sub-Advisor believes that declining interest rates may increase market values.

Money market instruments in which the Account may invest may include U.S. Treasury bills, bank certificates of deposit, bankers acceptances, repurchase agreements, commercial paper and commercial paper master notes which are floating rate debt instruments without a fixed maturity, and non-U.S. dollar denominated money market instruments. The Account will only invest in domestic bank certificates of deposit issued by banks which are members of the Federal Reserve System that have total deposits in excess of \$1 billion.

The Account may invest in U.S. government securities including U.S. Treasury obligations and obligations of certain agencies such as the Government National Mortgage Association which are supported by the full faith and credit of the United States, as well as obligations of certain other federal agencies or instrumentalities which are backed only by the right of the issuer to borrow limited funds from the U.S. Treasury, by the discretionary authority of the U.S. government to purchase such obligations or by the credit of the agency or instrumentality itself.

Balanced Account

The investment objective of Balanced Account is to generate a total return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of the investment objective. The term "reasonable risks" refers to investment decisions that in the judgment of the Sub-Advisor, Invista, do not present a greater than normal risk of loss in light of current or anticipated future market and economic conditions, trends in yields and interest rates, and fiscal and monetary policies.

In seeking to achieve the investment objective, the Account invests primarily in growth and income-oriented common stocks (including securities convertible into common stocks), corporate bonds and debentures and short-term money market instruments. The Account may also invest in other equity securities, and in debt securities issued or guaranteed by the United States Government and its agencies or instrumentalities. The Account seeks to generate real (inflation plus) growth during favorable investment periods and may emphasize income and capital preservation strategies during uncertain investment periods. The Sub-Advisor will seek to minimize declines in the net asset value per share. However, there is no guarantee that the Sub-Advisor will be successful in achieving this goal.

The portions of the Account's total assets invested in equity securities, debt securities and short-term money market instruments are not fixed, although ordinarily 40% to 70% of the Account's portfolio will be invested in equity securities with the balance of the portfolio invested in debt securities. The investment mix will vary from time to time depending upon the judgment of the Sub-Advisor as to general market and economic conditions, trends in investment

yields and interest rates and changes in fiscal or monetary policies.

The Account may invest in all types of common stocks and other equity investments, without regard to any objective investment criteria such as size of the issue or issuer, exchange listing or seasoning. The Account may invest in both exchange-listed and over-the-counter securities, in small or large companies, and in well-established or unseasoned companies. Also, the Account's investments in corporate bonds and debentures and money market instruments are not restricted by credit ratings or other objective investment criteria, except with respect to bank certificates of deposit as set forth below. Some of the fixed income securities in which the Account may invest may be considered to include speculative characteristics and the Account may purchase such securities that are in default but does not currently intend to invest more than 5% of its assets in securities rated below BBB by Standard & Poor's or Baa by Moody's. See "Below Investment-Grade Bonds" for a discussion of the risks associated with these securities. The rating services' descriptions of BBB or Baa securities are as follows: Moody's Investors Service, Inc. Bond Ratings -- Baa: Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. Standard & Poor's Corporation Bond Ratings -- BBB: Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher-rated categories. The Account will not concentrate its investments in any industry.

In selecting common stocks, the Sub-Advisor seeks companies which it believes have predictable earnings increases and which, based on their future growth prospects, may be currently undervalued in the market place. During periods when the Sub-Advisor determines that general economic conditions are favorable, it will generally purchase common stocks with the objective of long-term capital appreciation. From time to time, and in periods of economic uncertainty, the Sub-Advisor may purchase common stocks with the expectation of price appreciation over a relatively short period of time.

To achieve its investment objective, the Account may at times emphasize the generation of interest income by investing in short, medium or long-term debt securities. Investment in debt securities may also be made with a view to realizing capital appreciation when the Manager believes that declining interest rates may increase market values. The Account may also purchase "deep discount bonds," i.e., bonds which are selling at a substantial discount from their face amount, with a view to realizing capital appreciation.

The short-term money market investments in which the Account may invest include the following: U.S. Treasury bills, bank certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper and commercial paper master notes which are floating rate debt instruments without a fixed maturity. The Account will only invest in domestic bank certificates of deposit issued by banks which are members of the Federal Reserve System that have total deposits in excess of \$1 billion.

The United States government securities in which the Account may invest include U.S. Treasury obligations and obligations of certain agencies, such as the Government National Mortgage Association, which are supported by the full faith and credit of the United States, as well as obligations of certain other Federal agencies or instrumentalities, such as the Federal National Mortgage Association, Federal Land Banks and the Federal Farm Credit Administration, which are backed only by the right of the issuer to borrow limited funds from the U.S. Treasury, by the discretionary authority of the U.S. Government to purchase such obligations or by the credit of the agency or instrumentality itself.

Capital Value Account

The primary objective of Capital Value Account is long-term capital appreciation. A secondary objective is growth of investment income.

The Account will invest primarily in common stocks, but it may invest in other securities. In making selections for the Account's investment portfolio, the Manager will use an approach described broadly as that of fundamental analysis, which is discussed in the Statement of Additional Information. To achieve the investment objective, Invista will invest in securities that have "value" characteristics. This process is known as "value investing." Value investing is purchasing securities of companies with above average dividend yields and below average price to earnings (P/E) ratios. Securities chosen for investment may include those of companies which the Manager believes can reasonably be expected to share in the growth of the nation's economy over the long term.

Growth Account

The objective of Growth Account is growth of capital. Realization of current income will be incidental to the objective of growth of capital.

The Account will invest primarily in common stocks, but it may invest in other equity securities. In making selections for the Account's investment portfolio, the Sub-Advisor, Invista, will use an approach described broadly as that of fundamental analysis, which is discussed in the Statement of Additional Information. In pursuit of the Account's investment objective, investments will be made in securities which as a group appear to possess potential for appreciation in market value. Common stocks chosen for investment may include those of companies which have a record of sales and earnings growth that exceeds the growth rate of corporate profits of the S&P 500 or which offer new products or new services. The policy of investing in securities which have a high potential for growth of capital can mean that the assets of the Account may be subject to greater risk than securities which do not have such potential.

International Account

The investment objective of International Account is to seek long-term growth of capital through investment in a portfolio of equity securities of companies domiciled in any of the nations of the world. In choosing investments in equity securities of foreign and United States corporations, the Sub-Advisor, Invista, intends to pay particular attention to long-term earnings prospects and the relationship of then-current prices to such prospects. Short-term trading is not generally intended, but occasional investments may be made for the purpose of seeking short-term or medium-term gain. The Account expects its investment objective to be met over long periods which may include several market cycles. For a description of certain investment risks associated with foreign securities, see "Foreign Securities."

For temporary defensive purposes, the International Account may invest in the same kinds of securities as the other Growth-Oriented Accounts whether issued by domestic or foreign corporations, governments, or governmental agencies, instrumentalities or political subdivisions and whether denominated in United States dollars or some other currency.

The Account intends that its investments normally will be allocated among various countries. Although there is no limitation on the percentage of assets that may be invested in any one country or denominated in any one currency, the Account intends under normal market conditions to have at least 65% of its assets invested in securities issued by corporations of at least five countries, one of which may be the United States (although the Account currently intends not to invest in equity securities of United States companies). Investments may be made anywhere in the world, but it is expected that primary consideration will be given to investing in the securities issued by corporations of Western Europe, North America and Australasia (Australia, Japan and Far East Asia) that have developed economies. Changes in investments may be made as prospects change for particular countries, industries or companies.

MidCap Account

The objective of MidCap Account is to achieve capital appreciation. The strategy of this Account is to invest primarily in the common stocks and securities (both debt and preferred stock) convertible into common stocks of emerging and other growth-oriented companies that, in the judgment of Invista, are responsive to changes within the marketplace and have the fundamental characteristics to support growth. In pursuing its objective of capital appreciation, the MidCap Account may invest, for any period of time, in any industry, in any kind of growth-oriented company, whether new and unseasoned or well known and established. Under normal market conditions, the Account will invest at least 65% of its assets in securities of companies with market capitalizations in the \$1 billion to \$10 billion range. The Account may invest up to 10% of its assets in securities of foreign issuers. For a description of certain investment risks associated with foreign securities, see "Risk Factors."

There can be, of course, no assurance that the Account will attain its objective. Investment in emerging and other growth-oriented companies may involve greater risk than investment in other companies. The securities of growth-oriented companies may be subject to more abrupt or erratic market movements, and many of them may have limited product lines, markets, financial resources or management. Because of these factors and of the length of time that may be required for full development of the growth prospects of some of the companies in which the Account invests, the Account believes that its shares are suitable only for persons who are prepared to experience above-average fluctuations in net asset value, to assume above-average investment risk in search of above-average return, and to consider the Account as a long-term investment and not as a vehicle for seeking short-term profits. Moreover, since the Account will not be seeking current income, investors should not view a purchase of Account shares as a complete investment program.

INCOME-ORIENTED ACCOUNTS

The Fund currently include two Accounts which seek a high level of income through investments in fixed-income securities (Bond Account and Government Securities Account) collectively referred to as the "Income-Oriented Accounts." An investment in either of the Income-Oriented Accounts involves market risks associated with movements in interest rates. The market value of the Accounts' investments will fluctuate in response to changes in interest rates and other factors. During periods of falling interest rates, the values of outstanding long-term fixed-income securities generally rise. Conversely, during periods of rising interest rates, the values of such securities generally decline. Changes by recognized rating agencies in their ratings of any fixed-income security and in the ability of an issuer to make payments of interest and principal may also affect the value of these investments. Changes in the value of portfolio securities will affect the Accounts' net asset values but will not affect cash income derived from the securities unless a change results from a failure of an issuer to pay interest or principal when due. Each Account's rating limitations apply at the time of acquisition of a security, and any subsequent change in a rating by a rating service will not require elimination of a security from the Account's portfolio. The Statement of Additional Information contains descriptions of ratings of Moody's Investors Service, Inc. ("Moody's") and Standard and Poor's Corporation ("S&P").

Bond Account

The investment objective of the Bond Account is to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

In seeking to achieve the investment objective, the Account will predominantly invest in marketable fixed-income securities. Investments will be made generally on a long-term basis, but the Account may make short-term investments from time to time as deemed prudent by the Manager. Longer maturities typically provide better yields but will subject the Account to a greater possibility of substantial changes in the values of its portfolio securities as interest rates change.

Under normal circumstances, the Account will invest at least 65% of its assets, exclusive of cash items, in one or more of the following kinds of securities: (i) corporate debt securities and taxable municipal obligations, which at the time of purchase have an investment grade rating within the four highest grades used by Standard & Poor's Corporation (AAA, AA, A or BBB) or by Moody's Investors Service, Inc. (Aaa, Aa, A or Baa) or which, if lower-rated or nonrated, are comparable in quality in the opinion of the Account's Manager; (ii) similar Canadian corporate, Provincial and Federal Government securities payable in U.S. funds; and (iii) securities issued or guaranteed by the United States Government or its agencies or instrumentalities. The balance of the Account's assets may be invested in other fixed income securities, including domestic and foreign corporate debt securities or preferred stocks, in common stocks that provide returns that compare favorably with the yields on fixed income investments, and in common stocks acquired upon conversion of debt securities or preferred stocks or upon exercise of warrants acquired with debt securities or otherwise and foreign government securities. The debt securities and preferred stocks in which the Account invests may be convertible or nonconvertible. The Account does not intend to purchase debt securities rated lower than Ba3 by Moody's or BB - by S & P (bonds which are judged to have speculative elements; their future cannot be considered as well-assured). See "Below Investment-Grade Bonds" for a discussion of the risks associated with these securities. The rating services' descriptions of BBB or Baa securities are as follows: Moody's Investors Service, Inc. Bond Ratings -- Baa: Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. Standard & Poor's Corporation Bond Ratings -- BBB: Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher-rated categories.

During the year ended December 31, 1996, the percentage of the Account's portfolio securities invested in the various ratings established by Moody's based upon the weighted average ratings of the portfolio, was as follows:

Moody's Rating	Portfolio Percentage
Aaa	.18%
Aa	.81%
A	24.05%
Baa	68.04%
Ba	6.92%

* The above percentages for A rated securities include .57% respectively, unrated securities which have been determined by the Manager to be of comparable quality.

Cash equivalents in which the Account invests include corporate commercial paper rated A-1+, A-1 or A-2 by Standard & Poor's or P-1 or P-2 by Moody's, unrated commercial paper issued by corporations with outstanding debt securities rated in the four highest grades by Standard & Poor's and Moody's and bank certificates of deposit and bankers' acceptances issued or guaranteed by national or state banks and repurchase agreements considered by the Account to have investment quality. Under unusual market or economic conditions, the Account may for temporary defense purposes invest up to 100% of its assets in cash or cash equivalents.

Government Securities Account

The objective of Government Securities Account is a high level of current income, liquidity and safety of principal.

The Account will invest in obligations issued or guaranteed by the United States Government or by its agencies or instrumentalities and in repurchase agreements collateralized by such obligations. Such securities include Government National Mortgage Association ("GNMA") Certificates of the modified pass-through type, Federal National Mortgage Association ("FNMA") Obligations, Federal Home Loan Mortgage Corporation ("FHLMC") Certificates and Student Loan Marketing Association ("SLMA") Certificates and other U.S. Government Securities. GNMA is a wholly-owned corporate instrumentality of the United States whose securities and guarantees are backed by the full faith and credit of the United States. FNMA, a federally chartered and privately-owned corporation, FHLMC, a federal corporation, and SLMA, a government sponsored stockholder-owned organization, are instrumentalities of the United States. The securities and guarantees of FNMA, FHLMC and SLMA are not backed, directly or indirectly, by the full faith and credit of the United States. Although the Secretary of the Treasury of the United States has discretionary authority to lend FNMA up to \$2.25 billion outstanding at any time, neither the United States nor any agency thereof is obligated to finance FNMA's or FHLMC's operations or to assist FNMA or FHLMC in any other manner. The Account may maintain reasonable amounts of cash or short-term debt securities for daily cash management purposes or pending selection of particular long-term investments.

Cash equivalents in which the Account invests include corporate commercial paper rated A-1+, A-1 or A-2 by S&P or P-1 or P-2 by Moody's, unrated commercial paper issued by corporations with outstanding debt securities rated in the four highest grades by S&P and Moody's and bank certificates of deposit and bankers' acceptances issued or guaranteed by national or state banks and repurchase agreements considered by the Account to have investment quality.

Depending on market conditions, up to 55% of the assets may be invested in GNMA Certificates. GNMA is a United States Government corporation within the Department of Housing and Urban Development. GNMA Certificates are mortgage-backed securities representing an interest in a pool of mortgage loans. Such loans are made by lenders such as mortgage bankers, insurance companies, commercial banks and savings and loan associations. Then, they are either insured by the Federal Housing Administration (FHA) or they are guaranteed by the Veterans Administration (VA) or Farmers Home Administration (FmHA). The lender or other prospective issuer creates a specific pool of such mortgages, which it submits to GNMA for approval. After approval, a GNMA Certificate is typically offered by the issuer to investors through securities dealers.

GNMA Certificates differ from bonds in that the principal is scheduled to be paid back by the borrower on a monthly basis over the life of the loan rather than returned in a lump sum at maturity. Modified pass-through GNMA certificates, which are the only kind in which the Account intends to invest, entitle the holder to receive all interest and principal payments owed on the mortgages in the pool (net of the issuer and GNMA fee of .5% prescribed by regulation), regardless of whether or not the mortgagor has made such payment. The timely payment of interest and principal is guaranteed by the full faith and credit of the United States Government.

Although the payment of interest and principal is guaranteed, the guarantee does not extend to the value of a GNMA Certificate or the value of the shares of the Account. The market value of a GNMA Certificate typically will fluctuate to reflect changes in prevailing interest rates. It falls when rates increase (as does the market value of other debt securities) and it rises when rates decline (but it may not rise on a comparable basis with other debt securities because of its prepayment feature), and, therefore, may be more or less than the face amount of the GNMA Certificate, which reflects the aggregate principal amount of the underlying mortgages. As a result, the net asset value of Account shares will fluctuate as interest rates change.

Mortgagors may pay off their mortgages at any time. Expected prepayments of the mortgages can affect the market value of the GNMA Certificate, and actual prepayments can affect the return ultimately received. Prepayments, like scheduled payments of principal, are reinvested by the Account at prevailing interest rates which may be less than the rate on the GNMA Certificate. Prepayments are likely to increase as the interest rate for new mortgages moves lower than the rate on the GNMA Certificate. Moreover, if the GNMA Certificate had been purchased at a premium above principal because its rate exceeded

prevailing rates, the premium is not guaranteed and a decline in value to par may result in a loss of the premium especially in the event of prepayment.

To the extent deemed appropriate by the Account's Manager, the Account intends to purchase GNMA Certificates directly from Principal Mutual Life Insurance Company and other issuers as well as from securities dealers. The Account will purchase directly from issuers only if it can obtain a price advantage by not paying the commission or mark-up that would be required if the Certificates were purchased from a securities dealer. The Securities and Exchange Commission has issued an order under the Investment Company Act of 1940 that permits the Account to purchase GNMA Certificates directly from Principal Mutual Life Insurance Company subject to certain conditions.

The FNMA and FHLMC securities in which the Account invests are very similar to GNMA certificates as described above but are not guaranteed by the full faith and credit of the United States but rather by the agency itself. FNMA and FHLMC securities are rated Aaa by Moody's and AAA by Standard & Poor's. These ratings reflect the status of FNMA and FHLMC as federal agencies as well as the important role each plays in financing purchases of homes in the U.S.

Student Loan Marketing Association is a government sponsored stockholder-owned organization whose goal is to provide liquidity to financial and educational institutions. SLMA provides liquidity by purchasing student loans, which are principally government guaranteed loans issued under the Federal Guaranteed Student Loan Program and the Health Education Assistance Loan Program. SLMA securities are not guaranteed by the U.S. Government but are obligations solely of the agency. SLMA senior debt issues in which the Account invests are rated AAA by Standard & Poor's and Aaa by Moody's.

There are other obligations issued or guaranteed by the United States Government (such as U.S. Treasury securities) or by its agencies or instrumentalities that are either supported by the full faith and credit of the U.S. Treasury or the credit of a particular agency or instrumentality. Included in the latter category are Federal Home Loan Bank and Farm Credit Banks. Obligations not guaranteed by the United States Government are highly rated because they are issued by indirect branches of government. Such paper is issued as needs arise by the agency and is traded regularly in denominations similar to those in which government obligations are traded.

The Account will not engage in the trading of securities for the purpose of realizing short-term profits, but it will adjust its portfolio as considered advisable in view of prevailing or anticipated market conditions and the Account's investment objective. Accordingly, the Account may sell portfolio securities in anticipation of a rise in interest rates and purchase securities for inclusion in its portfolio in anticipation of a decline in interest rates.

As a hedge against changes in interest rates, the Account may enter into contracts with dealers in GNMA Certificates whereby the Account agrees to purchase or sell an agreed-upon principal amount of GNMA Certificates at a specified price on a certain date. The Account may enter into similar purchase agreements with issuers of GNMA Certificates other than Principal Mutual Life Insurance Company. The Account may also purchase optional delivery standby commitments which give the Account the right to sell particular GNMA Certificates at a specified price on a specified date. Failure of the other party to such a contract or commitment to abide by the terms thereof could result in a loss to the Account. To the extent the Account engages in delayed delivery transactions it will do so for the purpose of acquiring portfolio securities consistent with its investment objective and policies and not for the purpose of investment leverage or to speculate on interest rate changes. Liability accrues to the Account at the time it becomes obligated to purchase such securities, although delivery and payment occur at a later date. From the time the Account becomes obligated to purchase securities on a delayed delivery basis the Account has all the rights and risks attendant to the ownership of a security. At the time the Account enters into a binding obligation to purchase such securities, Account assets of a dollar amount sufficient to make payment for the securities to be purchased will be segregated. The availability of liquid assets for this purpose and the effect of asset segregation on the Account's ability to meet its current obligations, to honor requests for redemption and to have its investment portfolio managed properly will limit the extent to which the Account may engage in forward commitment agreements. Except as may be imposed by these factors, there is no limit on the percent of the Account's total assets that may be committed to transactions in such agreements.

MONEY MARKET ACCOUNT

The Fund also includes an Account which invests primarily in short-term securities, the Money Market Account. Securities in which the Money Market Account will invest may not yield as high a level of current income as securities of low quality and longer maturities which generally have less liquidity, greater market risk and more fluctuation.

The Money Market Account will limit its portfolio investments to United States dollar denominated instruments that the board of directors determines present minimal credit risks and which are at the time of acquisition "Eligible Securities" as that term is defined in regulations issued under the Investment

Company Act of 1940. Eligible Securities include:

- (1) A security with the remaining maturity of 397 days or less that is rated (or that has been issued by an issuer that is rated in respect to a class of short-term debt obligations, or any security within that class, that is comparable in priority and security with the security) by a nationally recognized statistical rating organization in one of the two highest rating categories for short-term debt obligations; or
- (2) A security that at the time of issuance was a long-term security that has a remaining maturity of 397 calendar days or less, and whose issuer has received from a nationally recognized statistical rating organization a rating, with respect to a class of short-term debt obligations (or any security within that class) that is now comparable in priority and security with the security, in one of the two highest rating categories for short-term debt obligations; or
- (3) An unrated security that is of comparable quality to a security meeting the requirements of (1) or (2) above, as determined by the board of directors.

The Account will not invest more than 5% of its total assets in the following securities:

- (1) Securities which, when acquired by the Account (either initially or upon any subsequent rollover), are rated below the highest rating category for short-term debt obligations;
- (2) Securities which, at the time of issuance were long-term securities but when acquired by the Account have a remaining maturity of 397 calendar days or less, if the issuer of such securities is rated, with respect to a class of comparable short-term debt obligations, below the highest rating category for short-term obligations;
- (3) Securities which are unrated but are determined by the Account's board of directors to be of comparable quality to securities rated below the highest rating category for short-term debt obligations. The Account will maintain a dollar-weighted average portfolio maturity of 90 days or less.

The objective of the Money Market Account is to seek as high a level of current income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing its assets in a portfolio of money market instruments. These money market instruments are U.S. Government Securities, U.S. Government Agency Securities, Bank Obligations, Commercial Paper, Short-term Corporate Debt and Repurchase Agreements, which are described briefly below and in more detail in the Statement of Additional Information.

U.S. Government Securities are securities issued or guaranteed by the U.S. Government, including treasury bills, notes and bonds.

U.S. Government Agency Securities are obligations issued or guaranteed by agencies or instrumentalities of the U.S. Government whether supported by the full faith and credit of the U.S. Treasury or only by the credit of a particular agency or instrumentality.

Bank Obligations consist of certificates of deposit which are generally negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified return and bankers acceptances which are time drafts drawn on a commercial bank by a borrower, usually in connection with international commercial transactions.

Commercial Paper is short-term promissory notes issued by corporations primarily to finance short-term credit needs.

Short-term Corporate Debt consists of notes, bonds or debentures which at the time of purchase have one year or less remaining to maturity.

Repurchase Agreements are transactions under which securities are purchased from a bank or securities dealer with an agreement by the seller to repurchase the securities at the same price plus interest at a specified rate. Generally, Repurchase Agreements are of short duration, usually less than a week but on occasion for longer periods.

The Account intends to hold its investments until maturity, but may on occasion trade securities to take advantage of market variations. Also, revised valuations of an issuer or redemptions may result in sales of portfolio investments prior to maturity or at times when such sales might otherwise not be desirable. The Account's right to borrow to facilitate redemptions may reduce the need for such sales. It is the Account's policy to be as fully invested as reasonably practical at all times to maximize current income.

Since portfolio assets will consist of short-term instruments, replacement of portfolio securities will occur frequently. However, since the Account expects to usually transact purchases and sales of portfolio securities with issuers or dealers on a net basis, it is not anticipated that the Account will pay any significant brokerage commissions. The Account is free to dispose of portfolio securities at any time, when changes in circumstances or conditions make such a move desirable in light of the investment objective.

A shareholder's rate of return will vary with the general interest rate levels applicable to the money market instruments in which the Account invests. The rate of return and the net asset value will be affected by such other factors as sales of portfolio securities prior to maturity and the Account's operating expenses.

CERTAIN INVESTMENT POLICIES AND RESTRICTIONS

Following is a discussion of certain investment practices that the Accounts may use in an effort to achieve their respective investment objectives.

Diversification

Each Account is subject to the diversification requirements of Section 817(h) of the Internal Revenue Code (the "Code") which must be met at the end of each quarter of the year (or within 30 days thereafter). Regulations issued by the Secretary of the Treasury have the effect of requiring each Account to invest no more than 55% of its total assets in securities of any one issuer, no more than 70% in the securities of any two issuers, no more than 80% in the securities of any three issuers, and no more than 90% in the securities of any four issuers. For this purpose, the United States Treasury and each U.S. Government agency and instrumentality is considered to be a separate issuer. Thus, the Government Securities Account intends to invest in U.S. Treasury securities and in securities issued by at least four U.S. Government agencies or instrumentalities in the amounts necessary to meet those diversification requirements at the end of each quarter of the year (or within thirty days thereafter).

In the event any of the Accounts do not meet the diversification requirements of Section 817(h) of the Code, the contracts funded by shares of the Accounts will not be treated as annuities or life insurance for Federal income tax purposes and the owners of the Accounts will be subject to taxation on their share of the dividends and distributions paid by the Accounts.

Foreign Securities

Each of the following Accounts has adopted investment restrictions that limit its investments in foreign securities to the indicated percentage of its assets: Asset Allocation and International Accounts - 100%; Aggressive Growth Account - 25%; Bond and Capital Value Accounts - 20%; Balanced, Growth and MidCap Accounts - 10%. Debt securities issued in the United States pursuant to a registration statement filed with the Securities and Exchange Commission are not considered "foreign securities" for purposes of this investment limitation. Investment in foreign securities presents certain risks including those resulting from fluctuations in currency exchange rates, revaluation of currencies, the imposition of foreign taxes, future political and economic developments including war, expropriations, nationalization, the possible imposition of currency exchange controls and other foreign governmental laws or restrictions, reduced availability of public information concerning issuers, and the fact that foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards or to other regulatory practices and requirements comparable to those applicable to domestic issuers. Moreover, securities of many foreign issuers may be less liquid and their prices more volatile than those of comparable domestic issuers. In addition, transactions in foreign securities may be subject to higher costs, and the time for settlement of transactions in foreign securities may be longer than the settlement period for domestic issuers. An Account's investment in foreign securities may also result in higher custodial costs and the costs associated with currency conversions.

Currency Contracts

The Aggressive Growth, Asset Allocation and International Accounts may each enter into forward currency contracts, currency futures contracts and options thereon and options on currencies for hedging and other non-speculative purposes. A forward currency contract involves a privately negotiated obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract. The Accounts will not enter into a transaction to hedge currency exposure to an extent greater in effect than the aggregate market value of the securities held or to be purchased by the Accounts that are denominated or generally quoted in or currently convertible into the currency. When the Account enters into a contract to buy or sell a foreign currency, it generally will hold an amount of that currency, liquid securities denominated in that currency or a forward contract for such securities equal to the Account's obligation, or it will segregate liquid high grade debt obligations equal to the amount of the Account's obligations. The use of currency contracts involves many of the same risks as transactions in futures contracts and options as well as

the risk of government action through exchange controls or otherwise that would restrict the ability of the Account to deliver or receive currency.

Repurchase Agreements and Securities Loans

Each of the Accounts may enter into repurchase agreements with, and each of the Accounts, except the Capital Value and Money Market Accounts, may lend its portfolio securities to, unaffiliated broker-dealers and other unaffiliated qualified financial institutions. These transactions must be fully collateralized at all times, but involve some credit risk to the Account if the other party should default on its obligations, and the Account is delayed or prevented from recovering on the collateral. See the Accounts' Statement of Additional Information for further information regarding the credit risks associated with repurchase agreements and the standards adopted by the Fund's Board of Directors to deal with those risks. None of the Accounts intend either (i) to enter into repurchase agreements that mature in more than seven days if any such investment, together with any other illiquid securities held by the Account, would amount to more than 10% of its total assets or (ii) to loan securities in excess of 30% of its total assets.

Forward Commitments

From time to time, each of the Accounts may enter into forward commitment agreements which call for the Accounts to purchase or sell a security on a future date and at a price fixed at the time the Account enters into the agreement. Each of the Accounts may also acquire rights to sell its investments to other parties, either on demand or at specific intervals.

Warrants

Each of the Accounts, except the Money Market and Government Securities Accounts, may invest in warrants up to 5% of its assets, of which not more than 2% may be invested in warrants that are not listed on the New York or American Stock Exchange. For the International Account, the 2% limitation also does not apply to warrants listed on the Toronto Stock Exchange or the Chicago Board Options Exchange.

Borrowing

As a matter of fundamental policy, each Account may borrow money only for temporary or emergency purposes. The Balanced, Bond, Capital Value and Money Market Accounts may borrow only from banks. Further, each may borrow only in an amount not exceeding 5% of its assets, except the Capital Value Account which may borrow only in an amount not exceeding the lesser of (i) 5% of the value of its assets less liabilities other than such borrowings, or (ii) 10% of its assets taken at cost at the time the borrowing is made, and the Money Market Account which may borrow only in an amount not exceeding the lesser of (i) 5% of the value of its assets, or (ii) 10% of the value of its net assets taken at cost at the time the borrowing is made.

Options

The Aggressive Growth, Asset Allocation, Balanced, Bond, Government Securities, Growth, International, and MidCap Accounts may purchase covered spread options, which would give the Account the right to sell a security that it owns at a fixed dollar spread or yield spread in relationship to another security that the Account does not own, but which is used as a benchmark. These same Accounts may also purchase and sell financial futures contracts, options on financial futures contracts and options on securities and securities indices, but will not invest more than 5% of their assets in the purchase of options on securities, securities indices and financial futures contracts or in initial margin and premiums on financial futures contracts and options thereon. The Accounts may write options on securities and securities indices to generate additional revenue and for hedging purposes and may enter into transactions in financial futures contracts and options on those contracts for hedging purposes.

Below Investment Grade Bonds

Below investment-grade bonds are securities rated Bal or lower by Moody's Investors Service, Inc. ("Moody's") or BB+ or lower by Standard & Poor's Corporation ("S&P") or unrated securities which the Account's Manager or Sub-Advisor believes are of comparable quality. These securities are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and to repay principal in accordance with the terms of the obligation. The Accounts, except the Asset Allocation Account, do not intend to invest in securities rated lower than Ba3 by Moody's or BB by S&P. The Asset Allocation Account does not intend to invest in securities rated below Caa by Moody's and below CCC by S&P. The Asset Allocation Account normally will not invest more than 20% of its assets in below investment grade securities. The Bond Account may not invest more than 35% of its assets in such securities. The Balanced Account does not intend to invest more than 5% of its assets in such securities.

The rating services' descriptions of below investment grade securities rating categories in which the Accounts may normally invest are as follows:

Moody's Investors Service, Inc. Bond Ratings - Ba: Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class. B: Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small. Caa: Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Moody's may apply numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa through B in its bond rating system. The modifier 1 indicates that the security ranks in the high end of its generic rating category; the modifier 2 indicates a mid-range ranking; and a modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Standard & Poor's Corporation Bond Ratings - BB, B, CCC, CC: Debt rated "BB", "B", "CCC" and "CC" is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "CC" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

Plus (+) or Minus (-): The "BB" rating may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Below investment-grade securities present special risks to investors. The market value of lower-rated securities may be more volatile than that of higher-rated securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than more highly rated securities, which reflect primarily fluctuations in general levels of interest rates. Periods of economic uncertainty and change can be expected to result in increased volatility in the market value of lower-rated securities. Further, such securities may be subject to greater risks of loss of income and principal, particularly in the event of adverse economic changes or increased interest rates, because their issuers generally are not as financially secure or as creditworthy as issuers of higher-rated securities. Additionally, to the extent that there is not a national market system for secondary trading of lower-rated securities, there may be a low volume of trading in such securities which may make it more difficult to value or sell those securities than higher-rated securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of high yield securities, especially in a thinly traded market.

Investors should recognize that the market for below investment-grade securities is a relatively recent development that has not been tested by an economic recession. An economic downturn may severely disrupt the market for such securities and cause financial stress to the issuers which may adversely affect the value of the securities held by the Accounts and the ability of the issuers of the securities held by the Accounts to pay principal and interest. A default by an issuer may result in an Account incurring additional expenses to seek recovery of the amounts due it.

Some of the securities in which the Accounts invest may contain call provisions. If the issuer of such a security exercises a call provision in a declining interest rate market, the Account would have to replace the security with a lower-yielding security, resulting in a decreased return for investors. Further, a higher-yielding security's value will decrease in a rising interest rate market, which will be reflected in the Account's net asset value per share.

The Statement of Additional Information includes further information concerning the Accounts' investment policies and applicable investment restrictions. Each Account's investment objective and certain investment restrictions designated as such in this Prospectus or the Statement of Additional Information are fundamental policies that may not be changed without shareholder approval. All other investment policies described in the Prospectus and the Statement of Additional Information for an Account are not fundamental and may be changed by the Board of Directors of the Fund without shareholder approval.

MANAGER AND SUB-ADVISORS

The Manager for the Fund is Principal Management Corporation (formerly known as Princor Management Corporation) (the "Manager"), an indirectly wholly-owned subsidiary of Principal Mutual Life Insurance Company, a mutual life insurance company organized in 1879 under the laws of the State of Iowa. The address of the Manager is The Principal Financial Group, Des Moines, Iowa 50392. The Manager was organized on January 10, 1969, and since that time has managed various mutual funds sponsored by Principal Mutual Life Insurance Company. As of December 31, 1996, the Manager served as investment advisor for 26 such funds with assets totaling approximately \$4.0 billion.

The Manager has executed an agreement with Invista Capital Management, Inc. ("Invista") under which Invista has agreed to assume the obligations of the Manager to provide investment advisory services for the Balanced, Capital Value, Government Securities, Growth, International and MidCap Accounts. The Manager will reimburse Invista for the cost of providing these services. Invista, an indirectly wholly-owned subsidiary of Principal Mutual Life Insurance Company and an affiliate of the Manager, was founded in 1985 and manages investments for institutional investors, including Principal Mutual Life. Assets under management at December 31, 1996 were approximately \$19.6 billion. Invista's address is 1800 Hub Tower, 699 Walnut, Des Moines, Iowa 50309.

The Manager has also executed an agreement with Morgan Stanley Asset Management Inc. ("MSAM") under which MSAM has agreed to assume the obligations of the Manager to provide investment advisory services for the Aggressive Growth Account and Asset Allocation Account. The Manager pays MSAM a fee for such investment advisory services. MSAM, with principal offices at 1221 Avenue of the Americas, New York, NY 10020, provides a broad range of portfolio management services to customers in the United States and abroad. At December 31, 1996, MSAM managed investments totaling approximately \$72.6 billion, including approximately \$54.9 billion under active management and \$17.7 billion as Named Fiduciary or Fiduciary Adviser.

The Manager, Invista, or MSAM has assigned certain individuals the primary responsibility for the day-to-day management of each Account's portfolio. The persons primarily responsible for the day-to-day management of each Account are identified in the table below:

<TABLE>
<CAPTION>

Account	Primarily Responsible Since	Person Primarily Responsible
<S> Aggressive Growth	<C> May, 1994 (Account's inception)	<C> Kurt Feuerman (MBA degree, Columbia University; M.A. degree, Syracuse University). Managing Director, Morgan Stanley Asset Management Inc. and Morgan Stanley & Co. Incorporated.
Asset Allocation	May, 1994 (Account's inception)	Francine J. Bovich (MBA degree, New York University). Principal, Morgan Stanley Asset Management Inc. and Morgan Stanley & Co. Incorporated.
	May, 1994 (Account's inception)	Kurt Feuerman (MBA degree, Columbia University; M.A. degree, Syracuse University). Managing Director, Morgan Stanley Asset Management Inc. and Morgan Stanley & Co. Incorporated.
	April, 1996	Stephen C. Sexauer (MBA degree, University of Chicago). Principal, Morgan Stanley Asset Management Inc. and Morgan Stanley & Co. Incorporated.
Balanced	April, 1993	Judith A. Vogel, CFA (BA degree, Central College). Vice President, Invista Capital Management, Inc. Co-Manager since December, 1997; Martin J. Schafer (BBA degree, University of Iowa). Vice President, Invista Capital Management, Inc.
Bond	November, 1996	Scott A. Bennett, CFA (MBA degree, University of Iowa) Assistant Director Investment Securities, Principal Mutual Life Insurance Company.
Capital Value	November, 1969 (Account's inception)	David L. White, CFA (BBA degree, University of Iowa). Executive Vice President, Invista Capital Management, Inc.; Co-Manager since November, 1996: Catherine A. Green, CFA, (MBA degree, Drake University). Vice President, Invista Capital Management, Inc.
Government Securities	April, 1987 (Account's inception)	Martin J. Schafer (BBA degree, University of Iowa). Vice President, Invista Capital Management, Inc.
Growth and MidCap	May, 1994 (Account's inception) and December, 1987 (Account's inception), respectively	Michael R. Hamilton, (BMBA degree, Bellarmine College). Vice President, Invista Capital Management, Inc.
International	April, 1994	Scott D. Opsal, CFA (MBA degree, University of Minnesota). Executive Vice President, Invista Capital Management, Inc.

</TABLE>

DUTIES PERFORMED BY THE MANAGER AND SUB-ADVISORS

Under Maryland law, the business and affairs of the Fund are managed under the direction of its Board of Directors. The investment services and certain other services referred to under the heading "Cost of Manager's Services" in the Statement of Additional Information are furnished to the Fund under the terms of a Management Agreement between the Fund and the Manager and, for some of the Accounts, a Sub-Advisory Agreement between the Manager and Invista or the Manager and MSAM. The Manager, Invista, or MSAM, advises the Accounts on investment policies and on the composition of the Accounts' portfolios. In this connection, the Manager, or Sub-Advisor, furnishes to the Board of Directors of

the Fund a recommended investment program consistent with the Account's investment objective and policies. The Manager, or Sub-Advisor, is authorized, within the scope of the approved investment program, to determine which securities are to be bought or sold, and in what amounts.

The compensation paid by each Account to the Manager for the fiscal year ended December 31, 1996 was, on an annual basis, equal to the following percentage of average net assets:

Account	Manager's Fee	Total Annualized Expenses
Aggressive Growth Account	.80%	.85%
Asset Allocation Account	.80%	.87%
Balanced Account	.60%	.63%
Bond Account	.50%	.53%
Capital Value Account	.48%	.49%
Government Securities Account	.50%	.52%
Growth Account	.50%	.52%
International Account	.75%	.90%
MidCap Account	.64%	.66%
Money Market Account	.50%	.56%

The compensation being paid by the Aggressive Growth Account, Asset Allocation Account and International Account for investment management services is higher than that paid by most funds to their advisor, but it is not higher than the fees paid by many funds with similar investment objectives and policies.

The Manager and Sub-Advisors may purchase at their own expense statistical and other information or services from outside sources, including Principal Mutual Life Insurance Company. An Investment Service Agreement between the Manager, Principal Mutual Life Insurance Company and the Fund provides that Principal Mutual Life Insurance Company will furnish certain personnel, services and facilities required by the Manager in connection with its performance of the Management Agreement for each Account except the Aggressive Growth and Asset Allocation Accounts, and that the Manager will reimburse Principal Mutual Life Insurance Company for its costs incurred in this regard.

The Accounts may from time to time execute transactions for portfolio securities with, and pay related brokerage commissions to, Principal Financial Securities, Inc., a broker-dealer that is an affiliate of the Distributor and Manager of the Fund. The Account may also execute transactions for portfolio securities through Morgan Stanley & Co. Incorporated and Morgan Stanley Trust Company affiliates of Morgan Stanley Asset Management Inc.

The Manager serves as investment advisor, dividend disbursing agent and, directly and through an affiliate, as transfer agent for each of the Funds sponsored by Principal Mutual Life Insurance Company.

MANAGERS' COMMENTS

Principal Management Corporation, Invista and MSAM are staffed with investment professionals who manage each individual Account. Comments by these individuals in the following paragraphs summarize in capsule form the general strategy and results of each Account through 1996. The accompanying charts display results for the past 10 years or the life of the Account, whichever is shorter. Average Annual Total Return figures provided for each Account in the graphs below reflect all expenses of the Account and assume all distributions are reinvested at net asset value. The figures do not reflect expenses of the variable life insurance contracts or variable annuity contracts that purchase Account shares; performance figures for the divisions of the contracts would be lower than performance figures for the Accounts due to the additional contract expenses. Past performance is not predictive of future performance. Returns and net asset values fluctuate. Shares are redeemable at current net asset value, which may be more or less than original cost.

The various indices included in the following graphs are unmanaged and do not reflect any commissions or fees which would be incurred by an investor purchasing the securities included in the index. Investors cannot invest directly into these or any indices.

Growth-Oriented Accounts

Aggressive Growth Account
(Kurt Feuerman)

Since it first became available on June 1, 1994, the Aggressive Growth Account has generated an annualized return of 28.05% versus 23.63% for the S&P 500 and 19.18% for the Lipper Growth Fund Average. In 1996 the Fund returned 28.05% versus 22.96% for the S&P 500 and 19.24% for the Lipper Growth Fund Average.

For the third consecutive year, substantial overweighting of the portfolio in the tobacco sector contributed positively to relative performance. After a

market-smashing total return of 62% in 1995 (including dividends), Philip Morris stock surged late in 1996 for a full-year total return of 25%. Philip Morris was the largest single holding in the portfolio throughout most of 1995 and 1996.

At year-end 1996, Philip Morris stock at \$113 represented about 5% of the Account's portfolio. Philip Morris as well as other positions in RJR Nabisco, Loews and Consolidated Cigar as a group will clearly be subject to bouts of selling pressure since the industry is under attack from a number of directions. However, tobacco stocks are in the midst of a multi-year trend of upward revaluation. Combined with strong underlying growth fundamentals, this creates a powerful investment opportunity which many investors are missing.

Entering into 1997, the S&P 500 Index has outperformed the vast majority of active managers for three consecutive years. Also, the Index has outpaced the earnings growth of the underlying companies. One could argue that there are many positive factors driving the U.S. markets higher and that these factors could persist; stable interest rates, solid economic growth without inflationary pressures, the opening up of emerging markets, the acceptance of shareholder value as the key motivator of corporate managements, and the huge cash flow coming into stocks supported by powerful demographic trends.

Still, there is no doubt that many large cap, "blue chip," stocks have outperformed their own businesses. General Electric, for example, rose 40% in 1996 while earnings per share grew about 15%. Another example would be Merck, a stock up 77% in 1995 and 24% in 1996, with earnings in those two years up only 12% and 20%, respectively.

Morgan Stanley's estimate is that active managers will have an easier time beating the Index this year. This will be more likely to occur if smaller company stocks do well. While large cap managers continue to feel comfortable with many large cap names, at the margin there are opportunities in secondary stocks, especially high beta growth issues that have missed the recent market move, but where company fundamentals are intact.

Total Returns *
As of December 31, 1996

1 Year	Since Inception Date 6/1/94	10 Year
28.05%	28.05%	--

Comparison of Change in Value of \$10,000 Investment in the
Aggressive Growth Account, S&P 500 and Lipper Growth Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Index	Lipper Growth Average
	10,000	10,000	10,000
1994	10,259	10,230	10,055
1995	14,793	14,069	13,151
1996	18,942	17,297	15,681

Note: Past performance is not predictive of future performance.

Asset Allocation Account
(Francine J. Bovich)

In a volatile year for financial assets, the U.S. stock market continued its strong performance (+23.2%) but ranked 11th in global markets beaten by fully half of the international markets (in U.S. dollars), notably Spain (+40.1%), Sweden (+37.2%) and Hong Kong (+33.1%). Markets were boosted by abundant liquidity provided through loose monetary policy, moderate economic growth and a benign inflation environment.

Bond markets in local currency also had a good year with returns ranging from 5.9% in Japan to 24.2% in Italy. In the U.S., mixed economic data and expectations of monetary tightening drove bond prices down well into the third quarter until the Federal reserve announced that interest rates would remain unchanged. In contrast, the European bond markets rallied throughout the year driven by monetary easing from the core European central banks, weakening currencies, optimism surrounding the prospects of the European Monetary Union, and improving inflation data. Japanese bond yields fell to all-time lows on the prospect of substantial fiscal tightening in 1997, the fragility of some financial institutions, and doubts about the strength of the economic recovery. Against a declining interest rate backdrop, high yielding debt rallied as investors clamored for yield.

Throughout the year, we maintained our diversified investment policy. At year-end 1996, the Account was invested: 32% domestic stocks, 26% international stocks, 20% U.S. domestic bonds, 9% domestic high yield bonds, 11% real estate investment trusts ("REITs"), and 2% short-term investments. For 1996, the Account continued its positive performance gaining 12.9% relative to the Lipper Flexible Portfolio Fund average gain of 13.6%.

Within domestic stocks, commitments to large cap growth companies and REITs significantly enhanced returns. In the growth segment, overweight commitments to consumer cyclicals, consumer staples and financial sectors were the primary contributors to positive results. Our REIT portfolio benefited from an overall positive backdrop and selected commitments to the office, industrial, and hotel sectors. In addition, we allocated a portion of the portfolio to "California Recovery" companies which performed well.

In aggregate, the international stock results lagged the S&P 500 primarily due to the performance of Japan. Japanese stocks declined -15.5% based on the same concerns that drove bond yields to historic lows. In contrast, European stocks were a brighter spot thanks to the continuing efforts of most continental governments to achieve the Maastricht criteria. Asian market returns were led by Hong Kong, which benefited from lessened political fears and an improved economic outlook. Latin America enjoyed stellar performance throughout the year and was a primary contributor to the international ADR's outperformance (+11.3%) relative to the EAFE benchmark gain of 6.1%. The economic recovery that began in 1995 and continued throughout 1996 attracted renewed capital flows to the region and the Fund benefited from overweight positions in Brazil and Mexico.

Over the near term, we expect the U.S. market to be driven higher by the continuation of the positive capital market trends experienced in 1996. However, U.S. stocks are not cheap, the market cycle is very long in the tooth, and is vulnerable to strong economic data and/or an untoward event. International stocks have benefited from many of the same factors which propelled the U.S. markets, but on a relative basis to the U.S., valuations are not as high. In addition, prospects for further declines in interest rates and improved economic and earnings growth in Asia, Latin America and Europe remain probable, albeit on a lagged basis.

After a year of declining global interest rates, we expect increased volatility as investors analyze every data point to detect a policy change. Fed watchers will be particularly active given Mr. Greenspan's concern about "irrational exuberance." We begin the year overweighted to yield sectors and believe that a higher income strategy will serve to moderate price volatility.

Total Returns *
As of December 31, 1996

1 Year	Since Inception Date 6/1/94	10 Year
12.92%	12.95%	--

Comparison of Change in Value of \$10,000 Investment in the Asset
Allocation Account, S&P 500 and Lipper Flexible Portfolio Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Index	Lipper Flexible Portfolio Index
1994	10,052	10,230	10,008
1995	12,128	14,069	12,518
1996	13,696	17,297	14,220

Note: Past performance is not predictive of future performance.

Balanced Account
(Judith A. Vogel)

This balanced portfolio combines stocks, bonds and cash in a relatively conservative mix which seeks to provide both capital appreciation and income to the shareholder without taking on undue risk. The asset allocation of the Account generally approximates 60% stocks and 40% bonds. In the year ended December 31, 1996 the stock market produced exceptional results. Aided by a healthy economy, continued corporate profit growth, and a good dose of investor enthusiasm, the S&P 500 Stock Index advanced nearly 23%. Conditions in the bond market were less supportive over the year. Long-term interest rates rose 0.70% in 1996, with a lot of volatility along the way, causing the bond returns to hover between zero and 3% for the year. Demonstrating its balanced nature, the Account produced a 13% annual return, about midway between stock and bond market results and very near the Lipper Balanced Fund Average. The bond portion of the Account's portfolio is comprised of U.S. Government notes and bonds with an emphasis on safety of principal. The stock portion of the portfolio is concentrated in companies with stable or growing earnings that are not terribly sensitive to economic activity. After six years of economic expansion resulting in high rates of resource utilization, corporate profit growth is likely to come down, causing a scarcity of earnings growth. Companies that can continue to grow earnings will be afforded premium valuations. There is no independent market index against which to measure returns of balanced portfolios, however, we show the S&P 500 Stock Index for your information.

Total Returns *
As of December 31, 1996

		Since Inception Date 12/18/87
1 Year	5 Year	
13.13%	11.57%	12.16%

Comparison of Change in Value of \$10,000 Investment in the
Balanced Account, S&P 500 and Lipper Balanced Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Index	Lipper Mid Cap Index
	10,000	10,000	10,000
1988	11,637	11,661	11,229
1989	12,982	15,356	13,429
1990	12,147	14,877	13,355
1991	16,321	19,412	16,930
1992	18,410	20,891	18,122
1993	20,447	22,992	20,066
1994	20,019	23,294	19,561
1995	24,941	32,037	24,482
1996	28,215	39,388	27,851

Note: Past performance is not predictive of future performance.

Capital Value Account
(David L. White and Catherine A. Green)

The strategy with this portfolio is to hold common stocks of companies based on a valuation that is attractive when compared to the market. The analytical staff looks at companies' current valuations compared to the market, then at historical information to compare valuations to historical averages. The focus is on the fundamentals of an industry and the company to determine the current and future outlook as these potential investments. From there the portfolio is constructed to provide a diversified set of investments.

The Account outperformed the S&P 500 Index and Lipper Growth and Income Fund Average for 1996. The strength of the market was in much fewer stocks than in the past. The volatility between industries was much greater than the overall results. The Account benefited from several areas of exposure. Banks and health care were the strongest areas for the Account during the year. The focus has been away from the more cyclical areas of the economy which also helped during the year. As the economic cycle progresses, the market places more emphasis on companies with consistent earnings growth, and we have tended to overweight these areas of the market. As the market performance continues to narrow, however, it becomes increasingly difficult to select the correct areas of overperformance.

Total Returns *
As of December 31, 1996

1 Year	5 Year	10 Year
23.50%	14.08%	13.08%

Comparison of Change in Value of \$10,000 Investment in the
Capital Value Account, S&P 500 and Lipper Growth and Income Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Stock Index	Lipper Growth & Income Fund Average
	10,000	10,000	10,000
1987	10,647	10,526	10,184
1988	12,183	12,274	11,814
1989	14,155	16,163	14,596
1990	12,759	15,659	13,946
1991	17,693	20,433	18,002
1992	19,377	21,990	19,618
1993	20,888	24,201	21,884
1994	20,990	24,519	21,678
1995	27,688	33,722	28,360
1996	34,193	41,460	34,253

Note: Past performance is not predictive of future performance.

Growth Account
(Michael R. Hamilton)

The Growth Account struggled against the market in 1996; struggle being relative as 12.23% return is respectable from a historical perspective. The S&P 500 Index last year was heavily influenced by the top 25 holdings in the Index. These are very large companies. The Account is more diversified than the Index and therefore its results were more representative of the broader market. With the market continuing to struggle against the potential of an economic boom on one hand, versus a slowing or recession on the other, the market could be subjected to emotional swings depending on the inflation outlook.

The Account's portfolio still has a large focus on health care given the demographics of the United States. This was not a strong sector in 1996, particularly the managed care companies of which the portfolio has a large exposure. Also, the portfolio has large positions in technology and growth cyclicals. These companies should do well if the economy continues to move forward which is indicated by current data.

The portfolio contains many companies that are able to compete on a world wide basis. This is important as global competition continues.

Total Returns *
As of December 31, 1996

1 Year	Since Inception Date 5/2/94	10 Year
12.51%	16.12%	--

Comparison of Change in Value of \$10,000 Investment in the
Growth Account, S&P 500 and Lipper Growth Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Index	Lipper Growth Index
	10,000	10,000	10,000
1994	10,542	10,397	10,090
1995	13,243	14,299	13,197
1996	14,899	17,580	15,736

Note: Past performance is not predictive of future performance.

International Account
(Scott D. Opsal)

The International Account's 26.2% total return in 1996 was driven by broad based market rallies across Europe. Several European markets have climbed more than 20% in 1996, with Japan and Italy being the only major markets not reflecting strong gains. The Account's investment strategy of holding stocks in smaller European economies produced outperformance as interest rate moves have been favorable this year. Long bond yields in secondary European markets fell while rates in the stronger core countries have inched up. The Account's overexposure to the falling rate markets and underexposure to the rising rate markets was a significant positive factor producing returns that exceeded EAFE's 6.1% and the average international fund in 1996.

The Account also benefited from non-cyclical stockholdings in Europe. Food, drug, technology, and stable growth cyclicals have outperformed the heavier cyclical industries. The Account's move into non-cyclical growth stocks early in the year proved timely. The Account remains underweighted in Japan due to poor valuations and a weak economic outlook. Japan has been the worst performing major market, and the Account's lack of exposure to this market also boosted relative returns.

Adverse currency changes diminished the Account's returns as measured in U.S. dollars by an estimated 2%. We believe the EAFE index has suffered a currency loss exceeding 4%, and the average manager has lost an estimated 3%. Thus, the Account's investment strategy placed it in markets suffering relatively small foreign exchange losses thereby aiding relative return performance.

The Account is subject to specific risks associated with foreign currency rates, foreign taxation and foreign economies.

Total Returns *
As of December 31, 1996

1 Year	Since Inception Date 5/2/94	10 Year
25.09%	12.83%	--

Comparison of Change in Value of \$10,000 Investment in the
International Account, EAFE and Lipper International Fund Average

Year Ended December 31,	Fund	Morgan Stanley	Lipper
	Total Return	EAFE Index	International Index
	10,000	10,000	10,000
1994	9,663	9,990	9,758
1995	11,032	11,110	10,676
1996	13,800	11,781	11,934

Note: Past performance is not predictive of future performance.

MidCap Account
(Michael R. Hamilton)

The equity market was strong in 1996, but within the market there were two different trends. Large-cap stocks performed much better than small-cap stocks. The MidCap Account returned 19.13% compared with the Lipper Mid Cap Average of 17.9%. The Account and the Lipper Average trailed the S&P 500 Index because of their emphasis on small cap stocks. While both trailed the S&P 500, this was a good year for the Account.

The financial market continues to grapple with the paradox of strong economic growth with no apparent inflation. Productivity will be key in 1997 if inflation is to remain benign. The Account's portfolio continues to be focused on companies that should enhance productivity of both labor and capital. Several of the technology, service and cyclical areas support this emphasis. The portfolio is also overweighted in the financial sector as bank consolidation continues.

Continued profit growth will be important in 1997 as well. Companies with more predictable and visible earnings growth are preferred. This continues to be those that are low cost producers and have competitive barriers to entry. Selectivity in all sectors will be crucial to outperformance.

Total Returns *
As of December 31, 1996

1 Year	5 Year	Since Inception Date 12/18/87
21.11%	16.64%	17.73%

Comparison of Change in Value of \$10,000 Investment
in the MidCap Account, S&P 500 and
Lipper Mid Cap Fund Average

Year Ended December 31,	Fund	S&P 500	Lipper
	Total Return	Index	MID CAP Index
	10,000	10,000	10,000
1988	12,369	11,661	11,476
1989	15,070	15,356	14,586
1990	13,186	14,877	14,067
1991	20,240	19,412	21,275
1992	23,264	20,891	23,213
1993	27,750	22,992	26,625
1994	27,967	23,294	26,079
1995	36,080	32,037	34,469
1996	43,697	39,388	40,646

Note: Past performance is not predictive of future performance.

Important Notes of the Growth-Oriented Accounts:

Standard & Poor's 500 Stock Index: an unmanaged index of 500 widely held common stocks representing industrial, financial, utility and transportation companies listed on the New York Stock Exchange, American Stock Exchange and the Over-the-Counter market.

Lipper Growth Fund Average: This average consists of funds which normally invest in companies whose long-term earnings are expected to grow significantly faster than the earnings of the stocks represented in the major unmanaged stock indices. The one-year average at December 31, 1996 contained 669 funds.

Lipper Flexible Portfolio Fund Average: This average consists of funds which allocate their investments across various asset classes, including domestic common stocks, bonds and money market instruments, with a focus on total return. The one-year average at December 31, 1996 contained 186 funds.

Lipper Balanced Fund Average: this average consists of mutual funds which attempt to conserve principal by maintaining at all times a balanced portfolio of both stocks and bonds. Typically, the stock/bond ratio ranges around 60%/40%. The one year average at December 31, 1996 contained 272 mutual funds.

Lipper Growth & Income Fund Average: this average consists of funds which combine a growth of earnings orientation and an income requirement for level and/or rising dividends. The one year average at December 31, 1996 contained 522 funds.

Lipper Mid Cap Fund Average: This average consists of funds which by prospectus or portfolio practice, limit their investments to companies with average market capitalizations and/or revenues between \$800 million and the average market capitalization of the Wilshire 4500 Index (as captured by the Vanguard Index Extended Market Fund). The one-year average at December 31, 1996 contained 154 funds.

Morgan Stanley Capital International EAFE (Europe, Australia and Far East) Index: This average reflects an arithmetic, market value weighted average of performance of 1,920 listed securities which are listed on the stock exchanges of the following countries: Australia, Austria, Belgium, Denmark, Netherlands, New Zealand, Norway, Singapore/Malaysia, Spain, Sweden, Switzerland, and the United Kingdom.

Lipper International Fund Average: This average consists of funds which invest in securities primarily traded in markets outside of the United States. The one-year average at December 31, 1996 contained 331 funds.

Income-Oriented Accounts:

Bond Account
(Scott A. Bennett)

The Bond Account's performance in 1996 lagged when compared to 1995. 1995 was a banner year, mainly because of dramatically declining interest rates. During 1996 interest rates increased throughout most of the year based on fears of increasing inflation. This hurt the Account's relative performance as the duration target of 7 years (actual duration at 12/31/96 was 6.98 years) is longer than the average BBB rated bond fund and the BAA Lehman Corporate Index. Relative performance was also negatively impacted by the lack of a significant amount of less than investment grade bonds in the portfolio. High yield (less than investment grade) debt performed extremely well during 1996, with many of the top performing funds in the Lipper BAA universe having significant exposures to this asset class.

Over the long-term, the Account continues to outperform the average BBB fund. This is attributed to remaining fully invested and not trying to guess interest rates. The BBB corporate bond class continued to be an attractive asset class in 1996, outperforming all other taxable investment grade classes. Spreads continued to narrow during the year with defaults low and a large amount of funds chasing the available bonds.

Total Returns *
As of December 31, 1996

1 Year	5 Year	Since Inception Date 12/18/87
2.36%	8.20%	9.55%

Comparison of Change in Value of \$10,000 Investment in the Bond Account, Lehman Brothers BAA Corporate Index and Lipper Corporate Debt BBB Rated Fund Average

Year Ended December 31,	Fund Total Return	Lehman BAA Index	Lipper BBB Avg
	10,000	10,000	10,000
1988	10,991	11,129	10,900
1989	12,514	12,699	12,060
1990	13,167	13,595	12,751
1991	15,369	16,113	15,020
1992	16,810	17,512	16,258
1993	18,771	19,665	18,261
1994	18,227	18,707	17,447
1995	22,268	22,959	20,948
1996	22,794	23,882	21,616

Note: Past performance is not predictive of future performance.

Government Securities Account
(Martin J. Schafer)

Interest rates rose in 1996, which dampened absolute fixed income returns. The Account underperformed the Lipper U.S. Mortgage Fund Average and the Lehman MBS Index in 1996 due to its slightly longer duration. However, since the Account's inception of 4/9/87 it has outperformed the Lipper U.S. Mortgage Fund Average and is competitive with the Lehman MBS Index.

Results were enhanced last year through identification and selection of certain undervalued sectors of mortgage-backed securities for a portion of the portfolio. These securities have now become very popular with Wall Street and other investors, resulting in their increasing in value.

The current portfolio is well positioned for the period ahead. It has a number of securities that are "seasoned" (e.g., original 30 year loans that have been outstanding for three years or more) and therefore valued more highly in the marketplace. There are few securities priced above par, so prepayment risk is negligible. If the future continues to be an era of economic prosperity we should continue to see strong housing markets and housing turnover that will cause prepayments on our securities to exceed market expectations. These repayments are welcomed, as the portfolio is priced at a discount and the Account will be paid-off at par.

Total Returns *
As of December 31, 1996

1 Year	5 Year	Since Inception Date 4/9/87
3.35%	6.68%	8.63%

Comparison of Change in Value of \$10,000 Investment in the Government Securities Account, Lehman Brothers Mortgage Index and Lipper U.S. Mortgage Fund Average

Year Ended December 31,	Fund Total Return	Lehman Mortgage Index	Lipper U.S. Mortgage Index
1987	10,000	10,000	10,000
1988	10,099	10,204	10,104
1989	10,939	11,094	10,858
1990	12,645	12,808	12,224
1991	13,852	14,183	13,370
1992	16,200	16,410	15,348
1993	17,308	17,551	16,285
1994	19,051	18,751	17,499
1995	18,188	18,450	16,769
1996	21,656	21,549	19,491
	22,381	22,702	20,245

Note: Past performance is not predictive of future performance.

Important Notes of the Income-Oriented Accounts:

Lehman Brothers, BAA Corporate Index: an unmanaged index of all publicly issued fixed rate nonconvertible, dollar-denominated, SEC-registered corporate debt rated Baa or BBB by Moody's or S&P.

Lipper Corporate Debt BBB Rated Funds Average: this average consists of mutual funds investing at least 65% of their assets in corporate and government debt issues rated by S&P or Moody's in the top four grades. The one year average at December 31, 1996 contained 102 mutual funds.

Lehman Brothers Mortgage Index: an unmanaged index of 15- and 30-year fixed rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal National Mortgage Association (FNMA).

Lipper U.S. Mortgage Fund Average: this average consists of mutual funds investing at least 65% of their assets in mortgages/securities issued or guaranteed as to principal and interest by the U.S. Government and certain federal agencies. The one year average at December 31, 1996 contained 59 mutual funds.

Note: Mutual fund data from Lipper Analytical Services, Inc.

DETERMINATION OF NET ASSET VALUE OF ACCOUNT SHARES

The net asset value of each Account's shares is determined daily, Monday through Friday, as of the close of trading on the New York Stock Exchange, except on days on which changes in the value of the Account's portfolio securities will not materially affect the current net asset value of the Account's redeemable securities, on days during which an Account receives no order for the purchase or sale of its redeemable securities and no tender of such a security for redemption, and on customary national business holidays. The

net asset value per share of each Account is determined by dividing the value of the Account's securities plus all other assets, less all liabilities, by the number of Account shares outstanding.

Growth-Oriented and Income-Oriented Accounts

The following valuation information applies to the Growth-Oriented and Income-Oriented Accounts. Securities for which market quotations are readily available are valued using those quotations. Other securities are valued by using market quotations, prices provided by market makers or estimates of market values obtained from yield data and other factors relating to instruments or securities with similar characteristics in accordance with procedures established in good faith by the Board of Directors. Securities with remaining maturities of 60 days or less are valued at amortized cost when it is determined by the Board that amortized cost reflects fair value. Other assets are valued at fair value as determined in good faith by the Board of Directors of the Fund.

As previously described, some of the Accounts may purchase foreign securities whose trading is substantially completed each day at various times prior to the close of the New York Stock Exchange. The values of such securities used in computing net asset value per share are usually determined as of such times. Occasionally, events which affect the values of such securities and foreign currency exchange rates may occur between the times at which they are generally determined and the close of the New York Stock Exchange and would therefore not be reflected in the computation of the Account's net asset value. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value as determined in good faith by the Manager or Sub-Advisor under procedures established and regularly reviewed by the Board of Directors. To the extent the Account invests in foreign securities listed on foreign exchanges which trade on days on which the Account does not determine its net asset value, for example Saturdays and other customary national U.S. Holidays, the Account's net asset value could be significantly affected on days when shareholders have no access to the Account.

Money Market Account

The Money Market Account values its securities at amortized cost. For a description of this calculation procedure see the Fund's Statement of Additional Information.

PERFORMANCE CALCULATION

From time to time, the Accounts may publish advertisements containing information (including graphs, charts, tables and examples) about the performance of one or more of the Accounts. The Account's yield and total return figures described below will vary depending upon market conditions, the composition of the Account's portfolios and operating expenses. These factors and possible differences in the methods used in calculating yield and total return should be considered when comparing the Accounts' performance figures to performance figures published for other investment vehicles. The Accounts may also quote rankings, yields or returns as published by independent statistical services or publishers, and information regarding the performance of certain market indices. Any performance data quoted for the Accounts represents only historical performance and is not intended to indicate future performance of the Accounts. The calculation of average annual total return and yield for the Accounts does not include fees and charges of the separate accounts that invest in the Accounts and, therefore, does not reflect the investment performance of those separate accounts. For further information on how the Accounts calculate yield and total return figures, see the Statement of Additional Information.

Average Annual Total Return

Each Account may advertise its respective average annual total return. Average annual total return for each Account is computed by calculating the average annual compounded rate of return over the stated period that would equate an initial \$1,000 investment to the ending redeemable value assuming the reinvestment of all dividends and capital gains distributions at net asset value. The same assumptions are made when computing cumulative total return by dividing the ending redeemable value by the initial investment. The Accounts may also quote rankings, yields or returns as published by independent statistical services or publishers, and information regarding the performance of certain market indices.

Yield and Effective Yield

From time to time the Money Market Account may advertise its respective yield and effective yield. The yield of the Account refers to the income generated by an investment in the Account over a seven-day period. This income is then annualized. That is, the amount of income generated by the investment during that week is assumed to be generated each week over a 52-week period and is shown as a percentage of the investment. The effective yield is calculated similarly but, when annualized, the income earned by an investment in the Account is assumed to be reinvested. The effective yield will be slightly higher than the yield because of the compounding effect of this assumed reinvestment.

The yield for the Money Market Account will fluctuate daily as the income earned on the investments of the Account fluctuates. Accordingly, there is no assurance that the yield quoted on any given occasion will remain in effect for any period of time. The Account is one of a Series of Accounts issued by an open-end investment company and there is no guarantee that the net asset value or any stated rate of return will remain constant. A shareholder's investment in the Account is not insured. Investors comparing results of the Account with investment results and yields from other sources such as banks or savings and loan associations should understand these distinctions. Historical and comparative yield information may, from time to time, be presented by the Account.

INCOME DIVIDENDS, DISTRIBUTIONS AND TAX STATUS

It is the policy of each Account to distribute substantially all net investment income and net realized gains. Through such distributions, and by satisfying certain other requirements, the Fund intends to qualify for the tax treatment accorded to regulated investment companies under the applicable provisions of the Internal Revenue Code. This means that in each year in which the Fund so qualifies it will be exempt from federal income tax upon the amounts so distributed to investors.

Any dividends from the net investment income of the Accounts (except the Money Market Account) will normally be payable to the shareholders annually, and any net realized gains will be distributed annually. All dividends and capital gains distributions are applied to purchase additional Account shares at net asset value as of the payment date without the imposition of any sales charge.

Each Account will notify shareholders of the portion of each distribution which constitutes investment income or capital gain. In view of the complexity of tax considerations, it is advisable for Eligible Purchasers considering the purchase of shares of the Accounts to consult with tax advisors on the federal and state tax aspects of their investments and redemptions.

Money Market Account

The Money Market Account declares dividends of all its daily net investment income on each day the Account's net asset value per share is determined. Dividends are payable daily and are automatically reinvested in full and fractional shares of the Account at the then current net asset value unless a shareholder requests payment in cash.

Net investment income, for dividend purposes, consists of (1) accrued interest income plus or minus accrued discount or amortized premium; plus or minus (2) all net short-term realized gains and losses; minus (3) all accrued expenses of the Account. Expenses of the Account are accrued each day. Net income will be calculated immediately prior to the determination of net asset value per share of the Account.

Since the Account's policy is, under normal circumstances, to hold portfolio securities to maturity and to value portfolio securities at amortized cost, it does not expect any capital gains or losses. If the Account does experience gains, however, it could result in an increase in dividends. Capital losses could result in a decrease in dividends. If for some extraordinary reason the Account realizes net long-term capital gains, it will distribute them once every 12 months.

Since the net income of the Account (including realized gains and losses on the portfolio securities) is declared as a dividend each time the net income of the Account is determined, the net asset value per share of the Account normally remains at \$1.00 immediately after each determination and dividend declaration. Any increase in the value of a shareholder's investment in the Account, representing reinvestment of dividend income, is reflected by an increase in the number of shares of the Account.

Normally the Account will have a positive net income at the time of each determination thereof. Net income may be negative if an unexpected liability must be accrued or a loss is realized. If the net income of the Account determined at any time is a negative amount, the net asset value per share will be reduced below \$1.00. If this happens, the Account may endeavor to restore the net asset value per share to \$1.00 by reducing the number of outstanding shares by redeeming proportionately from shareholders without the payment of any monetary consideration, such number of full and fractional shares as is necessary to maintain a net asset value per share of \$1.00. Each shareholder will be deemed to have agreed to such a redemption in these circumstances by investing in the Account. The Account may seek to achieve the same objective of restoring the net asset value per share to \$1.00 by not declaring dividends from net income on subsequent days until restoration, with the result that the net asset value per share would increase to the extent of positive net income which is not declared as a dividend, or any other method approved by the Board of Directors.

The Board of Directors may revise the above dividend policy, or postpone the payment of dividends, if the Account should have or anticipate any large presently unexpected expense, loss or fluctuation in net assets which in the

opinion of the Board might have a significant adverse affect on shareholders.

ELIGIBLE PURCHASERS AND PURCHASE OF SHARES

Only Eligible Purchasers may purchase shares of the Accounts. Eligible Purchasers are limited to (a) separate accounts of Principal Mutual Life Insurance Company or of other insurance companies; (b) Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof; (c) trustees or other managers of any qualified profit sharing, incentive or bonus plan established by Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof for the employees of such company, subsidiary or affiliate. Such trustees or managers may purchase Account shares only in their capacities as trustees or managers and not for their personal accounts. The Board of Directors of the Fund reserves the right to broaden or limit the designation of Eligible Purchasers.

Each Account serves an underlying investment medium for variable annuity contracts and variable life insurance policies that are funded in separate accounts established by Principal Mutual Life Insurance Company. It is conceivable that in the future it may be disadvantageous for variable life insurance separate accounts and variable annuity separate accounts to invest in the Accounts simultaneously. Although neither Principal Mutual Life Insurance Company nor the Accounts currently foresee any such disadvantages either to variable life insurance policy owners or to variable annuity contract owners, the Fund's Board of Directors intends to monitor events in order to identify any material conflicts between such policy owners and contract owners and to determine what action, if any, should be taken in response thereto. Such action could include the sale of Account shares by one or more of the separate accounts, which could have adverse consequences. Material conflicts could result from, for example, (1) changes in state insurance laws, (2) changes in Federal income tax law, (3) changes in the investment management of an Account, or (4) differences in voting instructions between those given by policy owners and those given by contract owners.

Shares are purchased from Princor Financial Services Corporation, the principal underwriter for the Fund. There are no sales charges on the Accounts' shares. There are no restrictions on amounts to be invested in the Accounts' shares.

Shareholder accounts for each Account will be maintained under an open account system. Under this system, an account is automatically opened and maintained for each new investor. Each investment is confirmed by sending the investor a statement of account showing the current purchase and the total number of shares then owned. The statement of account is treated by each Account as evidence of ownership of Account shares in lieu of stock certificates, and unless written request is made to the Account, stock certificates will not be issued or delivered to investors. Certificates, which can be stolen or lost, are unnecessary except for special purposes such as collateral for a loan. Fractional interests in the Account's shares are reflected to three decimal places in the statement of account, but any stock certificates will be issued only for full shares owned.

If an offer to purchase shares is received by any of the Accounts before the close of trading on the New York Stock Exchange, the shares will be issued at the offering price (net asset value of Account shares) computed on that day. If an offer is received after the close of trading or on a day which is not a trading day, the shares will be issued at the offering price computed on the first succeeding day on which a price is determined. Dividends on the Money Market Account shares will be paid on the next day following the effective date of a purchase order.

SHAREHOLDER RIGHTS

The following information is applicable to each Account of the Principal Variable Contracts Fund, Inc. Each Account share is entitled to one vote either in person or by proxy at all shareholder meetings for that Account. This includes the right to vote on the election of directors, selection of independent accountants and other matters submitted to meetings of shareholders of the Account. Each share has equal rights with every other share of the Account as to dividends, earnings, voting, assets and redemption. Shares are fully paid and non-assessable, and have no preemptive or conversion rights. Shares of an Account may be issued as full or fractional shares, and each fractional share has proportionately the same rights, including voting, as are provided for a full share. Shareholders of the Fund may remove any director with or without cause by the vote of a majority of the votes entitled to be cast at a meeting of all Account shareholders.

The bylaws of the Fund provide that the Board of Directors of the Fund may increase or decrease the aggregate number of shares which the Fund has authority to issue without a shareholder vote.

The bylaws of the Fund also provide that the Fund need not hold an annual meeting of shareholders in any year in which none of the following is required to be acted on by shareholders under the Investment Company Act of 1940: election of directors; approval of investment advisory agreement; ratification of selection of independent public accountants; and approval of distribution

agreement. The Fund intends to hold shareholder meetings only when required by law and at such other times as may be deemed appropriate by the Board of Directors.

Shareholder inquiries should be directed to the Principal Variable Contracts Fund, Inc. at The Principal Financial Group, Des Moines, Iowa 50392.

NON-CUMULATIVE VOTING: The Fund's shares have non-cumulative voting rights which means that the holders of more than 50% of the shares voting for the election of directors of the Fund can elect 100% of the directors if they choose to do so, and in such event, the holders of the remaining shares voting for the election of directors will not be able to elect any directors.

Principal Mutual Life Insurance Company votes each Account's shares allocated to each of its separate accounts registered under the Investment Company Act of 1940 and attributable to variable annuity contracts or variable life insurance policies participating therein in accordance with instructions received from contract or policy holders, participants and annuitants. Other shares of each Account held by each registered separate account, including those for which no timely instructions are received, are voted in proportion to the instructions that are received with respect to contracts or policies participating in that separate account. Shares of each of the Accounts held in the general account of Principal Mutual Life Insurance Company or in its unregistered separate accounts are voted in proportion to the instructions that are received with respect to contracts and policies participating in its registered and unregistered separate accounts. If Principal Mutual determines pursuant to applicable law that an Account's shares held in one or more separate accounts or in its general account need not be voted pursuant to instructions received with respect to participating contracts or policies, it then may vote those Account shares in its own right.

REDEMPTION OF SHARES

Except for the third paragraph below, most of the following discussion of redemption procedures is relevant only to Eligible Purchasers other than variable annuity and variable life separate accounts of Principal Mutual Life Insurance Company, and its wholly-owned subsidiaries.

Each Account will redeem its shares upon request. There is no charge for redemption. If no certificates have been issued, a shareholder simply writes a letter to the appropriate Account requesting redemption of any part or all of the shares. The letter must be signed exactly as the account is registered. If certificates have been issued, they must be properly endorsed and forwarded with the request. If payment is to be made to the registered shareholder or joint shareholders, the Account will not require a signature guarantee as a part of a proper endorsement; otherwise the shareholder's signature must be guaranteed by either a commercial bank, trust company, credit union, savings and loan association, national securities exchange member, or by a brokerage firm. The price at which the shares are redeemed will be the net asset value per share as next computed after the request (with appropriate certificate, if any) is received by the Account in proper and complete form. The amount received for shares upon redemption may be more or less than the cost of such shares depending upon the net asset value at the time of redemption.

Redemption proceeds will be sent within three business days after receipt of request for redemption in proper form. However, each Account may suspend the right of redemption during any period when (a) trading on the New York Stock Exchange is restricted as determined by the Securities and Exchange Commission or such Exchange is closed for other than weekends and holidays; (b) an emergency exists, as determined by the Securities and Exchange Commission, as a result of which (i) disposal by the Account of securities owned by it is not reasonably practicable, or (ii) it is not reasonably practicable for the Account fairly to determine the value of its net assets; or (c) the Commission by order so permits for the protection of security holders of the Account. An Account will redeem only those shares for which it has received good payment. To avoid the inconvenience of such a delay, shares may be purchased with a certified check, bank cashier's check or money order. During the period prior to the time a redemption from the Money Market Account is effective, dividends on such shares will accrue and be payable and the shareholder will be entitled to exercise all other rights of beneficial ownership.

Restricted Transfer: Shares of each of the Accounts may be transferred to an Eligible Purchaser. However, whenever any of the Accounts is requested to transfer shares to other than an Eligible Purchaser, the Account has the right at its election to purchase such shares at their net asset value next effective following the time at which the request for transfer is presented; provided, however, that the Account must notify the transferee or transferees of such shares in writing of its election to purchase such shares within seven (7) days following the date of such request and settlement for such shares shall be made within such seven-day period.

ADDITIONAL INFORMATION

Custodian: Bank of New York, 48 Wall Street, New York, New York 10286, is custodian of the portfolio securities and cash assets of each of the Accounts

except the International Account. The custodian for the International Account is Chase Manhattan Bank, Global Securities Services, Chase Metro Tech Center, Brooklyn, New York 11245. The custodians perform no managerial or policymaking functions for the Fund.

Organization and Share Ownership: Effective January 1, 1998, an Agreement and Plan of Reorganization and Liquidation was implemented under which a Series of the Principal Variable Contracts Fund, Inc. adopted the assets and liabilities of the corresponding Fund. The Funds were incorporated in the state of Maryland on the following dates: Aggressive Growth Fund - August 20, 1993; Asset Allocation Fund - August 20, 1993; Balanced Fund - November 26, 1986; Bond Fund - November 26, 1986; Capital Accumulation Fund - May 26, 1989 (effective November 1, 1989 succeeded to the business of a predecessor Fund that had been incorporated in Delaware on February 6, 1969); Emerging Growth Fund - February 20, 1987; Government Securities Fund - June 7, 1985; Growth Fund August 20, 1993; Money Market Fund - June 10, 1982; and World Fund - August 20, 1993. Principal Mutual Life Insurance Company owns 100% of each Fund's outstanding shares.

Capitalization: The authorized capital stock of each Account consists of 100,000,000 shares of common stock (500,000,000 for Money Market Account), \$.01 par value.

Financial Statements: Copies of the financial statements of each Account will be mailed to each shareholder of that Account semi-annually. At the close of each fiscal year, each Account's financial statements will be audited by a firm of independent auditors. The firm of Ernst & Young LLP has been appointed to audit the financial statements of the Fund for the present fiscal year.

Registration Statement: This Prospectus omits some information contained in the Statement of Additional Information (also known as Part B of the Registration Statement) and Part C of the Registration Statements which the Fund has filed with the Securities and Exchange Commission. The Fund's Statement of Additional Information is hereby incorporated by reference into this Prospectus. A copy of the Fund's Statement of Additional Information can be obtained upon request, free of charge, by writing or telephoning the Fund. You may obtain a copy of Part C of the Registration Statements filed with the Securities and Exchange Commission, Washington, D.C., from the Commission upon payment of the prescribed fees.

Principal Underwriter: Princor Financial Services Corporation, The Principal Financial Group, Des Moines, Iowa 50392-0200, is the principal underwriter for the Principal Variable Contracts Fund, Inc.

The Principal Variable Contracts Fund, Inc. described in this Prospectus is a diversified, open-end management investment company which offers a variety of Accounts each of which was formerly a separately incorporated investment company. Together the Accounts provide the following range of investment objectives:

Growth-Oriented Accounts

Balanced Account (formerly known as Principal Balanced Fund, Inc.) seeks to generate a total return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of the investment objective.

Capital Value Account (formerly known as Principal Capital Accumulation Fund, Inc.) seeks to achieve primarily long-term capital appreciation and secondary growth of investment income through the purchase primarily of common stocks, but the Account may invest in other securities.

MidCap Account (formerly known as Principal Emerging Growth Fund, Inc.) seeks to achieve capital appreciation by investing primarily in securities of emerging and other growth-oriented companies.

Income-Oriented Accounts

Bond Account (formerly known as Principal Bond Fund, Inc.) seeks to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

High Yield Account (formerly known as Principal High Yield Fund, Inc.) seeks high current income. Capital growth is a secondary objective when consistent with the objective of high current income. The Account seeks to achieve its objective primarily through the purchase of high yielding, lower or non-rated fixed income securities commonly referred to as "junk bonds." Bonds of this type are considered to be speculative with regard to payment of interest and return of principal. Purchasers should carefully assess the risks associated with an investment in this Account.

Money Market Account

Money Market Account (formerly known as Principal Money Market Fund, Inc.) seeks as high a level of income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing all of its assets in a portfolio of money market instruments.

An investment in any of the Accounts is neither insured nor guaranteed by the U.S. Government. There can be no assurance the Money Market Account will be able to maintain a stable net asset value of \$1.00 per share.

This Prospectus concisely states information about the Principal Variable Contracts Fund, Inc. that an investor ought to know before investing. It should be read and retained for future reference.

Additional information about the Fund has been filed with the Securities and Exchange Commission, including a document called Statement of Additional Information, dated December 31, 1997. The Statement of Additional Information is incorporated by reference into this Prospectus. A copy of the Statement of Additional Information can be obtained free of charge by writing or telephoning:

Principal Variable Contracts Fund, Inc.
A Member of
The Principal Financial Group
Des Moines, IA 50392
Telephone 1-800-247-4123

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Date of this Prospectus is December 31, 1997.

TABLE OF CONTENTS

	Page
Summary	3
Financial Highlights.....	5
Investment Objectives, Policies and Restrictions.....	10
Certain Investment Policies and Restrictions.....	15
Manager and Sub-Advisor	16
Duties Performed by the Manager and Sub-Advisor.....	17
Managers' Comments.....	18
Determination of Net Asset Value of Account Shares.....	21
Performance Calculation.....	21
Income Dividends, Distributions and Tax Status.....	22
Eligible Purchasers and Purchase of Shares.....	23
Shareholder Rights	23
Redemption of Shares.....	24
Additional Information.....	25

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, shares of the Fund in any jurisdiction in which such sale, offer to sell, or solicitation may not be lawfully made. No dealer, salesperson, or other person has been authorized to give any information or to make any representations, other than those contained in this Prospectus, in connection with the offer contained in this Prospectus, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Fund or the Fund's Managers.

SUMMARY

The following summarized information should be read in conjunction with the detailed information appearing elsewhere in this Prospectus.

The Principal Variable Contracts Fund, Inc. ("Fund") is an incorporated, open-end diversified management investment company offering multiple accounts.

Who may purchase shares of the Accounts?

Shares of the Accounts are available only to Eligible Purchasers which are limited to: (a) separate accounts of Principal Mutual Life Insurance Company or of other insurance companies; (b) Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof; (c) trustees or other managers of any qualified profit sharing, incentive or bonus plan established by Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof for the employees of such company, subsidiary or affiliate. The Board of Directors of the Fund reserves the right to broaden or limit the designation of Eligible Purchasers.

What do the Accounts offer investors?

Professional Investment Management: Experienced securities analysts provide

each Account with professional investment management.

Diversification: Each Account will diversify by investing in securities issued by a number of issuers doing business in a variety of industries and/or located in different geographical regions. Diversification reduces investment risk.

Economies of Scale: Pooling individual shareholder's investments in any of the Accounts creates administrative efficiencies.

Redeemability: Upon request each Account will redeem its shares and promptly pay the investor the current net asset value of the shares redeemed. See "Redemption of Shares."

What are the Accounts' investment objectives?

Growth-Oriented Accounts

The investment objective of Balanced Account is to seek to generate a total return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of this objective. The Account intends to pursue a flexible investment policy in seeking to achieve this investment objective.

The primary investment objective of Capital Value Account is long-term capital appreciation and its secondary investment objective is growth of investment income. The Account seeks to achieve its investment objectives through the purchase primarily of common stocks, but the Account may invest in other securities.

The investment objective of MidCap Account is to achieve capital appreciation by investing primarily in securities of emerging and other growth-oriented companies.

Income-Oriented Accounts

The investment objective of Bond Account is to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

The primary investment objective of High Yield Account is to seek high current income. Capital growth is a secondary objective when consistent with the objective of high current income. The Account will invest primarily in high yielding, lower or non-rated fixed income securities.

Money Market Account

The investment objective of Money Market Account is to seek as high a level of current income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing all of its assets in a portfolio of money market instruments.

There can be no assurance that the investment objectives of any of the Accounts will be realized. See "Investment Objectives, Policies and Restrictions."

Who serves as Manager for the Accounts?

Principal Management Corporation (formerly known as Princor Management Corporation) ("Manager"), a corporation organized in 1969 by Principal Mutual Life Insurance Company, is the Manager for each of the Accounts. It is also the dividend disbursing and transfer agent for the Fund. In order to provide investment advisory services for the Balanced Account, Capital Value Account and MidCap Account, the Manager has executed a sub-advisory agreement with Invista Capital Management, Inc. ("Invista" or "Sub-Advisor"). See "Manager and Sub-Advisor."

What fees and expenses apply to ownership of shares of the Accounts?

The following table depicts fees and expenses applicable to the purchase and ownership of shares of each of the Accounts.

ANNUAL ACCOUNT OPERATING EXPENSES (As a Percentage of Average Net Assets)			
Account	Management Fee	Other Expenses	Total Operating Expenses
Balanced Account	.60%	.03%	.63%
Bond Account	.50%	.03%	.53%
Capital Value Account	.48%	.01%	.49%
High Yield Account	.60%	.10%	.70%
MidCap Account	.64%	.02%	.66%
Money Market Account	.50%	.06%	.56%

EXAMPLE

You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:

Account	Period (in years)			
	1	3	5	10
Balanced Account	\$6	\$20	\$35	\$79
Bond Account	\$5	\$17	\$30	\$66
Capital Value Account	\$5	\$16	\$27	\$62
High Yield Account	\$7	\$22	\$39	\$87
MidCap Account	\$7	\$21	\$37	\$82
Money Market Account	\$6	\$18	\$31	\$70

This Example is based on the Annual Account Operating expenses for each Account described above. Please remember that the Example should not be considered a representation of past or future expenses and that actual expenses may be greater or less than shown.

The purpose of the above table is to assist you in understanding the various expenses that an investor in the Accounts will bear directly or indirectly. See "Duties Performed by the Manager."

FINANCIAL HIGHLIGHTS

The following financial highlights are derived from financial statements which, for the five years in the period ended December 31, 1996, have been audited by Ernst & Young LLP, independent auditors, whose report has been incorporated by reference herein. The financial highlights should be read in conjunction with the financial statements, related notes, and other financial information incorporated by reference herein. Audited financial statements may be obtained by shareholders, without charge, by telephoning 1-800-451-5447.

<TABLE>
<CAPTION>

<S>	Income from Investment Operations				Less Distributions			
	Net Asset Value at Beginning of Period <C>	Net Investment Income <C>	Net Realized and Unrealized Gain (Loss) on Investments <C>	Total from Investment Operations <C>	Dividends from Net Investment Income <C>	Distributions from Capital Gains <C>	Excess Distributions from Capital Gains <C>	Total Distributions <C>
Balanced Account (a) (b)								
Six Months Ended June 30, 1997 (c)	\$14.44	\$.22	\$ 1.19	\$1.41	--	(.01)	--	\$ (.01)
Year Ended December 31,								
1996	13.97	.40	1.41	1.81	\$(.40)	(.94)	--	(1.34)
1995	11.95	.45	2.44	2.89	(.45)	(.42)	--	(.87)
1994	12.77	.37	(.64)	(.27)	(.37)	(.18)	--	(.55)
1993	12.58	.42	.95	1.37	(.42)	(.76)	--	(1.18)
Six Months Ended December 31, 1992 (d)	12.93	.23	.75	.98	(.47)	(.86)	--	(1.33)
Year Ended June 30,								
1992	11.33	.47	1.61	2.08	(.48)	--	--	(.48)
1991	10.79	.54	.59	1.13	(.57)	(.02)	--	(.59)
1990	11.89	.60	(.48)	.12	(.63)	(.59)	--	(1.22)
1989	11.75	.62	.30	.92	(.55)	(.23)	--	(.78)
Period Ended June 30, 1988 (g)	10.00	.27	1.51	1.78	(.03)	--	--	(.03)
Bond Account (b)								
Six Months Ended June 30, 1997 (c)	11.33	.38	(.04)	.34	--	--	--	--
Year Ended December 31,								
1996	11.73	.68	(.40)	.28	(.68)	--	--	(.68)
1995	10.12	.62	1.62	2.24	(.63)	--	--	(.63)
1994	11.16	.72	(1.04)	(.32)	(.72)	--	--	(.72)
1993	10.77	.88	.38	1.26	(.87)	--	--	(.87)
Six Months Ended December 31, 1992 (d)	11.08	.45	.13	.58	(.89)	--	--	(.89)
Year Ended June 30,								
1992	10.64	.91	.46	1.37	(.93)	--	--	(.93)
1991	10.72	.94	(.06)	.88	(.96)	--	--	(.96)
1990	10.92	.95	(.21)	.74	(.94)	--	--	(.94)
1989	10.68	1.15	.17	1.32	(.96)	(.12)	--	(1.08)
Period Ended June 30, 1988 (g)	10.00	.32	.40	.72	(.04)	--	--	(.04)
Capital Value Account (b)								
Six Months Ended June 30, 1997 (c)	29.84	.32	3.81	4.13	--	(1.07)	--	(1.07)
Year Ended December 31,								

1996	27.80	.57	5.82	6.39	(.58)	(3.77)	--	(4.35)
1995	23.44	.60	6.69	7.29	(.60)	(2.33)	--	(2.93)
1994	24.61	.62	(.49)	.13	(.61)	(.69)	--	(1.30)
1993	25.19	.61	1.32	1.93	(.60)	(1.91)	--	(2.51)
Six Months Ended December 31, 1992(d)	26.03	.31	1.84	2.15	(.64)	(2.35)	--	(2.99)
Year Ended June 30,								
1992	23.35	.65	2.70	3.35	(.67)	--	--	(.67)
1991	22.48	.74	1.22	1.96	(.79)	(.30)	--	(1.09)
1990	23.63	.79	.14	.93	(.81)	(1.27)	--	(2.08)
1989	23.23	.77	1.32	2.09	(.68)	(1.01)	--	(1.69)
1988	27.51	.60	(1.50)	(.90)	(.69)	(2.69)	--	(3.38)
1987	25.48	.40	4.46	4.86	(.50)	(2.33)	--	(2.83)

</TABLE>

<TABLE>

<CAPTION>

Ratios/Supplemental Data

<S>	Net Asset	Total	Net Assets at	Ratio of	Ratio of Net	Portfolio	Average
	Value at			Expenses to	Investment		
	End of	Return	End of Period	Average	Income to	Rate	Rate
	Period	<C>	(in thousands)	Net Assets	Net Assets	<C>	<C>
	<C>		<C>	<C>	<C>		
Balanced Account (a) (b)							
Six Months Ended June 30, 1997(c)	\$15.84	9.74%(e)	\$113,288	.62%(f)	3.19%(f)	33.5%(f)	\$.0374
Year Ended December 31,							
1996	14.44	13.13%	93,158	.63%	3.45%	22.6%	.0417
1995	13.97	24.58%	45,403	.66%	4.12%	25.7%	N/A
1994	11.95	(2.09)%	25,043	.69%	3.42%	31.5%	N/A
1993	12.77	11.06%	21,399	.69%	3.30%	15.8%	N/A
Six Months Ended December 31, 1992(d)	12.58	8.00%(e)	18,842	.73%(f)	3.71%(f)	38.4%(f)	N/A
Year Ended June 30,							
1992	12.93	18.78%	17,344	.72%	3.80%	26.6%	N/A
1991	11.33	11.36%	14,555	.73%	5.27%	27.1%	N/A
1990	10.79	.87%	13,016	.74%	5.52%	33.1%	N/A
1989	11.89	8.55%	12,751	.74%	5.55%	29.3%	N/A
Period Ended June 30, 1988(g)	11.75	17.70%(e)	11,469	.80%(f)	4.96%(f)	41.7%(f)	N/A
Bond Account (b)							
Six Months Ended June 30, 1997(c)	11.67	3.00%(e)	71,812	.52%(f)	7.07%(f)	8.7%(f)	N/A
Year Ended December 31,							
1996	11.33	2.36%	63,387	.53%	7.00%	1.7%	N/A
1995	11.73	22.17%	35,878	.56%	7.28%	5.9%	N/A
1994	10.12	(2.90)%	17,108	.58%	7.86%	18.2%	N/A
1993	11.16	11.67%	14,387	.59%	7.57%	14.0%	N/A
Six Months Ended December 31, 1992(d)	10.77	5.33%(e)	12,790	.62%(f)	8.10%(f)	6.7%(f)	N/A
Year Ended June 30,							
1992	11.08	13.57%	12,024	.62%	8.47%	6.1%	N/A
1991	10.64	8.94%	10,552	.63%	9.17%	2.7%	N/A
1990	10.72	7.15%	9,658	.64%	9.09%	0.0%	N/A
1989	10.92	13.51%	9,007	.64%	9.18%	12.2%	N/A
Period Ended June 30, 1988(g)	10.68	6.06%(e)	17,598	.58%(f)	8.11%(f)	68.8%(f)	N/A
Capital Value Account (b)							
Six Months Ended June 30, 1997(c)	32.90	14.28%(e)	249,077	.48%(f)	2.22%(f)	29.0%(f)	.0427
Year Ended December 31,							
1996	29.84	23.50%	205,019	.49%	2.06%	48.5%	.0426
1995	27.80	31.91%	135,640	.51%	2.25%	49.2%	N/A
1994	23.44	.49%	120,572	.51%	2.36%	44.5%	N/A
1993	24.61	7.79%	128,515	.51%	2.49%	25.8%	N/A
Six Months Ended December 31, 1992(d)	25.19	8.81%(e)	105,355	.55%(f)	2.56%(f)	39.7%(f)	N/A
Year Ended June 30,							
1992	26.03	14.53%	94,596	.54%	2.65%	34.8%	N/A
1991	23.35	9.46%	76,537	.53%	3.53%	14.0%	N/A
1990	22.48	3.94%	74,008	.56%	3.56%	30.2%	N/A
1989	23.63	10.02%	68,132	.57%	3.53%	23.5%	N/A
1988	23.23	(2.67)%	62,696	.60%	2.76%	26.7%	N/A
1987	27.51	22.17%	57,478	.63%	1.99%	16.1%	N/A

</TABLE>

Notes to financial highlights

(a) Effective May 1, 1994, the name of Principal Managed Fund, Inc. was changed to Principal Balanced Fund, Inc.

(b) Effective January 1, 1998, the following Fund names were changed:
Principal Balanced Fund, Inc. became Balanced Account
Principal Bond Fund, Inc. became Bond Account
Principal Capital Accumulation Fund, Inc. became Capital Value Account

(c) Unaudited.

(d) Effective July 1, 1992 the fund changed its fiscal year end from June 30 to December 31.

(e) Total return amounts have not been annualized.

(f) Computed on an annualized basis.

(g) Period from December 18, 1987, date shares first offered to eligible purchasers, through June 30, 1988. Net investment income aggregating \$.01 per share for the period from the initial purchase of shares on December 10, 1987 through December 17, 1987 was recognized, all of which was distributed to the Account's sole stockholder, Principal Mutual Life Insurance Company. This represented activity of the Account prior to the initial offering of shares to eligible purchasers.

<TABLE>
<CAPTION>

	Income from Investment Operations				Less Distributions			
	Net Asset Value at Beginning of Period	Net Investment Income	Net Realized and Unrealized Gain (Loss) on Investments	Total from Investment Operations	Dividends from Net Investment Income	Distri- butions from Capital Gains	Excess Distri- butions from Capital Gains	Total Distri- butions
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
High Yield Account (a)								
Six Months Ended June 30, 1997(b)	\$ 8.72	\$.38	\$.09	\$.47	\$ (.01)	--	--	\$ (.01)
Year Ended December 31,								
1995	7.91	.76	.51	1.27	(.77)	\$(.02)	--	(.79)
1994	8.62	.77	(.72)	.05	(.76)	--	--	(.76)
1993	8.38	.80	.23	1.03	(.79)	--	--	(.79)
Six Months Ended December 31, 1992(c)	8.93	.45	(.10)	.35	(.90)	--	--	(.90)
Year Ended June 30,								
1992	8.28	.92	.66	1.58	(.93)	--	--	(.93)
1991	8.96	.99	(.53)	.46	(1.14)	--	--	(1.14)
1990	10.37	1.21	(1.35)	(.14)	(1.22)	(.05)	--	(1.27)
1989	11.01	1.23	(.45)	.78	(1.21)	(.21)	--	(1.42)
Period Ended June 30, 1988(f)	10.00	.67	.49	1.16	(.15)	--	--	(.15)
MidCap Account (a) (e)								
Six Months Ended June 30, 1997(b)	29.74	.15	3.53	3.68	--	(.10)	--	(.10)
Year Ended December 31,								
1996	25.33	.22	5.07	5.29	(.22)	(.66)	--	(.88)
1995	19.97	.22	5.57	5.79	(.22)	(.21)	--	(.43)
1994	20.79	.14	.03	.17	(.14)	(.85)	--	(.99)
1993	18.91	.17	3.47	3.64	(.17)	(1.59)	--	(1.76)
Six Months Ended December 31, 1992(c)	15.97	.10	3.09	3.19	(.21)	(.04)	--	(.25)
Year Ended June 30,								
1992	13.93	.21	2.04	2.25	(.21)	--	--	(.21)
1991	14.25	.20	.50	.70	(.23)	(.79)	--	(1.02)
1990	13.35	.24	.87	1.11	(.20)	(.01)	--	(.21)
1989	12.85	.16	1.35	1.51	(.11)	(.90)	--	(1.01)
Period Ended June 30, 1988(g)	10.00	.05	2.83	2.88	(.03)	--	--	(.03)
Money Market Account (a)								
Six Months Ended June 30, 1997(b)	1.000	.025	--	.025	(.025)	--	--	(.025)
Year Ended December 31,								
1996	1.000	.049	--	.049	(.049)	--	--	(.049)
1995	1.000	.054	--	.054	(.054)	--	--	(.054)
1994	1.000	.037	--	.037	(.037)	--	--	(.037)
1993	1.000	.027	--	.027	(.027)	--	--	(.027)
Six Months Ended December 31, 1992(c)	1.000	.016	--	.016	(.016)	--	--	(.016)
Year Ended June 30,								
1992	1.000	.046	--	.046	(.046)	--	--	(.046)
1991	1.000	.070	--	.070	(.070)	--	--	(.070)
1990	1.000	.077	--	.077	(.077)	--	--	(.077)
1989	1.000	.083	--	.083	(.083)	--	--	(.083)
1988	1.000	.064	--	.064	(.064)	--	--	(.064)
1987	1.000	.057	--	.057	(.057)	--	--	(.057)

</TABLE>
<TABLE>
<CAPTION>

Ratios/Supplemental Data

Ratio of Net

	Net Asset Value at End of Period	Total Return	Net Assets at End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Investment Income to Average Net Assets	Portfolio Turnover Rate	Average Commission Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
High Yield Account(a)							
Six Months Ended June 30, 1997(b)	\$ 9.18	5.36% (d)	\$14,525	.69% (e)	8.64% (e)	45.7% (e)	N/A
Year Ended December 31,							
1996	8.72	13.13%	13,740	.70%	9.21%	32.0%	N/A
1995	8.39	16.08%	11,830	.73%	9.09%	35.1%	N/A
1994	7.91	.62%	9,697	.73%	9.02%	30.6%	N/A
1993	8.62	12.31%	9,576	.74%	8.80%	28.7%	N/A
Six Months Ended December 31, 1992(c)	8.38	4.06% (d)	8,924	.77% (e)	10.33% (e)	20.6% (e)	N/A
Year Ended June 30,							
1992	8.93	20.70%	8,556	.77%	11.00%	31.3%	N/A
1991	8.28	6.35%	7,085	.82%	12.58%	6.4%	N/A
1990	8.96	(1.46)%	6,643	.83%	13.07%	24.2%	N/A
1989	10.37	7.88%	6,741	.95%	11.89%	27.8%	N/A
Period Ended June 30, 1988(f)	11.01	11.25% (d)	6,703	.78% (e)	11.71% (e)	58.2% (e)	N/A
MidCap Account(a) (e)							
Six Months Ended June 30, 1997(b)	33.32	12.39% (d)	180,072	.65% (e)	1.05% (e)	10.9% (e)	.0390
Year Ended December 31,							
1996	29.74	21.11%	137,161	.66%	1.07%	8.8%	.0379
1995	25.33	29.01%	58,520	.70%	1.23%	13.1%	N/A
1994	19.97	.78%	23,912	.74%	1.15%	12.0%	N/A
1993	20.79	19.28%	12,188	.78%	.89%	22.4%	N/A
Six Months Ended December 31, 1992(c)	18.91	20.12% (d)	9,693	.81% (e)	1.24% (e)	8.6% (e)	N/A
Year Ended June 30,							
1992	15.97	16.19%	7,829	.82%	1.33%	10.1%	N/A
1991	13.93	5.72%	6,579	.89%	1.70%	11.1%	N/A
1990	14.25	8.32%	6,067	.88%	1.74%	17.9%	N/A
1989	13.35	13.08%	5,509	.90%	1.31%	21.4%	N/A
Period Ended June 30, 1988(g)	12.85	28.72% (d)	4,857	.94% (e)	.64% (e)	4.6% (e)	N/A
Money Market Account(a)							
Six Months Ended June 30, 1997(b)	1.000	2.50% (d)	43,688	.55% (e)	5.06% (e)	N/A	N/A
Year Ended December 31,							
1996	1.000	5.07%	46,244	.56%	5.00%	N/A	N/A
1995	1.000	5.59%	32,670	.58%	5.32%	N/A	N/A
1994	1.000	3.76%	29,372	.60%	3.81%	N/A	N/A
1993	1.000	2.69%	22,753	.60%	2.64%	N/A	N/A
Six Months Ended December 31, 1992(c)	1.000	1.54% (d)	27,680	.59% (e)	3.10% (e)	N/A	N/A
Year Ended June 30,							
1992	1.000	4.64%	25,194	.57%	4.54%	N/A	N/A
1991	1.000	7.20%	26,509	.56%	6.94%	N/A	N/A
1990	1.000	8.37%	26,588	.57%	8.05%	N/A	N/A
1989	1.000	8.59%	20,707	.61%	8.40%	N/A	N/A
1988	1.000	6.61%	14,571	.64%	6.39%	N/A	N/A
1987	1.000	5.78%	11,902	.65%	5.68%	N/A	N/A

</TABLE>

Notes to financial highlights

- (a) Effective January 1, 1998, the following Fund names were changed:
Principal Emerging Growth Fund, Inc. became MidCap Account
Principal High Yield Fund, Inc. became High Yield Account
Principal Money Market Fund, Inc. became Money Market Account
- (b) Unaudited.
- (c) Effective July 1, 1992 the fund changed its fiscal year end from June 30 to December 31.
- (d) Total return amounts have not been annualized.
- (e) Computed on an annualized basis.
- (f) Effective May 1, 1992, the name of Principal Aggressive Growth Fund, Inc. was changed to Principal Emerging Growth Fund, Inc.
- (g) Period from December 18, 1987, date shares first offered to eligible purchasers, through June 30, 1988. Net investment income aggregating \$.01 per share for the period from the initial purchase of shares on December 10, 1987 through December 17, 1987 was recognized, all of which was distributed to the Account's sole stockholder, Principal Mutual Life Insurance Company. This represented activity of the Account prior to the initial offering of shares to eligible purchasers.

INVESTMENT OBJECTIVES, POLICIES AND RESTRICTIONS

The investment objectives and policies of each Account are described below. There can be no assurance that the objectives of the Accounts will be realized.

GROWTH-ORIENTED ACCOUNTS

The Fund includes two Accounts which seek capital appreciation through investments in equity securities (Capital Value Account and MidCap Account) and one Account which seeks a total investment return including both capital appreciation and income through investments in equity and debt securities (Balanced Account). These three Accounts are collectively referred to as the Growth-Oriented Accounts.

The Growth-Oriented Accounts may invest in the following equity securities: common stocks; preferred stocks and debt securities that are convertible into common stock, that carry rights or warrants to purchase common stock or that carry rights to participate in earnings; rights or warrants to subscribe to or purchase any of the foregoing securities; and American Depository Receipts based on any of the foregoing securities. The Capital Value and MidCap Accounts will seek to be fully invested under normal conditions in equity securities. When in the opinion of the Manager current market or economic conditions warrant, a Growth-Oriented Account may for temporary defensive purposes place all or a portion of its assets in cash, on which the Account would earn no income, cash equivalents, bank certificates of deposit, bankers acceptances, repurchase agreements, commercial paper, commercial paper master notes which are floating rate debt instruments without a fixed maturity, United States Government securities, and preferred stocks and debt securities, whether or not convertible into or carrying rights for common stock. A Growth-Oriented Account may also maintain reasonable amounts in cash or short-term debt securities for daily cash management purposes or pending selection of particular long-term investments.

Balanced Account

The investment objective of the Balanced Account is to generate a total return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of the investment objective. The term "reasonable risks" refers to investment decisions that in the Manager's judgment do not present a greater than normal risk of loss in light of current or anticipated future market and economic conditions, trends in yields and interest rates, and fiscal and monetary policies.

In seeking to achieve the investment objective, the Account invests primarily in growth and income-oriented common stocks (including securities convertible into common stocks), corporate bonds and debentures and short-term money market instruments. The Account may also invest in other equity securities, and in debt securities issued or guaranteed by the United States Government and its agencies or instrumentalities. The Account seeks to generate real (inflation plus) growth during favorable investment periods and may emphasize income and capital preservation strategies during uncertain investment periods. The Manager will seek to minimize declines in the net asset value per share. However, there is no guarantee that the Manager will be successful in achieving this goal.

The portions of the Account's total assets invested in equity securities, debt securities and short-term money market instruments are not fixed, although ordinarily 40% to 70% of the Account's portfolio will be invested in equity securities with the balance of the portfolio invested in debt securities. The investment mix will vary from time to time depending upon the judgment of the Manager as to general market and economic conditions, trends in investment yields and interest rates and changes in fiscal or monetary policies.

The Account may invest in all types of common stocks and other equity investments, without regard to any objective investment criteria such as size of the issue or issuer, exchange listing or seasoning. The Account may invest in both exchange-listed and over-the-counter securities, in small or large companies, and in well-established or unseasoned companies. Also, the Account's investments in corporate bonds and debentures and money market instruments are not restricted by credit ratings or other objective investment criteria, except with respect to bank certificates of deposit as set forth below. Some of the fixed income securities in which the Account may invest may be considered to include speculative characteristics and the Account may purchase such securities that are in default but does not currently intend to invest more than 5% of its assets in securities rated below BBB by Standard & Poor's or Baa by Moody's. See the discussion of the High Yield Account for information concerning risks associated with below-investment grade bonds. The Account will not concentrate its investments in any industry.

In selecting common stocks, the Manager seeks companies which the Manager believes have predictable earnings increases and which, based on their future growth prospects, may be currently undervalued in the market place. During periods when the Manager determines that general economic conditions are favorable, it will generally purchase common stocks with the objective of long-term capital appreciation. From time to time, and in periods of economic

uncertainty, the Manager may purchase common stocks with the expectation of price appreciation over a relatively short period of time.

To achieve its investment objective, the Account may at times emphasize the generation of interest income by investing in short, medium or long-term debt securities. Investment in debt securities may also be made with a view to realizing capital appreciation when the Manager believes that declining interest rates may increase market values. The Account may also purchase "deep discount bonds," i.e., bonds which are selling at a substantial discount from their face amount, with a view to realizing capital appreciation.

The short-term money market investments in which the Account may invest include the following: U.S. Treasury bills, bank certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper and commercial paper master notes which are floating rate debt instruments without a fixed maturity. The Account will only invest in domestic bank certificates of deposit issued by banks which are members of the Federal Reserve System that have total deposits in excess of one billion dollars.

The United States government securities in which the Account may invest include U.S. Treasury obligations and obligations of certain agencies, such as the Government National Mortgage Association, which are supported by the full faith and credit of the United States, as well as obligations of certain other Federal agencies or instrumentalities, such as the Federal National Mortgage Association, Federal Land Banks and the Federal Farm Credit Administration, which are backed only by the right of the issuer to borrow limited funds from the U.S. Treasury, by the discretionary authority of the U.S. Government to purchase such obligations or by the credit of the agency or instrumentality itself.

Capital Value Account

The primary objective of the Capital Value Account is long-term capital appreciation. A secondary objective is growth of investment income.

The Account will invest primarily in common stocks, but it may invest in other securities. In making selections for the Account's investment portfolio, the Manager will use an approach described broadly as that of fundamental analysis, which is discussed in the Statement of Additional Information. To achieve the investment objective, Invista will invest in securities that have "value" characteristics. This process is known as "value investing." Value investing is purchasing securities of companies with above average dividend yields and below average price to earnings (P/E) ratios. Securities chosen for investment may include those of companies which the Manager believes can reasonably be expected to share in the growth of the nation's economy over the long term.

MidCap Account

The objective of the MidCap Account is to achieve capital appreciation. The strategy of this Account is to invest primarily in the common stocks and securities (both debt and preferred stock) convertible into common stocks of emerging and other growth-oriented companies that, in the judgment of the Manager, are responsive to changes within the marketplace and have the fundamental characteristics to support growth. In pursuing its objective of capital appreciation, the MidCap Account may invest, for any period of time, in any industry, in any kind of growth-oriented company, whether new and unseasoned or well known and established. Under normal market conditions, the Account will invest at least 65% of its assets in securities of companies with market capitalizations in the \$1 billion to \$10 billion range. The Account may invest up to 10% of its assets in securities of foreign issuers. For a description of certain investment risks associated with foreign securities, see "Risk Factors."

There can be, of course, no assurance that the Account will attain its objective. Investment in emerging and other growth-oriented companies may involve greater risk than investment in other companies. The securities of growth-oriented companies may be subject to more abrupt or erratic market movements, and many of them may have limited product lines, markets, financial resources or management. Because of these factors and of the length of time that may be required for full development of the growth prospects of some of the companies in which the Account invests, the Account believes that its shares are suitable only for persons who are prepared to experience above-average fluctuations in net asset value, to assume above-average investment risk in search of above-average return, and to consider the Account as a long-term investment and not as a vehicle for seeking short-term profits. Moreover, since the Account will not be seeking current income, investors should not view a purchase of Account shares as a complete investment program.

INCOME-ORIENTED ACCOUNTS

The Fund currently includes two Accounts which seek a high level of income through investments in fixed-income securities (Bond Account and High Yield Account) collectively referred to as the "Income-Oriented Accounts." An

investment in any of the Income-Oriented Accounts involves market risks associated with movements in interest rates. The market value of the Accounts' investments will fluctuate in response to changes in interest rates and other factors. During periods of falling interest rates, the values of outstanding long-term fixed-income securities generally rise. Conversely, during periods of rising interest rates, the values of such securities generally decline. Changes by recognized rating agencies in their ratings of any fixed-income security and in the ability of an issuer to make payments of interest and principal may also affect the value of these investments. Changes in the value of portfolio securities will affect the Accounts' net asset values but will not affect cash income derived from the securities unless a change results from a failure of an issuer to pay interest or principal when due. Each Account's rating limitations apply at the time of acquisition of a security, and any subsequent change in a rating by a rating service will not require elimination of a security from the Account's portfolio. The Statement of Additional Information contains descriptions of ratings of Moody's Investors Service, Inc. ("Moody's") and Standard and Poor's Corporation ("S&P").

Bond Account

The investment objective of the Bond Account is to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

In seeking to achieve the investment objective, the Account will predominantly invest in marketable fixed-income securities. Investments will be made generally on a long-term basis, but the Account may make short-term investments from time to time as deemed prudent by the Manager. Longer maturities typically provide better yields but will subject the Account to a greater possibility of substantial changes in the values of its portfolio securities as interest rates change.

Under normal circumstances, the Account will invest at least 65% of its assets, exclusive of cash items, in one or more of the following kinds of securities: (i) corporate debt securities and taxable municipal obligations, which at the time of purchase have an investment grade rating within the four highest grades used by Standard & Poor's Corporation (AAA, AA, A or BBB) or by Moody's Investors Service, Inc. (Aaa, Aa, A or Baa) or which, if lower-rated or nonrated, are comparable in quality in the opinion of the Account's Manager; (ii) similar Canadian corporate, Provincial and Federal Government securities payable in U.S. funds; and (iii) securities issued or guaranteed by the United States Government or its agencies or instrumentalities. The balance of the Account's assets may be invested in other fixed income securities, including domestic and foreign corporate debt securities or preferred stocks, in common stocks that provide returns that compare favorably with the yields on fixed income investments, and in common stocks acquired upon conversion of debt securities or preferred stocks or upon exercise of warrants acquired with debt securities or otherwise and foreign government securities. The debt securities and preferred stocks in which the Account invests may be convertible or nonconvertible. The Account does not intend to purchase debt securities rated lower than Ba3 by Moody's or BB - by S & P (bonds which are judged to have speculative elements; their future cannot be considered as well-assured). See the discussion of the High Yield Account for information concerning risks associated with below investment grade bonds.

During the year ended December 31, 1996, the percentage of the Account's portfolio securities invested in the various ratings established by Moody's based upon the weighted average ratings of the portfolio, was as follows:

Moody's Rating	Portfolio Percentage
Aaa	.18%
Aa	.81%
A	24.05%
Baa	68.04%
Ba	6.92%

* The above percentages for A rated securities include .57% unrated securities which have been determined by the Manager to be of comparable quality.

Cash equivalents in which the Account invests include corporate commercial paper rated A-1+, A-1 or A-2 by Standard & Poor's or P-1 or P-2 by Moody's, unrated commercial paper issued by corporations with outstanding debt securities rated in the four highest grades by Standard & Poor's and Moody's and bank certificates of deposit and bankers' acceptances issued or guaranteed by national or state banks and repurchase agreements considered by the Account to have investment quality. Under unusual market or economic conditions, the Account may for temporary defense purposes invest up to 100% of its assets in cash or cash equivalents.

High Yield Account

The High Yield Account's primary investment objective is high current income. Capital growth is a secondary objective when consistent with the objective of high current income. This Account is designed for investors willing

to assume additional risk in return for above average income.

In seeking to attain the Account's objective of high current income, the Account invests primarily in high yielding, lower or non-rated (high risk) fixed-income securities, commonly known as "junk bonds," constituting a diversified portfolio which the Account Manager believes does not involve undue risk to income or principal. Normally, at least 80% of the Account's assets will be invested in debt securities, convertible securities (both debt and preferred stock) or preferred stocks that are consistent with its primary investment objective of high current income. The Account's remaining assets may be held in cash or cash equivalents, or invested in common stocks and other equity securities when these types of investments are consistent with the objective of high current income.

The Account seeks to invest its assets in securities rated Ba1 or lower by Moody's Investors Service, Inc. ("Moody's") or BB+ or lower by Standard & Poor's Corporation ("S&P") or in unrated securities which the Account's Manager believes are of comparable quality. These securities are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and to repay principal in accordance with the terms of the obligation. The Account will not invest in securities rated Caa or lower by Moody's and CCC or lower by S&P.

The rating services' descriptions of securities rating categories in which the Account may normally invest are as follows:

Moody's Investors Service, Inc. Bond Ratings - Ba: Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class. B: Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa: Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Moody's may apply numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa through B in its bond rating system. The modifier 1 indicates that the security ranks in the high end of its generic rating category; the modifier 2 indicates a mid-range ranking; and a modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Standard & Poor's Corporation Bond Ratings - BB, B, CCC, CC: Debt rated "BB", "B", "CCC" and "CC" is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "CC" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

Plus (+) or Minus (-): The ratings from "AA" to "BB" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

The higher-yielding, lower-rated securities in which the High Yield Account invests present special risks to investors. The market value of lower-rated securities may be more volatile than that of higher-rated securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than more highly rated securities, which reflect primarily fluctuations in general levels of interest rates. Periods of economic uncertainty and change can be expected to result in increased volatility in the market value of lower-rated securities. Further, such securities may be subject to greater risks of loss of income and principal, particularly in the event of adverse economic changes or increased interest rates, because their issuers generally are not as financially secure or as creditworthy as issuers of higher-rated securities. Additionally, to the extent that there is not a national market system for secondary trading of lower-rated securities, there may be a low volume of trading in such securities which may make it more difficult to value or sell those securities than higher-rated securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of high yield securities, especially in a thinly traded market.

Investors should recognize that the market for higher yielding, lower-rated securities is a relatively recent development that has not been tested by an economic recession. An economic downturn may severely disrupt the market for such securities and cause financial stress to the issuers which may adversely affect the value of the securities held by the High Yield Account and the ability of the issuers of the securities held by it to pay principal and interest. A default by an issuer may result in the Account incurring additional expenses to seek recovery of the amounts due it.

Some of the securities in which the Account invests contain call provisions. If the issuer of such a security exercises a call provision in a declining interest rate market, the Account would have to replace the security with a lower-yielding security, resulting in a decreased return for investors. Further, a higher-yielding security's value will decrease in a rising interest rate market, which will be reflected in the Account's net asset value per share.

Investors should carefully consider their ability to assume the risks of investing in lower-rated securities before making an investment in the High Yield Account and should be prepared to maintain their investment during periods of adverse market conditions. Investors should not rely on the Account for their short-term financial needs.

The Account seeks to minimize the risks of investing in lower-rated securities through diversification, investment analysis and attention to current developments in interest rates and economic conditions. Because the Account invests primarily in securities in the lower rating categories, the achievement of the Account's goals is more dependent on the Manager's ability than would be the case if the Account were investing in securities in the higher rating categories. Although the Account's Manager considers security ratings when making investment decisions, it performs its own investment analysis and does not rely principally on the ratings assigned by the rating services. There are risks in applying credit ratings as a method for evaluating high yield securities. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of high yield securities, and credit rating agencies may fail to make timely changes in credit ratings to reflect subsequent events. The Manager's analysis includes traditional security analysis considerations such as the issuer's experience and managerial strength, changing financial condition, borrowing requirements or debt maturity schedules, and its responsiveness to changes in business conditions and interest rates. It also considers relative values based on anticipated cash flow, interest or dividend coverage, asset coverage and earnings prospects. In addition, the Manager analyzes general business conditions and other factors such as anticipated changes in economic activity and interest rates, the availability of new investment opportunities, and the economic outlook for specific industries. The Manager continuously monitors the issuers of portfolio securities to determine if the issuers will have sufficient cash flow and profits to meet required principal and interest payments and to assure the securities' liquidity so the Account can meet redemption requests. During the year ended December 31, 1996 the percentage of the Account's portfolio securities invested in the various ratings established by Moody's, based upon the weighted average ratings of the portfolio, was as follows:

Moody's Rating	Portfolio Percentage
Baa	2.63%
Ba	38.86%
B	56.47%
C	2.04%

The above percentages for B and Ba rated securities include 2.72% and -1.13%, respectively, unrated securities which have been determined by the Manager to be of comparable quality.

There may be times when, in the Manager's judgment, unusual market or economic conditions make pursuing the Account's basic investment strategy inconsistent with the best interests of its shareholders. At such times the Manager may employ alternative strategies, primarily seeking to reduce fluctuations in the value of the Account's assets. In implementing these "defensive" strategies, the Account may temporarily invest in money-market instruments of all types, higher-rated fixed-income securities or any other fixed-income securities that the Account considers consistent with such strategy. The yield to maturity on these securities would generally be lower than the yield to maturity on lower-rated fixed-income securities. It is impossible to predict when, or for how long, such alternative strategies will be utilized.

The Account's Manager buys and sells securities for the Account principally in response to its evaluation of an issuer's continuing ability to meet its obligations, the availability of better investment opportunities, and its assessment of changes in business conditions and interest rates. From time to time, consistent with its investment objectives, the Account may sell securities that have appreciated in value because of declines in interest rates. It may also trade securities for the purpose of seeking short-term profits. Securities may be sold in anticipation of a market decline or bought in anticipation of a market rise. They may also be traded for securities of comparable quality and maturity to take advantage of perceived short-term disparities in market values or yields.

MONEY MARKET ACCOUNT

The Fund also includes an Account which invests primarily in short-term securities, Money Market Account. Securities in which the Money Market Account will invest may not yield as high a level of current income as securities of low quality and longer maturities which generally have less liquidity, greater market risk and more fluctuation.

The Money Market Account will limit its portfolio investments to United States dollar denominated instruments that the board of directors determines present minimal credit risks and which are at the time of acquisition "Eligible Securities" as that term is defined in regulations issued under the Investment Company Act of 1940. Eligible Securities include:

- (1) A security with the remaining maturity of 397 days or less that is rated (or that has been issued by an issuer that is rated in respect to a class of short-term debt obligations, or any security within that class, that is comparable in priority and security with the security) by a nationally recognized statistical rating organization in one of the two highest rating categories for short-term debt obligations; or
- (2) A security that at the time of issuance was a long-term security that has a remaining maturity of 397 calendar days or less, and whose issuer has received from a nationally recognized statistical rating organization a rating, with respect to a class of short-term debt obligations (or any security within that class) that is now comparable in priority and security with the security, in one of the two highest rating categories for short-term debt obligations; or
- (3) An unrated security that is of comparable quality to a security meeting the requirements of (1) or (2) above, as determined by the board of directors.

The Account will not invest more than 5% of its total assets in the following securities:

- (1) Securities which, when acquired by the Account (either initially or upon any subsequent rollover), are rated below the highest rating category for short-term debt obligations;
- (2) Securities which, at the time of issuance were long-term securities but when acquired by the Account have a remaining maturity of 397 calendar days or less, if the issuer of such securities is rated, with respect to a class of comparable short-term debt obligations, below the highest rating category for short-term obligations;
- (3) Securities which are unrated but are determined by the board of directors to be of comparable quality to securities rated below the highest rating category for short-term debt obligations. The Account will maintain a dollar-weighted average portfolio maturity of 90 days or less.

The objective of Money Market Account is to seek as high a level of current income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing its assets in a portfolio of money market instruments. These money market instruments are U.S. Government Securities, U.S. Government Agency Securities, Bank Obligations, Commercial Paper, Short-term Corporate Debt and Repurchase Agreements, which are described briefly below and in more detail in the Statement of Additional Information.

U.S. Government Securities are securities issued or guaranteed by the U.S. Government, including treasury bills, notes and bonds.

U.S. Government Agency Securities are obligations issued or guaranteed by agencies or instrumentalities of the U.S. Government whether supported by the full faith and credit of the U.S. Treasury or only by the credit of a particular agency or instrumentality.

Bank Obligations consist of certificates of deposit which are generally negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified return and bankers acceptances which are time drafts drawn on a commercial bank by a borrower, usually in connection with international commercial transactions.

Commercial Paper is short-term promissory notes issued by corporations primarily to finance short-term credit needs.

Short-term Corporate Debt consists of notes, bonds or debentures which at the time of purchase have one year or less remaining to maturity.

Repurchase Agreements are transactions under which securities are purchased from a bank or securities dealer with an agreement by the seller to repurchase the securities at the same price plus interest at a specified rate. Generally, Repurchase Agreements are of short duration, usually less than a week but on occasion for longer periods.

The Account intends to hold its investments until maturity, but may on occasion trade securities to take advantage of market variations. Also, revised valuations of an issuer or redemptions may result in sales of portfolio

investments prior to maturity or at times when such sales might otherwise not be desirable. The Account's right to borrow to facilitate redemptions may reduce the need for such sales. It is the Account's policy to be as fully invested as reasonably practical at all times to maximize current income.

Since portfolio assets will consist of short-term instruments, replacement of portfolio securities will occur frequently. However, since the Account expects to usually transact purchases and sales of portfolio securities with issuers or dealers on a net basis, it is not anticipated that the Account will pay any significant brokerage commissions. The Account is free to dispose of portfolio securities at any time, when changes in circumstances or conditions make such a move desirable in light of the investment objective.

A shareholder's rate of return will vary with the general interest rate levels applicable to the money market instruments in which the Account invests. The rate of return and the net asset value will be affected by such other factors as sales of portfolio securities prior to maturity and the Account's operating expenses.

CERTAIN INVESTMENT POLICIES AND RESTRICTIONS

Following is a discussion of certain investment practices that the Accounts may use in an effort to achieve their respective investment objectives.

Diversification

Each Account is subject to the diversification requirements of Section 817(h) of the Internal Revenue Code (the "Code") which must be met at the end of each quarter of the year (or within 30 days thereafter). Regulations issued by the Secretary of the Treasury have the effect of requiring each Account to invest no more than 55% of its total assets in securities of any one issuer, no more than 70% in the securities of any two issuers, no more than 80% in the securities of any three issuers, and no more than 90% in the securities of any four issuers. For this purpose, the United States Treasury and each U.S. Government agency and instrumentality is considered to be a separate issuer.

In the event any of the Accounts do not meet the diversification requirements of Section 817(h) of the Code, the contracts funded by shares of the Accounts will not be treated as annuities or life insurance for Federal income tax purposes and the owners of the Accounts will be subject to taxation on their share of the dividends and distributions paid by the Accounts.

Foreign Securities

Each of the following Accounts has adopted investment restrictions that limit its investments in foreign securities to the indicated percentage of its assets: Bond, Capital Value and High Yield - 20%; Balanced and MidCap - 10%. Debt securities issued in the United States pursuant to a registration statement filed with the Securities and Exchange Commission are not considered "foreign securities" for purposes of this investment limitation. Investment in foreign securities presents certain risks including those resulting from fluctuations in currency exchange rates, revaluation of currencies, the imposition of foreign taxes, future political and economic developments including war, expropriations, nationalization, the possible imposition of currency exchange controls and other foreign governmental laws or restrictions, reduced availability of public information concerning issuers, and the fact that foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards or to other regulatory practices and requirements comparable to those applicable to domestic issuers. Moreover, securities of many foreign issuers may be less liquid and their prices more volatile than those of comparable domestic issuers. In addition, transactions in foreign securities may be subject to higher costs, and the time for settlement of transactions in foreign securities may be longer than the settlement period for domestic issuers. An Account's investment in foreign securities may also result in higher custodial costs and the costs associated with currency conversions.

Repurchase Agreements

Each of the Accounts, may enter into repurchase agreements with, and each of the Accounts, except the Capital Value and Money Market Accounts, may lend its portfolio securities to, unaffiliated broker-dealers and other unaffiliated qualified financial institutions. These transactions must be fully collateralized at all times, but involve some credit risk to the Account if the other party should default on its obligations, and the Account is delayed or prevented from recovering on the collateral. See the Fund's Statement of Additional Information for further information regarding the credit risks associated with repurchase agreements and the standards adopted by the Board of Directors to deal with those risks. None of the Accounts intend either (i) to enter into repurchase agreements that mature in more than seven days if any such investment, together with any other illiquid securities held by the Account, would amount to more than 10% of its total assets or (ii) to loan securities in excess of 30% of its total assets.

Forward Commitments

From time to time, each of the Accounts may enter into forward commitment agreements which call for the Account to purchase or sell a security on a future date and at a price fixed at the time the Account enters into the agreement. Each of these Accounts may also acquire rights to sell its investments to other parties, either on demand or at specific intervals.

Warrants

Each of the Accounts, except the Money Market Account, may invest in warrants up to 5% of its assets, of which not more than 2% may be invested in warrants that are not listed on the New York or American Stock Exchange.

Borrowing

As a matter of fundamental policy, each Account may borrow money only for temporary or emergency purposes. The Balanced, Bond, Capital Value, High Yield and Money Market Accounts may borrow only from banks. Further, each may borrow only in an amount not exceeding 5% of its assets, except the Capital Value Account which may borrow only in an amount not exceeding the lesser of (i) 5% of the value of its assets less liabilities other than such borrowings, or (ii) 10% of its assets taken at cost at the time the borrowing is made, and the Money Market Account which may borrow only in an amount not exceeding the lesser of (i) 5% of the value of its assets, or (ii) 10% of the value of its net assets taken at cost at the time the borrowing is made.

Options

The Balanced, Bond, High Yield and MidCap Accounts may purchase covered spread options, which would give the Account the right to sell a security that it owns at a fixed dollar spread or yield spread in relationship to another security that the Account does not own, but which is used as a benchmark. These same Accounts may also purchase and sell financial futures contracts, options on financial futures contracts and options on securities and securities indices, but will not invest more than 5% of their assets in the purchase of options on securities, securities indices and financial futures contracts or in initial margin and premiums on financial futures contracts and options thereon. The Accounts may write options on securities and securities indices to generate additional revenue and for hedging purposes and may enter into transactions in financial futures contracts and options on those contracts for hedging purposes.

The Statement of Additional Information includes further information concerning the Accounts' investment policies and applicable investment restrictions. Each Account's investment objective and certain investment restrictions designated as such in this Prospectus or the Statement of Additional Information are fundamental policies that may not be changed without shareholder approval. All other investment policies described in the Prospectus and the Statement of Additional Information for an Account are not fundamental and may be changed by the Board of Directors of the Fund without shareholder approval.

MANAGER AND SUB-ADVISOR

The Manager for the Fund is Principal Management Corporation (the "Manager"), an indirectly wholly-owned subsidiary of Principal Mutual Life Insurance Company, a mutual life insurance company organized in 1879 under the laws of the State of Iowa. The address of the Manager is The Principal Financial Group, Des Moines, Iowa 50392. The Manager was organized on January 10, 1969, and since that time has managed various mutual funds sponsored by Principal Mutual Life Insurance Company. As of December 31, 1996, the Manager served as investment advisor for 26 such funds with assets totaling approximately \$4.0 billion.

The Manager has executed an agreement with Invista Capital Management, Inc. ("Invista") under which Invista has agreed to assume the obligations of the Manager to provide investment advisory services for the Balanced, Capital Value and MidCap Accounts. The Manager will reimburse Invista for the cost of providing these services. Invista, an indirectly wholly-owned subsidiary of Principal Mutual Life Insurance company and an affiliate of the Manager, was founded in 1985 and manages investments for institutional investors, including Principal Mutual Life. Assets under management at December 31, 1996 were approximately \$19.6 billion. Invista's address is 1800 Hub Tower, 699 Walnut, Des Moines, Iowa 50309.

The Manager or Invista has assigned certain individuals the primary responsibility for the day-to-day management of each Account's portfolio. The persons primarily responsible for the day-to-day management of each Account are identified in the table below:

<TABLE>
<CAPTION>

Account	Primarily Responsible Since	Person Primarily Responsible
<S>	<C>	<C>

Balanced	April, 1993	Judith A. Vogel, CFA (BA degree, Central College). Vice President, Invista Capital Management, Inc. Co-Manager since December, 1997; Martin J. Schafer (BBA degree, University of Iowa). Vice President, Invista Capital Management, Inc.
Bond	November, 1996	Scott A. Bennett, CFA (MBA degree, University of Iowa) Assistant Director Investment Securities, Principal Mutual Life Insurance Company.
Capital Value	November, 1969 (Account's inception)	David L. White, CFA (BBA degree, University of Iowa). Executive Vice President, Invista Capital Management, Inc.; Co-Manager since November, 1996; Catherine A. Green, CFA, (MBA degree, Drake University). Vice President, Invista Capital Management, Inc.
High Yield	December, 1987 (Account's inception)	James K. Hovey, CFA (MBA degree University of Iowa). Director - Investment Securities, Principal Mutual Life Insurance Company.
MidCap	December, 1987 (Account's inception)	Michael R. Hamilton, (BMBA degree, Bellarmine College). Vice President, Invista Capital Management, Inc.

</TABLE>

DUTIES PERFORMED BY THE MANAGER AND SUB-ADVISOR

Under Maryland law, the business and affairs of each of the Accounts are managed under the direction of the Board of Directors. The investment services and certain other services referred to under the heading "Cost of Manager's Services" in the Statement of Additional Information are furnished to the Accounts under the terms of a Management Agreement between the Fund and the Manager, and for the Balanced, Capital Value and MidCap Accounts, a Sub-Advisory Agreement between the Manager and Invista. The Manager, or Invista, advises the Accounts on investment policies and on the composition of the Accounts' portfolios. In this connection, the Manager, or Invista, furnishes to the Board of Directors of the Fund a recommended investment program consistent with the Account's investment objective and policies. The Manager, or Invista, is authorized, within the scope of the approved investment program, to determine which securities are to be bought or sold, and in what amounts.

The compensation paid by each Account to the Manager for the fiscal year ended December 31, 1996 was, on an annual basis, equal to the following percentage of average net assets:

Account	Manager's Fee	Total Annualized Expenses
Balanced Account	.60%	.63%
Bond Account	.50%	.53%
Capital Value Account	.48%	.49%
High Yield Account	.60%	.70%
MidCap Account	.64%	.66%
Money Market Account	.50%	.56%

The Manager, or Invista, may purchase at its own expense statistical and other information or services from outside sources, including Principal Mutual Life Insurance Company. An Investment Service Agreement between the Fund, the Manager and Principal Mutual Life Insurance Company provides that Principal Mutual Life Insurance Company will furnish certain personnel, services and facilities required by the Manager in connection with its performance of the Management Agreements, and that the Manager will reimburse Principal Mutual Life Insurance Company for its costs incurred in this regard.

The Accounts may from time to time execute transactions for portfolio securities with, and pay related brokerage commissions to, Principal Financial Securities, Inc., a broker-dealer that is an affiliate of the Distributor and Manager for the Fund.

The Manager serves as investment advisor, dividend disbursing agent and, directly and through an affiliate, as transfer agent for each of the Funds sponsored by Principal Mutual Life Insurance Company.

MANAGERS' COMMENTS

Principal Management Corporation and Invista are staffed with investment professionals who manage each individual Account. Comments by these individuals in the following paragraphs summarize in capsule form the general strategy and results of each Account through 1996. The accompanying charts display results for the past 10 years or the life of the Account, whichever is shorter. Average Annual Total Return figures provided for each Account in the graphs below reflect all expenses of the Account and assume all distributions are reinvested at net asset value. The figures do not reflect expenses of the variable life insurance contracts or variable annuity contracts that purchase Account shares; performance figures for the divisions of the contracts would be lower than performance figures for the Accounts due to the additional contract expenses. Past performance is not predictive of future performance. Returns and net asset values fluctuate. Shares are redeemable at current net asset value, which may be more or less than original cost.

The various indices included in the graphs below are unmanaged and do not reflect any commissions or fees which would be incurred by an investor purchasing the securities included in the index. Investors cannot invest directly into these or any indices.

Growth-Oriented Accounts

Balanced Account
(Judith A. Vogel)

This balanced portfolio combines stocks, bonds and cash in a relatively conservative mix which seeks to provide both capital appreciation and income to the shareholder without taking on undue risk. The asset allocation of the Account generally approximates 60% stocks and 40% bonds. In the year ended December 31, 1996 the stock market produced exceptional results. Aided by a healthy economy, continued corporate profit growth, and a good dose of investor enthusiasm, the S&P 500 Stock Index advanced nearly 23%. Conditions in the bond market were less supportive over the year. Long-term interest rates rose 0.70% in 1996, with a lot of volatility along the way, causing the bond returns to hover between zero and 3% for the year. Demonstrating its balanced nature, the Account produced a 13% annual return, about midway between stock and bond market results and very near the Lipper Balanced Fund Average. The bond portion of the Account's portfolio is comprised of U.S. Government notes and bonds with an emphasis on safety of principal. The stock portion of the portfolio is concentrated in companies with stable or growing earnings that are not terribly sensitive to economic activity. After six years of economic expansion resulting in high rates of resource utilization, corporate profit growth is likely to come down, causing a scarcity of earnings growth. Companies that can continue to grow earnings will be afforded premium valuations. There is no independent market index against which to measure returns of balanced portfolios, however, we show the S&P 500 Stock Index for your information.

Total Returns *
As of December 31, 1996

		Since Inception Date 12/18/87
1 Year	5 Year	
13.13%	11.57%	12.16%

Comparison of Change in Value of \$10,000 Investment in the
Balanced Fund, S&P 500 and Lipper Balanced Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Index	Lipper Mid Cap Index
	10,000	10,000	10,000
1988	11,637	11,661	11,229
1989	12,982	15,356	13,429
1990	12,147	14,877	13,355
1991	16,321	19,412	16,930
1992	18,410	20,891	18,122
1993	20,447	22,992	20,066
1994	20,019	23,294	19,561
1995	24,941	32,037	24,482
1996	28,215	39,388	27,851

Note: Past performance is not predictive of future performance.

Capital Value Account
(David L. White and Catherine A. Green)

The strategy with this portfolio is to hold common stocks of companies based on a valuation that is attractive when compared to the market. The analytical staff looks at companies' current valuations compared to the market, then at historical information to compare valuations to historical averages. The focus is on the fundamentals of an industry and the company to determine the current and future outlook as these potential investments. From there the portfolio is constructed to provide a diversified set of investments.

The Account outperformed the S&P 500 Index and Lipper Growth and Income Fund Average for 1996. The strength of the market was in much fewer stocks than in the past. The volatility between industries was much greater than the overall results. The Account benefited from several areas of exposure. Banks and health care were the strongest areas for the Account during the year. The focus has been away from the more cyclical areas of the economy which also helped during the year. As the economic cycle progresses, the market places more emphasis on companies with consistent earnings growth, and we have tended to overweight these areas of the market. As the market performance continues to narrow, however, it becomes increasingly difficult to select the correct areas of overperformance.

Total Returns *
As of December 31, 1996

1 Year	5 Year	10 Year
23.50%	14.08%	13.08%

Comparison of Change in Value of \$10,000 Investment in the
Capital Accumulation Fund, S&P 500 and Lipper Growth and Income Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Stock Index	Lipper Growth & Income Fund Average
	10,000	10,000	10,000
1987	10,647	10,526	10,184
1988	12,183	12,274	11,814
1989	14,155	16,163	14,596
1990	12,759	15,659	13,946
1991	17,693	20,433	18,002
1992	19,377	21,990	19,618
1993	20,888	24,201	21,884
1994	20,990	24,519	21,678
1995	27,688	33,722	28,360
1996	34,193	41,460	34,253

Note: Past performance is not predictive of future performance.

MidCap Account
(Michael R. Hamilton)

The equity market was strong in 1996, but within the market there were two different trends. Large-cap stocks performed much better than small-cap stocks. The MidCap Account returned 19.13% compared with the Lipper Mid Cap Average of 17.9%. The Account and the Lipper Average trailed the S&P 500 Index because of their emphasis on small cap stocks. While both trailed the S&P 500, this was a good year for the Account.

The financial market continues to grapple with the paradox of strong economic growth with no apparent inflation. Productivity will be key in 1997 if inflation is to remain benign. The Account's portfolio continues to be focused on companies that should enhance productivity of both labor and capital. Several of the technology, service and cyclical areas support this emphasis. The portfolio is also overweighted in the financial sector as bank consolidation continues.

Continued profit growth will be important in 1997 as well. Companies with more predictable and visible earnings growth are preferred. This continues to be those that are low cost producers and have competitive barriers to entry. Selectivity in all sectors will be crucial to outperformance.

Total Returns *
As of December 31, 1996

1 Year	5 Year	Since Inception Date 12/18/87
21.11%	16.64%	17.73%

Comparison of Change in Value of \$10,000 Investment
in the Emerging Growth Fund, S&P 500 and
Lipper Mid Cap Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Index	Lipper MID CAP Index
	10,000	10,000	10,000
1988	12,369	11,661	11,476
1989	15,070	15,356	14,586
1990	13,186	14,877	14,067
1991	20,240	19,412	21,275
1992	23,264	20,891	23,213
1993	27,750	22,992	26,625
1994	27,967	23,294	26,079
1995	36,080	32,037	34,469
1996	43,697	39,388	40,646

Note: Past performance is not predictive of future performance.

Important Notes of the Growth-Oriented Accounts:

Standard & Poor's 500 Stock Index: an unmanaged index of 500 widely held common stocks representing industrial, financial, utility and transportation companies listed on the New York Stock Exchange, American Stock Exchange and the Over-the-Counter market.

Lipper Balanced Fund Average: this average consists of mutual funds which attempt to conserve principal by maintaining at all times a balanced portfolio

of both stocks and bonds. Typically, the stock/bond ratio ranges around 60%/40%. The one year average at December 31, 1996 contained 272 mutual funds.

Lipper Growth & Income Fund Average: this average consists of funds which combine a growth of earnings orientation and an income requirement for level and/or rising dividends. The one year average contained 522 funds on December 31, 1996.

Lipper Mid Cap Fund Average: This average consists of funds which by prospectus or portfolio practice, limit their investments to companies with average market capitalizations and/or revenues between \$800 million and the average market capitalization of the Wilshire 4500 Index (as captured by the Vanguard Index Extended Market Fund). The one-year average contained 154 funds on December 31, 1996.

Income-Oriented Accounts

Bond Account

(Scott A. Bennett)

The Bond Account's performance in 1996 lagged when compared to 1995. 1995 was a banner year, mainly because of dramatically declining interest rates. During 1996 interest rates increased throughout most of the year based on fears of increasing inflation. This hurt the Account's relative performance as the duration target of 7 years (actual duration at 12/31/96 was 6.98 years) is longer than the average BBB rated bond fund and the BAA Lehman Corporate Index. Relative performance was also negatively impacted by the lack of a significant amount of less than investment grade bonds in the portfolio. High yield (less than investment grade) debt performed extremely well during 1996, with many of the top performing funds in the Lipper BAA universe having significant exposures to this asset class.

Over the long-term, the Account continues to outperform the average BBB fund. This is attributed to remaining fully invested and not trying to guess interest rates. The BBB corporate bond class continued to be an attractive asset class in 1996, outperforming all other taxable investment grade classes. Spreads continued to narrow during the year with defaults low and a large amount of funds chasing the available bonds.

Total Returns * As of December 31, 1996

1 Year	5 Year	Since Inception Date 12/18/87
2.36%	8.20%	9.55%

Comparison of Change in Value of \$10,000 Investment in the Bond Fund, Lehman Brothers BAA Corporate Index and Lipper Corporate Debt BBB Rated Fund Average

Year Ended December 31,	Fund Total Return	Lehman BAA Index	Lipper BBB Avg
	10,000	10,000	10,000
1988	10,991	11,129	10,900
1989	12,514	12,699	12,060
1990	13,167	13,595	12,751
1991	15,369	16,113	15,020
1992	16,810	17,512	16,258
1993	18,771	19,665	18,261
1994	18,227	18,707	17,447
1995	22,268	22,959	20,948
1996	22,794	23,882	21,616

Note: Past performance is not predictive of future performance.

High Yield Account

(James K. Hovey)

While most bond investments had very low returns for 1996, high yield bonds in general and the High Yield Account included had a good year. The Account's total return for 1996 was 13.13% which compares to 11.35% for the Lehman Brothers High Yield Index and 13.67% for the Lipper High Current Yield Fund Average. For comparison, 10 year U.S. Treasury bonds had a total return for 1996 of 0.04%. This low return was caused by increasing interest rates causing the value of Treasury bonds to fall.

High yield bonds are somewhat insulated from interest rate movements due to their characteristic of a large risk premium or spread that can offset general interest rate movements for assets with less credit risk. In 1996, the risk premium for high yield bonds declined enough to not only offset the risk free interest rate increase, but also to allow price increases of many high yield bonds. While the annual total return performance was similar to both Lipper and Lehman, the Account underperformed both during the first two quarters and outperformed during the third and fourth quarters of the year. Our Account has a B+ average credit rating and has approximately the same amount of BB exposure as B exposure. This more closely resembles the Lehman index while high yield mutual

funds, as reflected by the Lipper average, typically have a riskier credit profile than our Account. This risk profile was an advantage to the Lipper average over the first two quarters as risk premium tightening was more pronounced in riskier bonds. Our Account significantly outperformed in the fourth quarter due to excellent performance by individual securities that were upgraded or for which tender offers had been received at attractive levels. Our Account also benefited over the course of the year by not having any credit defaults. The return performance of the Account during 1996 is a good indicator of how high yield is a worthwhile asset class that can enhance diversification. The decline of risk premiums will make outperformance of other types of income oriented funds more difficult going forward, but also makes our conservative risk position even more appropriate.

Total Returns *
As of December 31, 1996

1 Year 5 Year Since Inception Date 12/18/87
13.13% 11.20% 9.89%

Comparison of Change in Value of \$10,000 Investment in the High Yield Fund, Lehman Brothers High Yield Index and Lipper High Current Yield Fund Average

Year Ended December 31,	Fund Total Return	Lehman High Yield Index	Lipper Narrow Index
	10,000	10,000	10,000
1988	11,492	11,524	11,298
1989	11,735	11,620	11,239
1990	10,831	10,506	10,059
1991	13,788	15,346	13,876
1992	15,798	17,764	16,352
1993	17,743	20,803	19,500
1994	17,854	20,593	18,753
1995	20,725	24,549	21,844
1996	23,446	27,335	24,830

Note: Past performance is not predictive of future performance.

Important Notes of the Income-Oriented Accounts:

Lehman Brothers, BAA Corporate Index: an unmanaged index of all publicly issued fixed rate nonconvertible, dollar-denominated, SEC-registered corporate debt rated Baa or BBB by Moody's or S&P.

Lipper Corporate Debt BBB Rated Funds Average: this average consists of mutual funds investing at least 65% of their assets in corporate and government debt issues rated by S&P or Moody's in the top four grades. The one year average on December 31, 1996 contained 102 mutual funds.

Lehman Brothers High Yield Index: an unmanaged index of all publicly issued fixed, dollar-denominated, SEC-registered corporate debt rated Ba1 or lower with at least \$100 million outstanding and one-year or more to maturity.

Lipper High Current Yield Fund Average: this average consists of mutual funds investing in high (relative) current yield fixed income securities with no quality or maturity restrictions. The mutual funds tend to invest in lower grade debt issues. The one year average on December 31, 1996 contained 148 mutual funds.

Note: Mutual fund data from Lipper Analytical Services, Inc.

DETERMINATION OF NET ASSET VALUE OF ACCOUNT SHARES

The net asset value of each Account's shares is determined daily, Monday through Friday, as of the close of trading on the New York Stock Exchange, except on days on which changes in the value of the Account's portfolio securities will not materially affect the current net asset value of the Account's redeemable securities, on days during which an Account receives no order for the purchase or sale of its redeemable securities and no tender of such a security for redemption, and on customary national business holidays. The net asset value per share of each Account is determined by dividing the value of the Account's securities plus all other assets, less all liabilities, by the number of Account shares outstanding.

Growth-Oriented and Income-Oriented Accounts

The following valuation information applies to the Growth-Oriented and Income-Oriented Accounts. Securities for which market quotations are readily available are valued using those quotations. Other securities are valued by using market quotations, prices provided by market makers or estimates of market values obtained from yield data and other factors relating to instruments or securities with similar characteristics in accordance with procedures established in good faith by the Board of Directors. Securities with remaining maturities of 60 days or less are valued at amortized cost when it is determined

by the Board that amortized cost reflects fair value. Other assets are valued at fair value as determined in good faith by the Board of Directors of the Fund.

As previously described, some of the Accounts may purchase foreign securities whose trading is substantially completed each day at various times prior to the close of the New York Stock Exchange. The values of such securities used in computing net asset value per share are usually determined as of such times. Occasionally, events which affect the values of such securities and foreign currency exchange rates may occur between the times at which they are generally determined and the close of the New York Stock Exchange and would therefore not be reflected in the computation of the Account's net asset value. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value as determined in good faith by the Manager under procedures established and regularly reviewed by the Board of Directors. To the extent the Account invests in foreign securities listed on foreign exchanges which trade on days on which the Account does not determine its net asset value, for example Saturdays and other customary national U.S. Holidays, the Account's net asset value could be significantly affected on days when shareholders have no access to the Account.

Money Market Account

The Money Market Account values its securities at amortized cost. For a description of this calculation procedure see the Fund's Statement of Additional Information.

PERFORMANCE CALCULATION

From time to time, the Accounts may publish advertisements containing information (including graphs, charts, tables and examples) about the performance of one or more of the Accounts. The Accounts' yield and total return figures described below will vary depending upon market conditions, the composition of the Accounts' portfolios and operating expenses. These factors and possible differences in the methods used in calculating yield and total return should be considered when comparing the Accounts' performance figures to performance figures published for other investment vehicles. The Accounts may also quote rankings, yields or returns as published by independent statistical services or publishers, and information regarding the performance of certain market indices. Any performance data quoted for the Accounts represents only historical performance and is not intended to indicate future performance of the Accounts. The calculation of average annual total return and yield for the Accounts does not include fees and charges of the separate accounts that invest in the Accounts and, therefore, does not reflect the investment performance of those separate accounts. For further information on how the Accounts calculate yield and total return figures, see the Statement of Additional Information.

Average Annual Total Return

Each Account may advertise its respective average annual total return. Average annual total return for each Account is computed by calculating the average annual compounded rate of return over the stated period that would equate an initial \$1,000 investment to the ending redeemable value assuming the reinvestment of all dividends and capital gains distributions at net asset value. The same assumptions are made when computing cumulative total return by dividing the ending redeemable value by the initial investment. The Accounts may also quote rankings, yields or returns as published by independent statistical services or publishers, and information regarding the performance of certain market indices.

Yield and Effective Yield

From time to time the Money Market Account may advertise its respective yield and effective yield. The yield of the Account refers to the income generated by an investment in the Account over a seven-day period. This income is then annualized. That is, the amount of income generated by the investment during that week is assumed to be generated each week over a 52-week period and is shown as a percentage of the investment. The effective yield is calculated similarly but, when annualized, the income earned by an investment in the Account is assumed to be reinvested. The effective yield will be slightly higher than the yield because of the compounding effect of this assumed reinvestment.

The yield for the Money Market Account will fluctuate daily as the income earned on the investments of the Account fluctuates. Accordingly, there is no assurance that the yield quoted on any given occasion will remain in effect for any period of time. There is no guarantee that the net asset value or any stated rate of return will remain constant. A shareholder's investment in the Account is not insured. Investors comparing results of the Account with investment results and yields from other sources such as banks or savings and loan associations should understand these distinctions. Historical and comparative yield information may, from time to time, be presented by the Account.

INCOME DIVIDENDS, DISTRIBUTIONS AND TAX STATUS

It is the policy of each Account to distribute substantially all net investment income and net realized gains. Through such distributions, and by

satisfying certain other requirements, the Fund intends to qualify for the tax treatment accorded to regulated investment companies under the applicable provisions of the Internal Revenue Code. This means that in each year in which the Fund so qualifies it will be exempt from federal income tax upon the amounts so distributed to investors.

Any dividends from the net investment income of the Accounts (except the Money Market Account) will normally be payable to the shareholders annually, and any net realized gains will be distributed annually. All dividends and capital gains distributions are applied to purchase additional Account shares at net asset value as of the payment date without the imposition of any sales charge.

Each Account will notify shareholders of the portion of each distribution which constitutes investment income or capital gain. In view of the complexity of tax considerations, it is advisable for Eligible Purchasers considering the purchase of shares of the Accounts to consult with tax advisors on the federal and state tax aspects of their investments and redemptions.

Money Market Account

The Money Market Account declares dividends of all its daily net investment income on each day the Account's net asset value per share is determined. Dividends are payable daily and are automatically reinvested in full and fractional shares of the Account at the then current net asset value unless a shareholder requests payment in cash.

Net investment income, for dividend purposes, consists of (1) accrued interest income plus or minus accrued discount or amortized premium; plus or minus (2) all net short-term realized gains and losses; minus (3) all accrued expenses of the Account. Expenses of the Account are accrued each day. Net income will be calculated immediately prior to the determination of net asset value per share of the Account.

Since the Account's policy is, under normal circumstances, to hold portfolio securities to maturity and to value portfolio securities at amortized cost, it does not expect any capital gains or losses. If the Account does experience gains, however, it could result in an increase in dividends. Capital losses could result in a decrease in dividends. If for some extraordinary reason the Account realizes net long-term capital gains, it will distribute them once every 12 months.

Since the net income of the Account (including realized gains and losses on the portfolio securities) is declared as a dividend each time the net income of the Account is determined, the net asset value per share of the Account normally remains at \$1.00 immediately after each determination and dividend declaration. Any increase in the value of a shareholder's investment in the Account, representing reinvestment of dividend income, is reflected by an increase in the number of shares of the Account .

Normally the Account will have a positive net income at the time of each determination thereof. Net income may be negative if an unexpected liability must be accrued or a loss is realized. If the net income of the Account determined at any time is a negative amount, the net asset value per share will be reduced below \$1.00. If this happens, the Account may endeavor to restore the net asset value per share to \$1.00 by reducing the number of outstanding shares by redeeming proportionately from shareholders without the payment of any monetary consideration, such number of full and fractional shares as is necessary to maintain a net asset value per share of \$1.00. Each shareholder will be deemed to have agreed to such a redemption in these circumstances by investing in the Account. The Account may seek to achieve the same objective of restoring the net asset value per share to \$1.00 by not declaring dividends from net income on subsequent days until restoration, with the result that the net asset value per share would increase to the extent of positive net income which is not declared as a dividend, or any other method approved by the Board of Directors.

The Board of Directors may revise the above dividend policy, or postpone the payment of dividends, if the Account should have or anticipate any large presently unexpected expense, loss or fluctuation in net assets which in the opinion of the Board might have a significant adverse affect on shareholders.

ELIGIBLE PURCHASERS AND PURCHASE OF SHARES

Only Eligible Purchasers may purchase shares of the Accounts. Eligible Purchasers are limited to (a) separate accounts of Principal Mutual Life Insurance Company or of other insurance companies; (b) Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof; (c) trustees or other managers of any qualified profit sharing, incentive or bonus plan established by Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof for the employees of such company, subsidiary or affiliate. Such trustees or managers may purchase Account shares only in their capacities as trustees or managers and not for their personal accounts. The Board of Directors of each Account reserves the right to broaden or limit the designation of Eligible Purchasers.

The Balanced, Bond, Capital Value, MidCap and Money Market Accounts each serve as an underlying investment medium for variable annuity contracts and variable life insurance policies that are funded in separate accounts established by Principal Mutual Life Insurance Company. It is conceivable that in the future it may be disadvantageous for variable life insurance separate accounts and variable annuity separate accounts to invest in the Accounts simultaneously. Although neither Principal Mutual Life Insurance Company nor the Accounts currently foresee any such disadvantages either to variable life insurance policy owners or to variable annuity contract owners, the Board of Directors intends to monitor events in order to identify any material conflicts between such policy owners and contract owners and to determine what action, if any, should be taken in response thereto. Such action could include the sale of Account shares by one or more of the separate accounts, which could have adverse consequences. Material conflicts could result from, for example, (1) changes in state insurance laws, (2) changes in Federal income tax law, (3) changes in the investment management of the Account, or (4) differences in voting instructions between those given by policy owners and those given by contract owners.

Shares are purchased from Princor Financial Services Corporation, the principal underwriter for the Fund. There are no sales charges on the Accounts' shares. There are no restrictions on amounts to be invested in the Accounts' shares.

Shareholder accounts for each Account will be maintained under an open account system. Under this system, an account is automatically opened and maintained for each new investor. Each investment is confirmed by sending the investor a statement of account showing the current purchase and the total number of shares then owned. The statement of account is treated by each Account as evidence of ownership of Account shares in lieu of stock certificates, and unless written request is made to the Account, stock certificates will not be issued or delivered to investors. Certificates, which can be stolen or lost, are unnecessary except for special purposes such as collateral for a loan. Fractional interests in the Account's shares are reflected to three decimal places in the statement of account, but any stock certificates will be issued only for full shares owned.

If an offer to purchase shares is received by any of the Accounts before the close of trading on the New York Stock Exchange, the shares will be issued at the offering price (net asset value of Account shares) computed on that day. If an offer is received after the close of trading or on a day which is not a trading day, the shares will be issued at the offering price computed on the first succeeding day on which a price is determined. Dividends on the Money Market Account shares will be paid on the next day following the effective date of a purchase order.

SHAREHOLDER RIGHTS

The following information is applicable to each Account of the Principal Variable Contracts Fund, Inc. Each Account share is entitled to one vote either in person or by proxy at all shareholder meetings for that Account. This includes the right to vote on the election of directors, selection of independent accountants and other matters submitted to meetings of shareholders of the Account. Each share has equal rights with every other share as to dividends, earnings, voting, assets and redemption. Shares are fully paid and non-assessable, and have no preemptive or conversion rights. Shares may be issued as full or fractional shares, and each fractional share has proportionately the same rights, including voting, as are provided for a full share. Shareholders of each of these Accounts may remove any director with or without cause by the vote of a majority of the votes entitled to be cast at a meeting of all Account shareholders.

The bylaws of the Fund provide that the Board of Directors of the Fund may increase or decrease the aggregate number of shares which the Fund has authority to issue without a shareholder vote.

The bylaws of the Fund also provide that the Fund need not hold an annual meeting of shareholders in any year in which none of the following is required to be acted on by shareholders under the Investment Company Act of 1940: election of directors; approval of investment advisory agreement; ratification of selection of independent public accountants; and approval of distribution agreement. The Fund intends to hold shareholder meetings only when required by law and at such other times as may be deemed appropriate by their respective Boards of Directors.

Shareholder inquiries should be directed to the Principal Variable Contracts Fund, Inc. at The Principal Financial Group, Des Moines, Iowa 50392.

NON-CUMULATIVE VOTING: The Fund's shares have non-cumulative voting rights which means that the holders of more than 50% of the shares voting for the election of directors of the Fund can elect 100% of the directors if they choose to do so, and in such event, the holders of the remaining shares voting for the election of directors will not be able to elect any directors.

Principal Mutual Life Insurance Company votes each Account's shares allocated to each of its separate accounts registered under the Investment

Company Act of 1940 and attributable to variable annuity contracts or variable life insurance policies participating therein in accordance with instructions received from contract or policy holders, participants and annuitants. Other shares of each Account held by each registered separate account, including those for which no timely instructions are received, are voted in proportion to the instructions that are received with respect to contracts or policies participating in that separate account. Shares of each of the Accounts held in the general account of Principal Mutual Life Insurance Company or in its unregistered separate accounts are voted in proportion to the instructions that are received with respect to contracts and policies participating in its registered and unregistered separate accounts. If Principal Mutual determines pursuant to applicable law that an Account's shares held in one or more separate accounts or in its general account need not be voted pursuant to instructions received with respect to participating contracts or policies, it then may vote those Account shares in its own right.

REDEMPTION OF SHARES

Except for the third paragraph below, most of the following discussion of redemption procedures is relevant only to Eligible Purchasers other than variable annuity and variable life separate accounts of Principal Mutual Life Insurance Company, and its wholly-owned subsidiaries.

Each Account will redeem its shares upon request. There is no charge for redemption. If no certificates have been issued, a shareholder simply writes a letter to the appropriate Account requesting redemption of any part or all of the shares. The letter must be signed exactly as the account is registered. If certificates have been issued, they must be properly endorsed and forwarded with the request. If payment is to be made to the registered shareholder or joint shareholders, the Account will not require a signature guarantee as a part of a proper endorsement; otherwise the shareholder's signature must be guaranteed by either a commercial bank, trust company, credit union, savings and loan association, national securities exchange member, or by a brokerage firm. The price at which the shares are redeemed will be the net asset value per share as next computed after the request (with appropriate certificate, if any) is received by the Account in proper and complete form. The amount received for shares upon redemption may be more or less than the cost of such shares depending upon the net asset value at the time of redemption.

Redemption proceeds will be sent within three business days after receipt of request for redemption in proper form. However, each Account may suspend the right of redemption during any period when (a) trading on the New York Stock Exchange is restricted as determined by the Securities and Exchange Commission or such Exchange is closed for other than weekends and holidays; (b) an emergency exists, as determined by the Securities and Exchange Commission, as a result of which (i) disposal by the Account of securities owned by it is not reasonably practicable, or (ii) it is not reasonably practicable for the Account fairly to determine the value of its net assets; or (c) the Commission by order so permits for the protection of security holders of the Account. An Account will redeem only those shares for which it has good payment. To avoid the inconvenience of such a delay, shares may be purchased with a certified check, bank cashier's check or money order. During the period prior to the time a redemption from the Money Market Account is effective, dividends on such shares will accrue and be payable and the shareholder will be entitled to exercise all other rights of beneficial ownership.

Restricted Transfer: Shares of each of the Accounts may be transferred to an Eligible Purchaser. However, whenever any of the Accounts is requested to transfer shares to other than an Eligible Purchaser, the Account has the right at its election to purchase such shares at their net asset value next effective following the time at which the request for transfer is presented; provided, however, that the Account must notify the transferee or transferees of such shares in writing of its election to purchase such shares within seven (7) days following the date of such request and settlement for such shares shall be made within such seven-day period.

ADDITIONAL INFORMATION

Custodian: Bank of New York, 48 Wall Street, New York, New York 10286, is custodian of the portfolio securities and cash assets of each of the Accounts. The custodian performs no managerial or policymaking functions for the Accounts.

Organization and Share Ownership: Effective January 1, 1998, an Agreement and Plan of Reorganization and Liquidation was implemented under which a Series of the Principal Variable Contracts Fund, Inc. adopted the assets and liabilities of a corresponding Fund. The Funds were incorporated in the state of Maryland on the following dates: Balanced Fund - November 26, 1986; Bond Fund - November 26, 1986; Capital Accumulation Fund - May 26, 1989 (effective November 1, 1989 succeeded to the business of a predecessor Fund that had been incorporated in Delaware on February 6, 1969); Emerging Growth Fund - February 20, 1987; High Yield Fund - December 2, 1986; and Money Market Fund - June 10, 1982. Principal Mutual Life Insurance Company owns 100% of each Fund's outstanding shares.

Capitalization: The authorized capital stock of each Account consists of

100,000,000 shares of common stock (500,000,000 for Money Market Account), \$.01 par value.

Financial Statements: Copies of the financial statements of each Account will be mailed to each shareholder of that Account semi-annually. At the close of each fiscal year, each Account's financial statements will be audited by a firm of independent auditors. The firm of Ernst & Young LLP has been appointed to audit the financial statements of each Account for their respective present fiscal years.

Registration Statement: This Prospectus omits some information contained in the Statement of Additional Information (also known as Part B of the Registration Statement) and Part C of the Registration Statements which the Fund has filed with the Securities and Exchange Commission. The Fund's Statement of Additional Information is hereby incorporated by reference into this Prospectus. A copy of the Statement of Additional Information can be obtained upon request, free of charge, by writing or telephoning the Fund. You may obtain a copy of Part C of the Registration Statements filed with the Securities and Exchange Commission, Washington, D.C., from the Commission upon payment of the prescribed fees.

Principal Underwriter: Princor Financial Services Corporation, The Principal Financial Group, Des Moines, Iowa 50392-0200, is the principal underwriter for the Fund.

The Principal Variable Contracts Fund, Inc. described in this Prospectus is a diversified, open-end management investment company offering a variety of Accounts each of which was formerly a separately incorporated investment company. Together, the Accounts provide the following range of investment objectives:

Growth-Oriented Accounts

Balanced Account (formerly known as Principal Balanced Fund, Inc.) seeks to generate a total return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of the investment objective.

Capital Value Account (formerly known as Principal Capital Accumulation Fund, Inc.) seeks to achieve primarily long-term capital appreciation and secondary growth of investment income through the purchase primarily of common stocks, but the Account may invest in other securities.

Growth Account (formerly known as Principal Growth Fund, Inc.) seeks growth of capital through the purchase primarily of common stocks, but the Account may invest in other securities.

International Account (formerly known as Principal World Fund, Inc.) seeks long-term growth of capital by investing in a portfolio of equity securities of companies domiciled in any of the nations of the world.

MidCap Account (formerly known as Principal Emerging Growth Fund, Inc.) seeks to achieve capital appreciation by investing primarily in securities of emerging and other growth-oriented companies.

Income-Oriented Accounts

Bond Account (formerly known as Principal Bond Fund, Inc.) seeks to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

Government Securities Account (formerly known as Principal Government Securities Fund, Inc.) seeks a high level of current income, liquidity and safety of principal. The Account seeks to achieve its objective through the purchase of obligations issued or guaranteed by the United States Government or its agencies, with emphasis on Government National Mortgage Association Certificates ("GNMA Certificates"). Account shares are not guaranteed by the United States Government.

Money Market Account

Money Market Account (formerly known as Principal Money Market Fund, Inc.) seeks as high a level of income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing all of its assets in a portfolio of money market instruments.

An investment in the Money Market Account is neither insured nor guaranteed by the U.S. Government. There can be no assurance the Money Market Account will be able to maintain a stable net asset value of \$1.00 per share.

This Prospectus concisely states information about the Principal Variable Contracts Fund, Inc. that an investor ought to know before investing. It should be read and retained for future reference.

Additional information about the Fund has been filed with the Securities and Exchange Commission, including a document called Statement of Additional

Information, dated December 31, 1997. The Statement of Additional Information is incorporated by reference into this Prospectus. A copy of the Statement of Additional Information can be obtained free of charge by writing or telephoning:

Principal Variable Contracts Fund, Inc.
The Principal Financial Group
Des Moines, IA 50392
Telephone 1-800-247-4123

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Date of this Prospectus is December 31, 1997.

TABLE OF CONTENTS

	Page
Summary	3
Financial Highlights.....	5
Investment Objectives, Policies and Restrictions.....	11
Certain Investment Policies and Restrictions.....	18
Manager and Sub-Advisor	21
Duties Performed by the Manager and Sub-Advisor.....	21
Managers' Comments.....	22
Determination of Net Asset Value of Account Shares.....	27
Performance Calculation.....	27
Income Dividends, Distributions and Tax Status.....	28
Eligible Purchasers and Purchase of Shares.....	29
Shareholder Rights	30
Redemption of Shares.....	30
Additional Information.....	31

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, shares of the Account in any jurisdiction in which such sale, offer to sell, or solicitation may not be lawfully made. No dealer, salesperson, or other person has been authorized to give any information or to make any representations, other than those contained in this Prospectus, in connection with the offer contained in this Prospectus, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Fund or the Fund's Manager.

SUMMARY

The following summarized information should be read in conjunction with the detailed information appearing elsewhere in this Prospectus.

The Principal Variable Contracts Fund, Inc. is an open-end diversified management investment company offering multiple Accounts.

Who may purchase shares of the Accounts?

Shares of the Accounts are available only to Eligible Purchasers which are limited to: (a) separate accounts of Principal Mutual Life Insurance Company or of other insurance companies; (b) Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof; (c) trustees or other managers of any qualified profit sharing, incentive or bonus plan established by Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof for the employees of such company, subsidiary or affiliate. The Board of Directors of the Fund reserves the right to broaden or limit the designation of Eligible Purchasers.

What do the Accounts offer investors?

Professional Investment Management: Experienced securities analysts provide each Account with professional investment management.

Diversification: Each Account will diversify by investing in securities issued by a number of issuers doing business in a variety of industries and/or located in different geographical regions. Diversification reduces investment risk.

Economies of Scale: Pooling individual shareholder's investments in any of the Accounts creates administrative efficiencies.

Redeemability: Upon request each Account will redeem its shares and promptly pay the investor the current net asset value of the shares redeemed. See "Redemption of Shares."

What are the Accounts' investment objectives?

Growth-Oriented Accounts

The investment objective of the Balanced Account is to seek to generate a total return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of this objective.

The primary investment objective of the Capital Value Account is long-term capital appreciation and its secondary investment objective is growth of investment income. The Account seeks to achieve its investment objectives through the purchase primarily of common stocks, but the Account may invest in other securities.

The investment objective of the Growth Account is growth of capital. The Account seeks to achieve its objective through the purchase primarily of common stocks, but the Account may invest in other securities.

The investment objective of the International Account is to seek long-term growth of capital by investing in a portfolio of equity securities domiciled in any of the nations of the world.

The investment objective of the MidCap Account is to achieve capital appreciation by investing primarily in securities of emerging and other growth-oriented companies.

Income-Oriented Accounts

The investment objective of the Bond Account is to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

The investment objective of the Government Securities Account is to seek a high level of current income, liquidity and safety of principal. The Account seeks to achieve its objective through the purchase of obligations issued or guaranteed by the United States Government or its agencies, with emphasis on Government National Mortgage Association Certificates ("GNMA Certificates"). Account shares are not guaranteed by the United States Government.

Money Market Account

The investment objective of the Money Market Account is to seek as high a level of current income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing all of its assets in a portfolio of money market instruments.

There can be no assurance that the investment objectives of any of the Accounts will be realized. See "Investment Objectives, Policies and Restrictions."

Who serves as Manager for the Accounts?

Principal Management Corporation (formerly known as Princor Management Corporation) ("Manager"), a corporation organized in 1969 by Principal Mutual Life Insurance Company, is the Manager for each of the Accounts. It is also the dividend disbursing and transfer agent for the Fund. In order to provide investment advisory services for the Balanced, Capital Value, Government Securities, Growth, International and MidCap Accounts the Manager has executed sub-advisory agreements with Invista Capital Management, Inc. ("Invista" or "Sub-Advisor"). See "Manager and Sub-Advisor."

What fees and expenses apply to ownership of shares of the Accounts?

The following table depicts fees and expenses applicable to the purchase and ownership of shares of each of the Accounts.

ANNUAL ACCOUNT OPERATING EXPENSES (As a Percentage of Average Net Assets)

Account	Management Fee	Other Expenses	Total Operating Expenses
Balanced Account	.60%	.03%	.63%
Bond Account	.50%	.03%	.53%
Capital Value Account	.48%	.01%	.49%
Government Securities Account	.50%	.02%	.52%
Growth Account	.50%	.02%	.52%
International Account	.75%	.15%	.90%
MidCap Account	.64%	.02%	.66%
Money Market Account	.50%	.06%	.56%

EXAMPLE

You would pay the following expenses on a \$1,000 investment, assuming (1)

5% annual return and (2) redemption at the end of each time period:

Account	Period (in years)			
	1	3	5	10
Balanced Account	\$6	\$20	\$35	\$79
Bond Account	\$5	\$17	\$30	\$66
Capital Value Account	\$5	\$16	\$27	\$62
Government Securities Account	\$5	\$17	\$29	\$65
Growth Account	\$5	\$17	\$29	\$65
International Account	\$9	\$29	\$50	\$111
MidCap Account	\$7	\$21	\$37	\$82
Money Market Account	\$6	\$18	\$31	\$70

This Example is based on the Annual Account Operating expenses for each Account described above. Please remember that the Example should not be considered a representation of past or future expenses and that actual expenses may be greater or less than shown.

The purpose of the above table is to assist you in understanding the various expenses that an investor in the Accounts will bear directly or indirectly. See "Duties Performed by the Manager and Sub-Advisor."

FINANCIAL HIGHLIGHTS

The following financial highlights are derived from financial statements which, for the five years in the period ended December 31, 1996, have been audited by Ernst & Young LLP, independent auditors, whose report has been incorporated by reference herein. The financial highlights should be read in conjunction with the financial statements, related notes, and other financial information incorporated by reference herein. Audited financial statements may be obtained by shareholders, without charge, by telephoning 1-800-451-5447.

<S>	Income from Investment Operations				Less Distributions			
	Net Asset Value at Beginning of Period <C>	Net Investment Income <C>	Net Realized and Unrealized Gain (Loss) on Investments <C>	Total from Investment Operations <C>	Dividends from Net Investment Income <C>	Distri- butions from Capital Gains <C>	Excess Distri- butions from Capital Gains (a) <C>	Total Distri- butions <C>
Balanced Account (b) (c)								
Six Months Ended June 30, 1997 (d)	\$14.44	\$.22	\$1.19	\$1.41	--	\$ (.01)	\$ --	\$ (.01)
Year Ended December 31,								
1996	13.97	.40	1.41	1.81	\$ (.40)	(.94)	--	(1.34)
1995	11.95	.45	2.44	2.89	(.45)	(.42)	--	(.87)
1994	12.77	.37	(.64)	(.27)	(.37)	(.18)	--	(.55)
1993	12.58	.42	.95	1.37	(.42)	(.76)	--	(1.18)
Six Months Ended December 31, 1992 (g)	12.93	.23	.75	.98	(.47)	(.86)	--	(1.33)
Year Ended June 30,								
1992	11.33	.47	1.61	2.08	(.48)	--	--	(.48)
1991	10.79	.54	.59	1.13	(.57)	(.02)	--	(.59)
1990	11.89	.60	(.48)	.12	(.63)	(.59)	--	(1.22)
1989	11.75	.62	.30	.92	(.55)	(.23)	--	(.78)
Period Ended June 30, 1988 (h)	10.00	.27	1.51	1.78	(.03)	--	--	(.03)
Bond Account (c)								
Six Months Ended June 30, 1997 (d)	11.33	.38	(.04)	.34	--	--	--	--
Year Ended December 31,								
1996	11.73	.68	(.40)	.28	(.68)	--	--	(.68)
1995	10.12	.62	1.62	2.24	(.63)	--	--	(.63)
1994	11.16	.72	(1.04)	(.32)	(.72)	--	--	(.72)
1993	10.77	.88	.38	1.26	(.87)	--	--	(.87)
Six Months Ended December 31, 1992 (g)	11.08	.45	.13	.58	(.89)	--	--	(.89)
Year Ended June 30,								
1992	10.64	.91	.46	1.37	(.93)	--	--	(.93)
1991	10.72	.94	(.06)	.88	(.96)	--	--	(.96)
1990	10.92	.95	(.21)	.74	(.94)	--	--	(.94)
1989	10.68	1.15	.17	1.32	(.96)	(.12)	--	(1.08)
Period Ended June 30, 1988 (h)	10.00	.32	.40	.72	(.04)	--	--	(.04)
Capital Value Account (c)								
Six Months Ended June 30, 1997 (d)	29.84	.32	3.81	4.13	--	(1.07)	--	(1.07)
Year Ended December 31,								
1996	27.80	.57	5.82	6.39	(.58)	(3.77)	--	(4.35)
1995	23.44	.60	6.69	7.29	(.60)	(2.33)	--	(2.93)

1994	24.61	.62	(.49)	.13	(.61)	(.69)	--	(1.30)
1993	25.19	.61	1.32	1.93	(.60)	(1.91)	--	(2.51)
Six Months Ended December 31, 1992(g)	26.03	.31	1.84	2.15	(.64)	(2.35)	--	(2.99)
Year Ended June 30,								
1992	23.35	.65	2.70	3.35	(.67)	--	--	(.67)
1991	22.48	.74	1.22	1.96	(.79)	(.30)	--	(1.09)
1990	23.63	.79	.14	.93	(.81)	(1.27)	--	(2.08)
1989	23.23	.77	1.32	2.09	(.68)	(1.01)	--	(1.69)
1988	27.51	.60	(1.50)	(.90)	(.69)	(2.69)	--	(3.38)
1987	25.48	.40	4.46	4.86	(.50)	(2.33)	--	(2.83)

</TABLE>
<TABLE>
<CAPTION>

Ratios/Supplemental Data

<S>	Net Asset	Total	Net Assets at	Ratio of	Ratio of Net	Portfolio	Average
	Value at			Expenses to	Investment		
	End of	Return	End of Period	Average	Average	Turnover	Commission
	Period		(in thousands)	Net Assets	Net Assets	Rate	Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balanced Account (b) (c)							
Six Months Ended June 30, 1997(d)	\$15.84	9.74% (e)	\$113,288	.62% (f)	3.19% (f)	33.5% (f)	\$.0374
Year Ended December 31,							
1996	14.44	13.13%	93,158	.63%	3.45%	22.6%	.0417
1995	13.97	24.58%	45,403	.66%	4.12%	25.7%	N/A
1994	11.95	(2.09)%	25,043	.69%	3.42%	31.5%	N/A
1993	12.77	11.06%	21,399	.69%	3.30%	15.8%	N/A
Six Months Ended December 31, 1992(g)	12.58	8.00% (e)	18,842	.73% (f)	3.71% (f)	38.4% (f)	N/A
Year Ended June 30,							
1992	12.93	18.78%	17,344	.72%	3.80%	26.6%	N/A
1991	11.33	11.36%	14,555	.73%	5.27%	27.1%	N/A
1990	10.79	.87%	13,016	.74%	5.52%	33.1%	N/A
1989	11.89	8.55%	12,751	.74%	5.55%	29.3%	N/A
Period Ended June 30, 1988(h)	11.75	17.70% (e)	11,469	.80% (f)	4.96% (f)	41.7% (f)	N/A
Bond Account (c)							
Six Months Ended June 30, 1997(d)	11.67	3.00% (e)	71,812	.52% (f)	7.07% (f)	8.7% (f)	N/A
Year Ended December 31,							
1996	11.33	2.36%	63,387	.53%	7.00%	1.7%	N/A
1995	11.73	22.17%	35,878	.56%	7.28%	5.9%	N/A
1994	10.12	(2.90)%	17,108	.58%	7.86%	18.2%	N/A
1993	11.16	11.67%	14,387	.59%	7.57%	14.0%	N/A
Six Months Ended December 31, 1992(g)	10.77	5.33% (e)	12,790	.62% (f)	8.10% (f)	6.7% (f)	N/A
Year Ended June 30,							
1992	11.08	13.57%	12,024	.62%	8.47%	6.1%	N/A
1991	10.64	8.94%	10,552	.63%	9.17%	2.7%	N/A
1990	10.72	7.15%	9,658	.64%	9.09%	0.0%	N/A
1989	10.92	13.51%	9,007	.64%	9.18%	12.2%	N/A
Period Ended June 30, 1988(h)	10.68	6.06% (e)	17,598	.58% (f)	8.11% (f)	68.8% (f)	N/A
Capital Value Account (c)							
Six Months Ended June 30, 1997(d)	32.90	14.28% (e)	249,077	.48% (f)	2.22% (f)	29.0% (f)	.0427
Year Ended December 31,							
1996	29.84	23.50%	205,019	.49%	2.06%	48.5%	.0426
1995	27.80	31.91%	135,640	.51%	2.25%	49.2%	N/A
1994	23.44	.49%	120,572	.51%	2.36%	44.5%	N/A
1993	24.61	7.79%	128,515	.51%	2.49%	25.8%	N/A
Six Months Ended December 31, 1992(g)	25.19	8.81% (e)	105,355	.55% (f)	2.56% (f)	39.7% (f)	N/A
Year Ended June 30,							
1992	26.03	14.53%	94,596	.54%	2.65%	34.8%	N/A
1991	23.35	9.46%	76,537	.53%	3.53%	14.0%	N/A
1990	22.48	3.94%	74,008	.56%	3.56%	30.2%	N/A
1989	23.63	10.02%	68,132	.57%	3.53%	23.5%	N/A
1988	23.23	(2.67)%	62,696	.60%	2.76%	26.7%	N/A
1987	27.51	22.17%	57,478	.63%	1.99%	16.1%	N/A

</TABLE>
<TABLE>
<CAPTION>

Income from
Investment Operations

Less Distributions

<S>	Net Asset	Net	Net Realized and		Total	Dividends	Distri-	Excess
			Unrealized	Total				
	Value at	Investment	Gain	from	Investment	from Net	butions	Distri-
	Beginning	Income	(Loss) on	Investment	Operations	Investment	from	butions
	of Period		Investments	Operations		Income	Capital	from
<S>	<C>	<C>	<C>	<C>	<C>	<C>	Gains	Capital
							(a)	Gains (a)
								Total
								Distri-
								butions
								<C>

Government Securities Account (c)								
Six Months Ended June 30, 1997(d)	\$10.31	\$.33	\$.01	\$.34	\$(.01)	\$ --	\$ --	\$ (.01)
Year Ended December 31,								
1996	10.55	.59	(.24)	.35	(.59)	--	--	(.59)
1995	9.38	.60	1.18	1.78	(.61)	--	--	(.61)
1994	10.61	.76	(1.24)	(.48)	(.75)	--	--	(.75)
1993	10.28	.71	.33	1.04	(.71)	--	--	(.71)
Six Months Ended December 31, 1992(g)	10.93	.40	.04	.44	(.78)	--	(.31)	(1.09)
Year Ended June 30,								
1992	10.24	.80	.71	1.51	(.81)	--	(.01)	(.82)
1991	10.05	.80	.24	1.04	(.81)	--	(.04)	(.85)
1990	10.05	.78	--	.78	(.78)	--	--	(.78)
1989	9.37	.80	.34	1.14	(.46)	--	--	(.46)
1988	9.47	.78	(.09)	.69	(.79)	--	--	(.79)
Period Ended June 30, 1987(i)	10.00	.18	(.59)	(.41)	(.12)	--	--	(.12)
Growth Account (c)								
Six Months Ended June 30, 1997(d)	13.79	.09	2.01	2.10	--	--	--	--
Year Ended December 31,								
1996	12.43	.16	1.39	1.55	(.16)	(.03)	--	(.19)
1995	10.10	.17	2.42	2.59	(.17)	--	(.09)	(.26)
Period Ended December 31, 1994(j)	9.60	.07	.51	.58	(.08)	--	--	(.08)
International Account (c)								
Six Months Ended June 30, 1997(d)	13.02	.17	2.03	2.20	--	--	(.04)	(.04)
Year Ended December 31,								
1996	10.72	.22	2.46	2.68	(.22)	(.16)	--	(.38)
1995	9.56	.19	1.16	1.35	(.18)	--	(.01)	(.19)
Period Ended December 31, 1994(j)	9.94	.03	(.33)	(.30)	(.05)	(.02)	(.01)	(.08)
MidCap Account (c) (k)								
Six Months Ended June 30, 1997(d)	29.74	.15	3.53	3.68	--	(.10)	--	(.10)
Year Ended December 31,								
1996	25.33	.22	5.07	5.29	(.22)	(.66)	--	(.88)
1995	19.97	.22	5.57	5.79	(.22)	(.21)	--	(.43)
1994	20.79	.14	.03	.17	(.14)	(.85)	--	(.99)
1993	18.91	.17	3.47	3.64	(.17)	(1.59)	--	(1.76)
Six Months Ended December 31, 1992(g)	15.97	.10	3.09	3.19	(.21)	(.04)	--	(.25)
Year Ended June 30,								
1992	13.93	.21	2.04	2.25	(.21)	--	--	(.21)
1991	14.25	.20	.50	.70	(.23)	(.79)	--	(1.02)
1990	13.35	.24	.87	1.11	(.20)	(.01)	--	(.21)
1989	12.85	.16	1.35	1.51	(.11)	(.90)	--	(1.01)
Period Ended June 30, 1988(i)	10.00	.05	2.83	2.88	(.03)	--	--	(.03)
Money Market Account (c)								
Six Months Ended June 30, 1997(d)	1.000	.025	--	.025	(.025)	--	--	(.025)
Year Ended December 31,								
1996	1.000	.049	--	.049	(.049)	--	--	(.049)
1995	1.000	.054	--	.054	(.054)	--	--	(.054)
1994	1.000	.037	--	.037	(.037)	--	--	(.037)
1993	1.000	.027	--	.027	(.027)	--	--	(.027)
Six Months Ended December 31, 1992(g)	1.000	.016	--	.016	(.016)	--	--	(.016)
Year Ended June 30,								
1992	1.000	.046	--	.046	(.046)	--	--	(.046)
1991	1.000	.070	--	.070	(.070)	--	--	(.070)
1990	1.000	.077	--	.077	(.077)	--	--	(.077)
1989	1.000	.083	--	.083	(.083)	--	--	(.083)
1988	1.000	.064	--	.064	(.064)	--	--	(.064)
1987	1.000	.057	--	.057	(.057)	--	--	(.057)

</TABLE>
<TABLE>
<CAPTION>

Ratios/Supplemental Data

<S>	Net Asset	Total	Net Assets at	Ratio of	Ratio of Net	Portfolio	Average
	Value at			Expenses to	Investment		
	End of	Return	End of Period	Average	Income to	Rate	Rate
	Period	<C>	(in thousands)	Net Assets	Average	<C>	<C>
	<C>	<C>	<C>	<C>	Net Assets	<C>	<C>
Government Securities Account (c)							
Six Months Ended June 30, 1997(d)	\$10.64	3.26% (e)	\$84,656	.53% (f)	6.48% (f)	11.0% (f)	N/A
Year Ended December 31,							
1996	10.31	3.35%	85,100	.52%	6.46%	8.4%	N/A
1995	10.55	19.07%	50,079	.55%	6.73%	9.8%	N/A
1994	9.38	(4.53)%	36,121	.56%	7.05%	23.2%	N/A
1993	10.61	10.07%	36,659	.55%	7.07%	20.4%	N/A
Six Months Ended December 31, 1992(g)	10.28	4.10% (e)	31,760	.59% (f)	7.35% (f)	34.5% (f)	N/A
Year Ended June 30,							

1992	10.93	15.34%	33,022	.58%	7.84%	38.9%	N/A
1991	10.24	10.94%	26,021	.59%	8.31%	4.2%	N/A
1990	10.05	8.16%	21,488	.61%	8.48%	18.7%	N/A
1989	10.05	12.61%	15,890	.63%	8.68%	3.7%	N/A
1988	9.37	7.69%	12,902	.66%	8.47%	2.7%	N/A
Period Ended June 30, 1987(i)	9.47	(.94)%(e)	10,778	.64%(f)	8.50%(f)	0.2%(f)	N/A
Growth Account(c)							
Six Months Ended June 30, 1997(d)	15.89	15.23%(e)	132,259	.51%(f)	1.36%(f)	7.5%(f)	\$.0452
Year Ended December 31,							
1996	13.79	12.51%	99,612	.52%	1.61%	2.0%	.0401
1995	12.43	25.62%	42,708	.58%	2.08%	6.9%	N/A
Period Ended December 31, 1994(j)	10.10	5.42%(e)	13,086	.75%(f)	2.39%(f)	0.9%(f)	N/A
International Account(c)							
Six Months Ended June 30, 1997(d)	15.18	16.98%(e)	107,095	.84%(f)	2.92%(f)	25.4%(f)	.0186
Year Ended December 31,							
1996	13.02	25.09%	71,682	.90%	2.28%	12.5%	.0120
1995	10.72	14.17%	30,566	.95%	2.26%	15.6%	N/A
Period Ended December 31, 1994(j)	9.56	(3.37)%(e)	13,746	1.24%(f)	1.31%(f)	14.4%(f)	N/A
MidCap Account(c)(k)							
Six Months Ended June 30, 1997(d)	33.32	12.39%(e)	180,072	.65%(f)	1.05%(f)	10.9%(f)	.0390
Year Ended December 31,							
1996	29.74	21.11%	137,161	.66%	1.07%	8.8%	.0379
1995	25.33	29.01%	58,520	.70%	1.23%	13.1%	N/A
1994	19.97	.78%	23,912	.74%	1.15%	12.0%	N/A
1993	20.79	19.28%	12,188	.78%	.89%	22.4%	N/A
Six Months Ended December 31, 1992(g)	18.91	20.12%(e)	9,693	.81%(f)	1.24%(f)	8.6%(f)	N/A
Year Ended June 30,							
1992	15.97	16.19%	7,829	.82%	1.33%	10.1%	N/A
1991	13.93	5.72%	6,579	.89%	1.70%	11.1%	N/A
1990	14.25	8.32%	6,067	.88%	1.74%	17.9%	N/A
1989	13.35	13.08%	5,509	.90%	1.31%	21.4%	N/A
Period Ended June 30, 1988(i)	12.85	28.72%(e)	4,857	.94%(f)	.64%(f)	4.6%(f)	N/A
Money Market Account(c)							
Six Months Ended June 30, 1997(d)	1.000	2.50%(e)	43,688	.55%(f)	5.06%(f)	N/A	N/A
Year Ended December 31,							
1996	1.000	5.07%	46,244	.56%	5.00%	N/A	N/A
1995	1.000	5.59%	32,670	.58%	5.32%	N/A	N/A
1994	1.000	3.76%	29,372	.60%	3.81%	N/A	N/A
1993	1.000	2.69%	22,753	.60%	2.64%	N/A	N/A
Six Months Ended December 31, 1992(g)	1.000	1.54%(e)	27,680	.59%(f)	3.10%(f)	N/A	N/A
Year Ended June 30,							
1992	1.000	4.64%	25,194	.57%	4.54%	N/A	N/A
1991	1.000	7.20%	26,509	.56%	6.94%	N/A	N/A
1990	1.000	8.37%	26,588	.57%	8.05%	N/A	N/A
1989	1.000	8.59%	20,707	.61%	8.40%	N/A	N/A
1988	1.000	6.61%	14,571	.64%	6.39%	N/A	N/A
1987	1.000	5.78%	11,902	.65%	5.68%	N/A	N/A

</TABLE>

Notes to financial highlights

(a) Due to the timing of dividend distributions and the differences in accounting for income and realized gains (losses) for financial statement and federal income tax purposes, the fiscal year in which amounts are distributed may differ from the year in which the income and realized gains (losses) are recorded for financial statement purposes by the fund. The differences between the income and gains distributed on a book versus tax basis are shown in the Financial Highlights as excess distributions from net investment income and from capital gains.

(b) Effective May 1, 1994, the name of Principal Managed Fund, Inc. was changed to Principal Balanced Fund, Inc.

(c) Effective January 1, 1998, the following Fund names were changed:

Principal Balanced Fund, Inc. became Balanced Account
Principal Bond Fund, Inc. became Bond Account
Principal Capital Accumulation Fund, Inc. became Capital Value Account
Principal Emerging Growth Fund, Inc. became MidCap Account
Principal Government Securities Fund, Inc. became Government Securities Account
Principal Growth Fund, Inc. became Growth Account
Principal Money Market Fund, Inc. became Money Market Account
Principal World Fund, Inc. became International Account

(d) Unaudited.

(e) Total return amounts have not been annualized.

- (f) Computed on an annualized basis.
- (g) Effective July 1, 1992 the Account changed its fiscal year end from June 30 to December 31.
- (h) Period from December 18, 1987, date shares first offered to eligible purchasers, through June 30, 1988. Net investment income aggregating \$.01 per share for the period from the initial purchase of shares on December 10, 1987 through December 17, 1987 was recognized, all of which was distributed to the Account's sole stockholder, Principal Mutual Life Insurance Company. This represented activity of the Account prior to the initial offering of shares to eligible purchasers.
- (i) Period from April 9, 1987, date shares first offered to the public, through June 30, 1987. Net investment income, aggregating \$.01 per share for the period from the initial purchase of shares on October 31, 1987 through December 17, 1987 was recognized, all of which was distributed to the Account's sole stockholder, Principal Mutual Life Insurance Company. This represented activity of the Account prior to the initial offering of shares to eligible purchasers.
- (j) Period from May 1, 1994, date shares first offered to the public, through December 31, 1994. Net investment income, aggregating \$.01 per share for the Growth Account, Inc. and \$.04 per share for the International Account for the period from the initial purchase of shares on March 23, 1994 through April 30, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, the Growth Account and the International Account incurred unrealized losses on investments of \$.41 and \$.10 per share, respectively, during the initial interim period. This represented activities of each Account prior to the initial public offering of Account shares.
- (k) Effective May 1, 1992, the name of Principal Aggressive Growth Fund, Inc. was changed to Principal Emerging Growth Fund, Inc.
- (l) Period from December 18, 1987, date shares first offered to eligible purchasers, through June 30, 1988. Net investment income aggregating \$.01 per share for the period from the initial purchase of shares on December 10, 1987 through December 17, 1987 was recognized, all of which was distributed to the Account's sole stockholder, Principal Mutual Life Insurance Company. This represented activity of the Account prior to the initial offering of shares to eligible purchasers.

INVESTMENT OBJECTIVES, POLICIES AND RESTRICTIONS

The investment objectives and policies of each Account are described below. There can be no assurance that the objectives of the Accounts will be realized.

GROWTH-ORIENTED ACCOUNTS

The Fund includes four Accounts which seek capital appreciation through investments in equity securities (Capital Value, Growth, International and MidCap Accounts) and one Account which seeks a total investment return including both capital appreciation and income through investments in equity and debt securities (Balanced Account). These five Accounts are collectively referred to as the Growth-Oriented Accounts.

The Growth-Oriented Accounts may invest in the following equity securities: common stocks; preferred stocks and debt securities that are convertible into common stock, that carry rights or warrants to purchase common stock or that carry rights to participate in earnings; rights or warrants to subscribe to or purchase any of the foregoing securities; and American Depository Receipts based on any of the foregoing securities. The Capital Value, Growth, International and MidCap Accounts will seek to be fully invested under normal conditions in equity securities. When, in the opinion of the Manager or Sub-Advisor, current market or economic conditions warrant, a Growth-Oriented Account may for temporary defensive purposes place all or a portion of its assets in cash, on which the Account would earn no income, cash equivalents, bank certificates of deposit, bankers acceptances, repurchase agreements, commercial paper, commercial paper master notes which are floating rate debt instruments without a fixed maturity, United States Government securities, and preferred stocks and debt securities, whether or not convertible into or carrying rights for common stock. A Growth-Oriented Account may also maintain reasonable amounts in cash or short-term debt securities for daily cash management purposes or pending selection of particular long-term investments.

Balanced Account

The investment objective of Balanced Account is to generate a total return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of the investment objective. The term "reasonable risks" refers to investment decisions that in the judgment of the Sub-Advisor, Invista, do not present a greater than normal risk of loss in light of current or

anticipated future market and economic conditions, trends in yields and interest rates, and fiscal and monetary policies.

In seeking to achieve the investment objective, the Account invests primarily in growth and income-oriented common stocks (including securities convertible into common stocks), corporate bonds and debentures and short-term money market instruments. The Account may also invest in other equity securities, and in debt securities issued or guaranteed by the United States Government and its agencies or instrumentalities. The Account seeks to generate real (inflation plus) growth during favorable investment periods and may emphasize income and capital preservation strategies during uncertain investment periods. The Sub-Advisor will seek to minimize declines in the net asset value per share. However, there is no guarantee that the Sub-Advisor will be successful in achieving this goal.

The portions of the Account's total assets invested in equity securities, debt securities and short-term money market instruments are not fixed, although ordinarily 40% to 70% of the Account's portfolio will be invested in equity securities with the balance of the portfolio invested in debt securities. The investment mix will vary from time to time depending upon the judgment of the Sub-Advisor as to general market and economic conditions, trends in investment yields and interest rates and changes in fiscal or monetary policies.

The Account may invest in all types of common stocks and other equity investments, without regard to any objective investment criteria such as size of the issue or issuer, exchange listing or seasoning. The Account may invest in both exchange-listed and over-the-counter securities, in small or large companies, and in well-established or unseasoned companies. Also, the Account's investments in corporate bonds and debentures and money market instruments are not restricted by credit ratings or other objective investment criteria, except with respect to bank certificates of deposit as set forth below. Some of the fixed income securities in which the Account may invest may be considered to include speculative characteristics and the Account may purchase such securities that are in default but does not currently intend to invest more than 5% of its assets in securities rated below BBB by Standard & Poor's or Baa by Moody's. See "Below Investment-Grade Bonds" for a discussion of the risks associated with these securities. The rating services' descriptions of BBB or Baa securities are as follows: Moody's Investors Service, Inc. Bond Ratings -- Baa: Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. Standard & Poor's Corporation Bond Ratings -- BBB: Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher-rated categories. The Account will not concentrate its investments in any industry.

In selecting common stocks, the Sub-Advisor seeks companies which it believes have predictable earnings increases and which, based on their future growth prospects, may be currently undervalued in the market place. During periods when the Sub-Advisor determines that general economic conditions are favorable, it will generally purchase common stocks with the objective of long-term capital appreciation. From time to time, and in periods of economic uncertainty, the Sub-Advisor may purchase common stocks with the expectation of price appreciation over a relatively short period of time.

To achieve its investment objective, the Account may at times emphasize the generation of interest income by investing in short, medium or long-term debt securities. Investment in debt securities may also be made with a view to realizing capital appreciation when the Manager believes that declining interest rates may increase market values. The Account may also purchase "deep discount bonds," i.e., bonds which are selling at a substantial discount from their face amount, with a view to realizing capital appreciation.

The short-term money market investments in which the Account may invest include the following: U.S. Treasury bills, bank certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper and commercial paper master notes which are floating rate debt instruments without a fixed maturity. The Account will only invest in domestic bank certificates of deposit issued by banks which are members of the Federal Reserve System that have total deposits in excess of \$1 billion.

The United States government securities in which the Account may invest include U.S. Treasury obligations and obligations of certain agencies, such as the Government National Mortgage Association, which are supported by the full faith and credit of the United States, as well as obligations of certain other Federal agencies or instrumentalities, such as the Federal National Mortgage Association, Federal Land Banks and the Federal Farm Credit Administration, which are backed only by the right of the issuer to borrow limited funds from the U.S. Treasury, by the discretionary authority of the U.S. Government to purchase such obligations or by the credit of the agency or instrumentality

itself.

Capital Value Account

The primary objective of Capital Value Account is long-term capital appreciation. A secondary objective is growth of investment income.

The Account will invest primarily in common stocks, but it may invest in other securities. In making selections for the Account's investment portfolio, the Manager will use an approach described broadly as that of fundamental analysis, which is discussed in the Statement of Additional Information. To achieve the investment objective, Invista will invest in securities that have "value" characteristics. This process is known as "value investing." Value investing is purchasing securities of companies with above average dividend yields and below average price to earnings (P/E) ratios. Securities chosen for investment may include those of companies which the Manager believes can reasonably be expected to share in the growth of the nation's economy over the long term.

Growth Account

The objective of Growth Account is growth of capital. Realization of current income will be incidental to the objective of growth of capital.

The Account will invest primarily in common stocks, but it may invest in other equity securities. In making selections for the Account's investment portfolio, the Sub-Advisor, Invista, will use an approach described broadly as that of fundamental analysis, which is discussed in the Statement of Additional Information. In pursuit of the Account's investment objective, investments will be made in securities which as a group appear to possess potential for appreciation in market value. Common stocks chosen for investment may include those of companies which have a record of sales and earnings growth that exceeds the growth rate of corporate profits of the S&P 500 or which offer new products or new services. The policy of investing in securities which have a high potential for growth of capital can mean that the assets of the Account may be subject to greater risk than securities which do not have such potential.

International Account

The investment objective of International Account is to seek long-term growth of capital through investment in a portfolio of equity securities of companies domiciled in any of the nations of the world. In choosing investments in equity securities of foreign and United States corporations, the Sub-Advisor, Invista, intends to pay particular attention to long-term earnings prospects and the relationship of then-current prices to such prospects. Short-term trading is not generally intended, but occasional investments may be made for the purpose of seeking short-term or medium-term gain. The Account expects its investment objective to be met over long periods which may include several market cycles. For a description of certain investment risks associated with foreign securities, see "Foreign Securities."

For temporary defensive purposes, the International Account may invest in the same kinds of securities as the other Growth-Oriented Accounts whether issued by domestic or foreign corporations, governments, or governmental agencies, instrumentalities or political subdivisions and whether denominated in United States dollars or some other currency.

The Account intends that its investments normally will be allocated among various countries. Although there is no limitation on the percentage of assets that may be invested in any one country or denominated in any one currency, the Account intends under normal market conditions to have at least 65% of its assets invested in securities issued by corporations of at least five countries, one of which may be the United States (although the Account currently intends not to invest in equity securities of United States companies). Investments may be made anywhere in the world, but it is expected that primary consideration will be given to investing in the securities issued by corporations of Western Europe, North America and Australasia (Australia, Japan and Far East Asia) that have developed economies. Changes in investments may be made as prospects change for particular countries, industries or companies.

MidCap Account

The objective of MidCap Account is to achieve capital appreciation. The strategy of this Account is to invest primarily in the common stocks and securities (both debt and preferred stock) convertible into common stocks of emerging and other growth-oriented companies that, in the judgment of the Manager, are responsive to changes within the marketplace and have the fundamental characteristics to support growth. In pursuing its objective of capital appreciation, the MidCap Account may invest, for any period of time, in any industry, in any kind of growth-oriented company, whether new and unseasoned or well known and established. Under normal market conditions, the Account will invest at least 65% of its assets in securities of companies with market

capitalizations in the \$1 billion to \$10 billion range. The Account may invest up to 10% of its assets in securities of foreign issuers. For a description of certain investment risks associated with foreign securities, see "Risk Factors."

There can be, of course, no assurance that the Account will attain its objective. Investment in emerging and other growth-oriented companies may involve greater risk than investment in other companies. The securities of growth-oriented companies may be subject to more abrupt or erratic market movements, and many of them may have limited product lines, markets, financial resources or management. Because of these factors and of the length of time that may be required for full development of the growth prospects of some of the companies in which the Account invests, the Account believes that its shares are suitable only for persons who are prepared to experience above-average fluctuations in net asset value, to assume above-average investment risk in search of above-average return, and to consider the Account as a long-term investment and not as a vehicle for seeking short-term profits. Moreover, since the Account will not be seeking current income, investors should not view a purchase of Account shares as a complete investment program.

INCOME-ORIENTED ACCOUNTS

The Fund currently include two Accounts which seek a high level of income through investments in fixed-income securities (Bond Account and Government Securities Account) collectively referred to as the "Income-Oriented Accounts." An investment in either of the Income-Oriented Accounts involves market risks associated with movements in interest rates. The market value of the Accounts' investments will fluctuate in response to changes in interest rates and other factors. During periods of falling interest rates, the values of outstanding long-term fixed-income securities generally rise. Conversely, during periods of rising interest rates, the values of such securities generally decline. Changes by recognized rating agencies in their ratings of any fixed-income security and in the ability of an issuer to make payments of interest and principal may also affect the value of these investments. Changes in the value of portfolio securities will affect the Accounts' net asset values but will not affect cash income derived from the securities unless a change results from a failure of an issuer to pay interest or principal when due. Each Account's rating limitations apply at the time of acquisition of a security, and any subsequent change in a rating by a rating service will not require elimination of a security from the Account's portfolio. The Statement of Additional Information contains descriptions of ratings of Moody's Investors Service, Inc. ("Moody's") and Standard and Poor's Corporation ("S&P").

Bond Account

The investment objective of the Bond Account is to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

In seeking to achieve the investment objective, the Account will predominantly invest in marketable fixed-income securities. Investments will be made generally on a long-term basis, but the Account may make short-term investments from time to time as deemed prudent by the Manager. Longer maturities typically provide better yields but will subject the Account to a greater possibility of substantial changes in the values of its portfolio securities as interest rates change.

Under normal circumstances, the Account will invest at least 65% of its assets, exclusive of cash items, in one or more of the following kinds of securities: (i) corporate debt securities and taxable municipal obligations, which at the time of purchase have an investment grade rating within the four highest grades used by Standard & Poor's Corporation (AAA, AA, A or BBB) or by Moody's Investors Service, Inc. (Aaa, Aa, A or Baa) or which, if lower-rated or nonrated, are comparable in quality in the opinion of the Account's Manager; (ii) similar Canadian corporate, Provincial and Federal Government securities payable in U.S. funds; and (iii) securities issued or guaranteed by the United States Government or its agencies or instrumentalities. The balance of the Account's assets may be invested in other fixed income securities, including domestic and foreign corporate debt securities or preferred stocks, in common stocks that provide returns that compare favorably with the yields on fixed income investments, and in common stocks acquired upon conversion of debt securities or preferred stocks or upon exercise of warrants acquired with debt securities or otherwise and foreign government securities. The debt securities and preferred stocks in which the Account invests may be convertible or nonconvertible. The Account does not intend to purchase debt securities rated lower than Ba3 by Moody's or BB - by S & P (bonds which are judged to have speculative elements; their future cannot be considered as well-assured). See "Below Investment-Grade Bonds" for a discussion of the risks associated with these securities. The rating services' descriptions of BBB or Baa securities are as follows: Moody's Investors Service, Inc. Bond Ratings -- Baa: Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative

characteristics as well. Standard & Poor's Corporation Bond Ratings -- BBB: Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher-rated categories.

During the year ended December 31, 1996, the percentage of the Account's portfolio securities invested in the various ratings established by Moody's based upon the weighted average ratings of the portfolio, was as follows:

Moody's Rating	Portfolio Percentage
Aaa	.18%
Aa	.81%
A	24.05%
Baa	68.04%
Ba	6.92%

* The above percentages for A rated securities include .57% respectively, unrated securities which have been determined by the Manager to be of comparable quality.

Cash equivalents in which the Account invests include corporate commercial paper rated A-1+, A-1 or A-2 by Standard & Poor's or P-1 or P-2 by Moody's, unrated commercial paper issued by corporations with outstanding debt securities rated in the four highest grades by Standard & Poor's and Moody's and bank certificates of deposit and bankers' acceptances issued or guaranteed by national or state banks and repurchase agreements considered by the Account to have investment quality. Under unusual market or economic conditions, the Account may for temporary defense purposes invest up to 100% of its assets in cash or cash equivalents.

Government Securities Account

The objective of Government Securities Account is a high level of current income, liquidity and safety of principal.

The Account will invest in obligations issued or guaranteed by the United States Government or by its agencies or instrumentalities and in repurchase agreements collateralized by such obligations. Such securities include Government National Mortgage Association ("GNMA") Certificates of the modified pass-through type, Federal National Mortgage Association ("FNMA") Obligations, Federal Home Loan Mortgage Corporation ("FHLMC") Certificates and Student Loan Marketing Association ("SLMA") Certificates and other U.S. Government Securities. GNMA is a wholly-owned corporate instrumentality of the United States whose securities and guarantees are backed by the full faith and credit of the United States. FNMA, a federally chartered and privately-owned corporation, FHLMC, a federal corporation, and SLMA, a government sponsored stockholder-owned organization, are instrumentalities of the United States. The securities and guarantees of FNMA, FHLMC and SLMA are not backed, directly or indirectly, by the full faith and credit of the United States. Although the Secretary of the Treasury of the United States has discretionary authority to lend FNMA up to \$2.25 billion outstanding at any time, neither the United States nor any agency thereof is obligated to finance FNMA's or FHLMC's operations or to assist FNMA or FHLMC in any other manner. The Account may maintain reasonable amounts of cash or short-term debt securities for daily cash management purposes or pending selection of particular long-term investments.

Cash equivalents in which the Account invests include corporate commercial paper rated A-1+, A-1 or A-2 by S&P or P-1 or P-2 by Moody's, unrated commercial paper issued by corporations with outstanding debt securities rated in the four highest grades by S&P and Moody's and bank certificates of deposit and bankers' acceptances issued or guaranteed by national or state banks and repurchase agreements considered by the Account to have investment quality.

Depending on market conditions, up to 55% of the assets may be invested in GNMA Certificates. GNMA is a United States Government corporation within the Department of Housing and Urban Development. GNMA Certificates are mortgage-backed securities representing an interest in a pool of mortgage loans. Such loans are made by lenders such as mortgage bankers, insurance companies, commercial banks and savings and loan associations. Then, they are either insured by the Federal Housing Administration (FHA) or they are guaranteed by the Veterans Administration (VA) or Farmers Home Administration (FmHA). The lender or other prospective issuer creates a specific pool of such mortgages, which it submits to GNMA for approval. After approval, a GNMA Certificate is typically offered by the issuer to investors through securities dealers.

GNMA Certificates differ from bonds in that the principal is scheduled to be paid back by the borrower on a monthly basis over the life of the loan rather than returned in a lump sum at maturity. Modified pass-through GNMA certificates, which are the only kind in which the Account intends to invest, entitle the holder to receive all interest and principal payments owed on the mortgages in the pool (net of the issuer and GNMA fee of .5% prescribed by regulation), regardless of whether or not the mortgagor has made such payment. The timely payment of interest and principal is guaranteed by the full faith and

credit of the United States Government.

Although the payment of interest and principal is guaranteed, the guarantee does not extend to the value of a GNMA Certificate or the value of the shares of the Account. The market value of a GNMA Certificate typically will fluctuate to reflect changes in prevailing interest rates. It falls when rates increase (as does the market value of other debt securities) and it rises when rates decline (but it may not rise on a comparable basis with other debt securities because of its prepayment feature), and, therefore, may be more or less than the face amount of the GNMA Certificate, which reflects the aggregate principal amount of the underlying mortgages. As a result, the net asset value of Account shares will fluctuate as interest rates change.

Mortgagors may pay off their mortgages at any time. Expected prepayments of the mortgages can affect the market value of the GNMA Certificate, and actual prepayments can affect the return ultimately received. Prepayments, like scheduled payments of principal, are reinvested by the Account at prevailing interest rates which may be less than the rate on the GNMA Certificate. Prepayments are likely to increase as the interest rate for new mortgages moves lower than the rate on the GNMA Certificate. Moreover, if the GNMA Certificate had been purchased at a premium above principal because its rate exceeded prevailing rates, the premium is not guaranteed and a decline in value to par may result in a loss of the premium especially in the event of prepayment.

To the extent deemed appropriate by the Account's Manager, the Account intends to purchase GNMA Certificates directly from Principal Mutual Life Insurance Company and other issuers as well as from securities dealers. The Account will purchase directly from issuers only if it can obtain a price advantage by not paying the commission or mark-up that would be required if the Certificates were purchased from a securities dealer. The Securities and Exchange Commission has issued an order under the Investment Company Act of 1940 that permits the Account to purchase GNMA Certificates directly from Principal Mutual Life Insurance Company subject to certain conditions.

The FNMA and FHLMC securities in which the Account invests are very similar to GNMA certificates as described above but are not guaranteed by the full faith and credit of the United States but rather by the agency itself. FNMA and FHLMC securities are rated Aaa by Moody's and AAA by Standard & Poor's. These ratings reflect the status of FNMA and FHLMC as federal agencies as well as the important role each plays in financing purchases of homes in the U.S.

Student Loan Marketing Association is a government sponsored stockholder-owned organization whose goal is to provide liquidity to financial and educational institutions. SLMA provides liquidity by purchasing student loans, which are principally government guaranteed loans issued under the Federal Guaranteed Student Loan Program and the Health Education Assistance Loan Program. SLMA securities are not guaranteed by the U.S. Government but are obligations solely of the agency. SLMA senior debt issues in which the Account invests are rated AAA by Standard & Poor's and Aaa by Moody's.

There are other obligations issued or guaranteed by the United States Government (such as U.S. Treasury securities) or by its agencies or instrumentalities that are either supported by the full faith and credit of the U.S. Treasury or the credit of a particular agency or instrumentality. Included in the latter category are Federal Home Loan Bank and Farm Credit Banks. Obligations not guaranteed by the United States Government are highly rated because they are issued by indirect branches of government. Such paper is issued as needs arise by the agency and is traded regularly in denominations similar to those in which government obligations are traded.

The Account will not engage in the trading of securities for the purpose of realizing short-term profits, but it will adjust its portfolio as considered advisable in view of prevailing or anticipated market conditions and the Account's investment objective. Accordingly, the Account may sell portfolio securities in anticipation of a rise in interest rates and purchase securities for inclusion in its portfolio in anticipation of a decline in interest rates.

As a hedge against changes in interest rates, the Account may enter into contracts with dealers in GNMA Certificates whereby the Account agrees to purchase or sell an agreed-upon principal amount of GNMA Certificates at a specified price on a certain date. The Account may enter into similar purchase agreements with issuers of GNMA Certificates other than Principal Mutual Life Insurance Company. The Account may also purchase optional delivery standby commitments which give the Account the right to sell particular GNMA Certificates at a specified price on a specified date. Failure of the other party to such a contract or commitment to abide by the terms thereof could result in a loss to the Account. To the extent the Account engages in delayed delivery transactions it will do so for the purpose of acquiring portfolio securities consistent with its investment objective and policies and not for the purpose of investment leverage or to speculate on interest rate changes. Liability accrues to the Account at the time it becomes obligated to purchase such securities, although delivery and payment occur at a later date. From the time the Account becomes obligated to purchase securities on a delayed delivery basis the Account has all the rights and risks attendant to the ownership of a security. At the time the Account enters into a binding obligation to purchase

such securities, Account assets of a dollar amount sufficient to make payment for the securities to be purchased will be segregated. The availability of liquid assets for this purpose and the effect of asset segregation on the Account's ability to meet its current obligations, to honor requests for redemption and to have its investment portfolio managed properly will limit the extent to which the Account may engage in forward commitment agreements. Except as may be imposed by these factors, there is no limit on the percent of the Account's total assets that may be committed to transactions in such agreements.

MONEY MARKET ACCOUNT

The Fund also includes an Account which invests primarily in short-term securities, the Money Market Account. Securities in which the Money Market Account will invest may not yield as high a level of current income as securities of low quality and longer maturities which generally have less liquidity, greater market risk and more fluctuation.

The Money Market Account will limit its portfolio investments to United States dollar denominated instruments that the board of directors determines present minimal credit risks and which are at the time of acquisition "Eligible Securities" as that term is defined in regulations issued under the Investment Company Act of 1940. Eligible Securities include:

- (1) A security with the remaining maturity of 397 days or less that is rated (or that has been issued by an issuer that is rated in respect to a class of short-term debt obligations, or any security within that class, that is comparable in priority and security with the security) by a nationally recognized statistical rating organization in one of the two highest rating categories for short-term debt obligations; or
- (2) A security that at the time of issuance was a long-term security that has a remaining maturity of 397 calendar days or less, and whose issuer has received from a nationally recognized statistical rating organization a rating, with respect to a class of short-term debt obligations (or any security within that class) that is now comparable in priority and security with the security, in one of the two highest rating categories for short-term debt obligations; or
- (3) An unrated security that is of comparable quality to a security meeting the requirements of (1) or (2) above, as determined by the board of directors.

The Account will not invest more than 5% of its total assets in the following securities:

- (1) Securities which, when acquired by the Account (either initially or upon any subsequent rollover), are rated below the highest rating category for short-term debt obligations;
- (2) Securities which, at the time of issuance were long-term securities but when acquired by the Account have a remaining maturity of 397 calendar days or less, if the issuer of such securities is rated, with respect to a class of comparable short-term debt obligations, below the highest rating category for short-term obligations;
- (3) Securities which are unrated but are determined by the Account's board of directors to be of comparable quality to securities rated below the highest rating category for short-term debt obligations. The Account will maintain a dollar-weighted average portfolio maturity of 90 days or less.

The objective of the Money Market Account is to seek as high a level of current income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing its assets in a portfolio of money market instruments. These money market instruments are U.S. Government Securities, U.S. Government Agency Securities, Bank Obligations, Commercial Paper, Short-term Corporate Debt and Repurchase Agreements, which are described briefly below and in more detail in the Statement of Additional Information.

U.S. Government Securities are securities issued or guaranteed by the U.S. Government, including treasury bills, notes and bonds.

U.S. Government Agency Securities are obligations issued or guaranteed by agencies or instrumentalities of the U.S. Government whether supported by the full faith and credit of the U.S. Treasury or only by the credit of a particular agency or instrumentality.

Bank Obligations consist of certificates of deposit which are generally negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified return and bankers acceptances which are time drafts drawn on a commercial bank by a borrower, usually in connection with international commercial transactions.

Commercial Paper is short-term promissory notes issued by corporations primarily to finance short-term credit needs.

Short-term Corporate Debt consists of notes, bonds or debentures which at the time of purchase have one year or less remaining to maturity.

Repurchase Agreements are transactions under which securities are purchased from a bank or securities dealer with an agreement by the seller to repurchase the securities at the same price plus interest at a specified rate. Generally, Repurchase Agreements are of short duration, usually less than a week but on occasion for longer periods.

The Account intends to hold its investments until maturity, but may on occasion trade securities to take advantage of market variations. Also, revised valuations of an issuer or redemptions may result in sales of portfolio investments prior to maturity or at times when such sales might otherwise not be desirable. The Account's right to borrow to facilitate redemptions may reduce the need for such sales. It is the Account's policy to be as fully invested as reasonably practical at all times to maximize current income.

Since portfolio assets will consist of short-term instruments, replacement of portfolio securities will occur frequently. However, since the Account expects to usually transact purchases and sales of portfolio securities with issuers or dealers on a net basis, it is not anticipated that the Account will pay any significant brokerage commissions. The Account is free to dispose of portfolio securities at any time, when changes in circumstances or conditions make such a move desirable in light of the investment objective.

A shareholder's rate of return will vary with the general interest rate levels applicable to the money market instruments in which the Account invests. The rate of return and the net asset value will be affected by such other factors as sales of portfolio securities prior to maturity and the Account's operating expenses.

CERTAIN INVESTMENT POLICIES AND RESTRICTIONS

Following is a discussion of certain investment practices that the Accounts may use in an effort to achieve their respective investment objectives.

Diversification

Each Account is subject to the diversification requirements of Section 817(h) of the Internal Revenue Code (the "Code") which must be met at the end of each quarter of the year (or within 30 days thereafter). Regulations issued by the Secretary of the Treasury have the effect of requiring each Account to invest no more than 55% of its total assets in securities of any one issuer, no more than 70% in the securities of any two issuers, no more than 80% in the securities of any three issuers, and no more than 90% in the securities of any four issuers. For this purpose, the United States Treasury and each U.S. Government agency and instrumentality is considered to be a separate issuer. Thus, the Government Securities Account intends to invest in U.S. Treasury securities and in securities issued by at least four U.S. Government agencies or instrumentalities in the amounts necessary to meet those diversification requirements at the end of each quarter of the year (or within thirty days thereafter).

In the event any of the Accounts do not meet the diversification requirements of Section 817(h) of the Code, the contracts funded by shares of the Accounts will not be treated as annuities or life insurance for Federal income tax purposes and the owners of the Accounts will be subject to taxation on their share of the dividends and distributions paid by the Accounts.

Foreign Securities

Each of the following Accounts has adopted investment restrictions that limit its investments in foreign securities to the indicated percentage of its assets: International Account - 100%; Bond and Capital Value Accounts - 20%; Balanced, Growth and MidCap Accounts - 10%. Debt securities issued in the United States pursuant to a registration statement filed with the Securities and Exchange Commission are not considered "foreign securities" for purposes of this investment limitation. Investment in foreign securities presents certain risks including those resulting from fluctuations in currency exchange rates, revaluation of currencies, the imposition of foreign taxes, future political and economic developments including war, expropriations, nationalization, the possible imposition of currency exchange controls and other foreign governmental laws or restrictions, reduced availability of public information concerning issuers, and the fact that foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards or to other regulatory practices and requirements comparable to those applicable to domestic issuers. Moreover, securities of many foreign issuers may be less liquid and their prices more volatile than those of comparable domestic issuers. In addition, transactions in foreign securities may be subject to higher costs, and the time for settlement of transactions in foreign securities may be longer than the settlement period for domestic issuers. An Accounts investment in foreign

securities may also result in higher custodial costs and the costs associated with currency conversions.

Currency Contracts

The International Account may enter into forward currency contracts, currency futures contracts and options thereon and options on currencies for hedging and other non-speculative purposes. A forward currency contract involves a privately negotiated obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract. The Account will not enter into a transaction to hedge currency exposure to an extent greater in effect than the aggregate market value of the securities held or to be purchased by the Account that are denominated or generally quoted in or currently convertible into the currency. When the Account enters into a contract to buy or sell a foreign currency, it generally will hold an amount of that currency, liquid securities denominated in that currency or a forward contract for such securities equal to the Account's obligation, or it will segregate liquid high grade debt obligations equal to the amount of the Account's obligations. The use of currency contracts involves many of the same risks as transactions in futures contracts and options as well as the risk of government action through exchange controls or otherwise that would restrict the ability of the Account to deliver or receive currency.

Repurchase Agreements and Securities Loans

Each of the Accounts may enter into repurchase agreements with, and each of the Accounts, except the Capital Value and Money Market Accounts, may lend its portfolio securities to, unaffiliated broker-dealers and other unaffiliated qualified financial institutions. These transactions must be fully collateralized at all times, but involve some credit risk to the Account if the other party should default on its obligations, and the Account is delayed or prevented from recovering on the collateral. See the Accounts' Statement of Additional Information for further information regarding the credit risks associated with repurchase agreements and the standards adopted by the Fund's Board of Directors to deal with those risks. None of the Accounts intend either (i) to enter into repurchase agreements that mature in more than seven days if any such investment, together with any other illiquid securities held by the Account, would amount to more than 10% of its total assets or (ii) to loan securities in excess of 30% of its total assets.

Forward Commitments

From time to time, each of the Accounts may enter into forward commitment agreements which call for the Accounts to purchase or sell a security on a future date and at a price fixed at the time the Account enters into the agreement. Each of the Accounts may also acquire rights to sell its investments to other parties, either on demand or at specific intervals.

Warrants

Each of the Accounts, except the Money Market and Government Securities Accounts, may invest in warrants up to 5% of its assets, of which not more than 2% may be invested in warrants that are not listed on the New York or American Stock Exchange. For the International Account, the 2% limitation also does not apply to warrants listed on the Toronto Stock Exchange or the Chicago Board Options Exchange.

Borrowing

As a matter of fundamental policy, each Account may borrow money only for temporary or emergency purposes. The Balanced, Bond, Capital Value and Money Market Accounts may borrow only from banks. Further, each may borrow only in an amount not exceeding 5% of its assets, except the Capital Value Account which may borrow only in an amount not exceeding the lesser of (i) 5% of the value of its assets less liabilities other than such borrowings, or (ii) 10% of its assets taken at cost at the time the borrowing is made, and the Money Market Account which may borrow only in an amount not exceeding the lesser of (i) 5% of the value of its assets, or (ii) 10% of the value of its net assets taken at cost at the time the borrowing is made.

Options

The Balanced, Bond, Government Securities, Growth, International, and MidCap Accounts may each purchase covered spread options, which would give the Account the right to sell a security that it owns at a fixed dollar spread or yield spread in relationship to another security that the Account does not own, but which is used as a benchmark. These same Accounts may also purchase and sell financial futures contracts, options on financial futures contracts and options on securities and securities indices, but will not invest more than 5% of their assets in the purchase of options on securities, securities indices and financial futures contracts or in initial margin and premiums on financial futures contracts and options thereon. The Accounts may write options on securities and securities indices to generate additional revenue and for hedging purposes and may enter into transactions in financial futures contracts and options on those contracts for hedging purposes.

Below Investment Grade Bonds

Below investment-grade bonds are securities rated Ba1 or lower by Moody's Investors Service, Inc. ("Moody's") or BB+ or lower by Standard & Poor's Corporation ("S&P") or unrated securities which the Account's Manager or Sub-Advisor believes are of comparable quality. These securities are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and to repay principal in accordance with the terms of the obligation. The Accounts do not intend to invest in securities rated lower than Ba3 by Moody's or BB by S&P. The Bond Account may not invest more than 35% of its assets in such securities. The Balanced Account does not intend to invest more than 5% of its assets in such securities.

The rating services' descriptions of below investment grade securities rating categories in which the Accounts may normally invest are as follows:

Moody's Investors Service, Inc. Bond Ratings - Ba: Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

Moody's may apply numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa through Ba in its bond rating system. The modifier 1 indicates that the security ranks in the high end of its generic rating category; the modifier 2 indicates a mid-range ranking; and a modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Standard & Poor's Corporation Bond Ratings - BB: Debt rated "BB" is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

Plus (+) or Minus (-): The "BB" rating may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Below investment-grade securities present special risks to investors. The market value of lower-rated securities may be more volatile than that of higher-rated securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than more highly rated securities, which reflect primarily fluctuations in general levels of interest rates. Periods of economic uncertainty and change can be expected to result in increased volatility in the market value of lower-rated securities. Further, such securities may be subject to greater risks of loss of income and principal, particularly in the event of adverse economic changes or increased interest rates, because their issuers generally are not as financially secure or as creditworthy as issuers of higher-rated securities. Additionally, to the extent that there is not a national market system for secondary trading of lower-rated securities, there may be a low volume of trading in such securities which may make it more difficult to value or sell those securities than higher-rated securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of high yield securities, especially in a thinly traded market.

Investors should recognize that the market for below investment-grade securities is a relatively recent development that has not been tested by an economic recession. An economic downturn may severely disrupt the market for such securities and cause financial stress to the issuers which may adversely affect the value of the securities held by the Accounts and the ability of the issuers of the securities held by the Accounts to pay principal and interest. A default by an issuer may result in an Account incurring additional expenses to seek recovery of the amounts due it.

Some of the securities in which the Accounts invest may contain call provisions. If the issuer of such a security exercises a call provision in a declining interest rate market, the Account would have to replace the security with a lower-yielding security, resulting in a decreased return for investors. Further, a higher-yielding security's value will decrease in a rising interest rate market, which will be reflected in the Account's net asset value per share.

The Statement of Additional Information includes further information concerning the Accounts' investment policies and applicable investment restrictions. Each Account's investment objective and certain investment restrictions designated as such in this Prospectus or the Statement of Additional Information are fundamental policies that may not be changed without shareholder approval. All other investment policies described in the Prospectus and the Statement of Additional Information for an Account are not fundamental and may be changed by the Board of Directors of the Fund without shareholder approval.

MANAGER AND SUB-ADVISOR

The Manager for the Fund is Principal Management Corporation (the "Manager"), an indirectly wholly-owned subsidiary of Principal Mutual Life Insurance Company, a mutual life insurance company organized in 1879 under the laws of the State of Iowa. The address of the Manager is The Principal Financial Group, Des Moines, Iowa 50392. The Manager was organized on January 10, 1969, and since that time has managed various mutual funds sponsored by Principal Mutual Life Insurance Company. As of December 31, 1996, the Manager served as investment advisor for 26 such funds with assets totaling approximately \$4.0 billion.

The Manager has executed an agreement with Invista Capital Management, Inc. ("Invista") under which Invista has agreed to assume the obligations of the Manager to provide investment advisory services for the Balanced, Capital Value, Government Securities, Growth, International and MidCap Accounts. The Manager will reimburse Invista for the cost of providing these services. Invista, an indirectly wholly-owned subsidiary of Principal Mutual Life Insurance Company and an affiliate of the Manager, was founded in 1985 and manages investments for institutional investors, including Principal Mutual Life. Assets under management at December 31, 1996 were approximately \$19.6 billion. Invista's address is 1800 Hub Tower, 699 Walnut, Des Moines, Iowa 50309.

The Manager or Invista has assigned certain individuals the primary responsibility for the day-to-day management of each Account's portfolio. The persons primarily responsible for the day-to-day management of each Account are identified in the table below:

<TABLE>
<CAPTION>

Account <S>	Primarily Responsible Since <C>	Person Primarily Responsible <C>
Balanced	April, 1993	Judith A. Vogel, CFA (BA degree, Central College). Vice President, Invista Capital Management, Inc. Co-Manager since December, 1997; Martin J. Schafer (BBA degree, University of Iowa). Vice President, Invista Capital Management, Inc.
Bond	November, 1996	Scott A. Bennett, CFA (MBA degree, University of Iowa) Assistant Director Investment Securities, Principal Mutual Life Insurance Company.
Capital Value	November, 1969 (Account's inception)	David L. White, CFA (BBA degree, University of Iowa). Executive Vice President, Invista Capital Management, Inc.; Co-Manager since November, 1996; Catherine A. Green, CFA, (MBA degree, Drake University). Vice President, Invista Capital Management, Inc.
Government Securities	April, 1987 (Account's inception)	Martin J. Schafer (BBA degree, University of Iowa). Vice President, Invista Capital Management, Inc.
Growth and MidCap	May, 1994 (Account's inception) and December, 1987 (Account's inception), respectively	Michael R. Hamilton, (BMBA degree, Bellarmine College). Vice President, Invista Capital Management, Inc.
International	April, 1994	Scott D. Opsal, CFA (MBA degree, University of Minnesota). Executive Vice President, Invista Capital Management, Inc.

</TABLE>

DUTIES PERFORMED BY THE MANAGER AND SUB-ADVISOR

Under Maryland law, the business and affairs of the Fund are managed under the direction of its Board of Directors. The investment services and certain other services referred to under the heading "Cost of Manager's Services" in the Statement of Additional Information are furnished to the Fund under the terms of a Management Agreement between the Fund and the Manager and, for some of the Accounts, a Sub-Advisory Agreement between the Manager and Invista. The Manager, or Invista, advises the Accounts on investment policies and on the composition of the Accounts' portfolios. In this connection, the Manager, or Invista, furnishes to the Board of Directors of the Fund a recommended investment program consistent with the Account's investment objective and policies. The Manager, or Invista, is authorized, within the scope of the approved investment program, to determine which securities are to be bought or sold, and in what amounts.

The compensation paid by each Account to the Manager for the fiscal year ended December 31, 1996 was, on an annual basis, equal to the following percentage of average net assets:

Account	Manager's Fee	Total Annualized Expenses
Balanced Account	.60%	.63%
Bond Account	.50%	.53%
Capital Value Account	.48%	.49%

Government Securities Account	.50%	.52%
Growth Account	.50%	.52%
International Account	.75%	.90%
MidCap Account	.64%	.66%
Money Market Account	.50%	.56%

The compensation being paid by the International Account for investment management services is higher than that paid by most funds to their advisor, but it is not higher than the fees paid by many funds with similar investment objectives and policies.

The Manager and Sub-Advisor may purchase at their own expense statistical and other information or services from outside sources, including Principal Mutual Life Insurance Company. An Investment Service Agreement between the Manager, Principal Mutual Life Insurance Company and the Fund, provides that Principal Mutual Life Insurance Company will furnish certain personnel, services and facilities required by the Manager in connection with its performance of the Management Agreements, and that the Manager will reimburse Principal Mutual Life Insurance Company for its costs incurred in this regard.

The Accounts may from time to time execute transactions for portfolio securities with, and pay related brokerage commissions to Principal Financial Securities, Inc., a broker-dealer that is an affiliate of the Distributor and Manager for the Fund.

The Manager serves as investment advisor, dividend disbursing agent and, directly and through an affiliate, as transfer agent for each of the Funds sponsored by Principal Mutual Life Insurance Company.

MANAGERS' COMMENTS

Princor Management Corporation and Invista are staffed with investment professionals who manage each individual Account. Comments by these individuals in the following paragraphs summarize in capsule form the general strategy and results of each Account through 1996. The accompanying charts display results for the past 10 years or the life of the Account, whichever is shorter. Average Annual Total Return figures provided for each Account in the graphs below reflect all expenses of the Account and assume all distributions are reinvested at net asset value. The figures do not reflect expenses of the variable life insurance contracts or variable annuity contracts that purchase Account shares; performance figures for the divisions of the contracts would be lower than performance figures for the Accounts due to the additional contract expenses. Past performance is not predictive of future performance. Returns and net asset values fluctuate. Shares are redeemable at current net asset value, which may be more or less than original cost.

The various indices included in the graphs below are unmanaged and do not reflect any commissions or fees which would be incurred by an investor purchasing the securities included in the index. Investors cannot invest directly into these or any indices.

Growth-Oriented Accounts

Balanced Account
(Judith A. Vogel)

This balanced portfolio combines stocks, bonds and cash in a relatively conservative mix which seeks to provide both capital appreciation and income to the shareholder without taking on undue risk. The asset allocation of the Account generally approximates 60% stocks and 40% bonds. In the year ended December 31, 1996 the stock market produced exceptional results. Aided by a healthy economy, continued corporate profit growth, and a good dose of investor enthusiasm, the S&P 500 Stock Index advanced nearly 23%. Conditions in the bond market were less supportive over the year. Long-term interest rates rose 0.70% in 1996, with a lot of volatility along the way, causing the bond returns to hover between zero and 3% for the year. Demonstrating its balanced nature, the Account produced a 13% annual return, about midway between stock and bond market results and very near the Lipper Balanced Fund Average. The bond portion of the Account's portfolio is comprised of U.S. Government notes and bonds with an emphasis on safety of principal. The stock portion of the portfolio is concentrated in companies with stable or growing earnings that are not terribly sensitive to economic activity. After six years of economic expansion resulting in high rates of resource utilization, corporate profit growth is likely to come down, causing a scarcity of earnings growth. Companies that can continue to grow earnings will be afforded premium valuations. There is no independent market index against which to measure returns of balanced portfolios, however, we show the S&P 500 Stock Index for your information.

Total Returns *
As of December 31, 1996

-----		Since Inception
1 Year	5 Year	Date 12/18/87

Comparison of Change in Value of \$10,000 Investment in the
Balanced Account, S&P 500 and Lipper Balanced Fund Average

Year Ended December 31,	Fund	S&P 500 Index	Lipper
	Total Return		Mid Cap Index
	10,000	10,000	10,000
1988	11,637	11,661	11,229
1989	12,982	15,356	13,429
1990	12,147	14,877	13,355
1991	16,321	19,412	16,930
1992	18,410	20,891	18,122
1993	20,447	22,992	20,066
1994	20,019	23,294	19,561
1995	24,941	32,037	24,482
1996	28,215	39,388	27,851

Note: Past performance is not predictive of future performance.

Capital Value Account

(David L. White and Catherine A. Green)

The strategy with this portfolio is to hold common stocks of companies based on a valuation that is attractive when compared to the market. The analytical staff looks at companies' current valuations compared to the market, then at historical information to compare valuations to historical averages. The focus is on the fundamentals of an industry and the company to determine the current and future outlook as these potential investments. From there the portfolio is constructed to provide a diversified set of investments.

The Account outperformed the S&P 500 Index and Lipper Growth and Income Fund Average for 1996. The strength of the market was in much fewer stocks than in the past. The volatility between industries was much greater than the overall results. The Account benefited from several areas of exposure. Banks and health care were the strongest areas for the Account during the year. The focus has been away from the more cyclical areas of the economy which also helped during the year. As the economic cycle progresses, the market places more emphasis on companies with consistent earnings growth, and we have tended to overweight these areas of the market. As the market performance continues to narrow, however, it becomes increasingly difficult to select the correct areas of overperformance.

Total Returns *
As of December 31, 1996

1 Year	5 Year	10 Year
23.50%	14.08%	13.08%

Comparison of Change in Value of \$10,000 Investment in the
Capital Value Account, S&P 500 and Lipper Growth and Income Fund Average

Year Ended December 31,	Fund	S&P 500 Stock Index	Lipper
	Total Return		Growth & Income Fund Average
	10,000	10,000	10,000
1987	10,647	10,526	10,184
1988	12,183	12,274	11,814
1989	14,155	16,163	14,596
1990	12,759	15,659	13,946
1991	17,693	20,433	18,002
1992	19,377	21,990	19,618
1993	20,888	24,201	21,884
1994	20,990	24,519	21,678
1995	27,688	33,722	28,360
1996	34,193	41,460	34,253

Note: Past performance is not predictive of future performance.

Growth Account

(Michael R. Hamilton)

The Growth Account struggled against the market in 1996; struggle being relative as 12.23% return is respectable from a historical perspective. The S&P 500 Index last year was heavily influenced by the top 25 holdings in the Index. These are very large companies. The Account is more diversified than the Index and therefore its results were more representative of the broader market. With the market continuing to struggle against the potential of an economic boom on

one hand, versus a slowing or recession on the other, the market could be subjected to emotional swings depending on the inflation outlook.

The Account's portfolio still has a large focus on health care given the demographics of the United States. This was not a strong sector in 1996, particularly the managed care companies of which the portfolio has a large exposure. Also, the portfolio has large positions in technology and growth cyclicals. These companies should do well if the economy continues to move forward which is indicated by current data.

The portfolio contains many companies that are able to compete on a world wide basis. This is important as global competition continues.

Total Returns *
As of December 31, 1996

1 Year	Since Inception Date 5/2/94	10 Year
12.51%	16.12%	--

Comparison of Change in Value of \$10,000 Investment in the
Growth Account, S&P 500 and Lipper Growth Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Index	Lipper Growth Index
	10,000	10,000	10,000
1994	10,542	10,397	10,090
1995	13,243	14,299	13,197
1996	14,899	17,580	15,736

Note: Past performance is not predictive of future performance.

International Account
(Scott D. Opsal)

The International Account's 26.2% total return in 1996 was driven by broad based market rallies across Europe. Several European markets have climbed more than 20% in 1996, with Japan and Italy being the only major markets not reflecting strong gains. The Account's investment strategy of holding stocks in smaller European economies produced outperformance as interest rate moves have been favorable this year. Long bond yields in secondary European markets fell while rates in the stronger core countries have inched up. The Account's overexposure to the falling rate markets and underexposure to the rising rate markets was a significant positive factor producing returns that exceeded EAFE's 6.1% and the average international fund in 1996.

The Account also benefited from non-cyclical stockholdings in Europe. Food, drug, technology, and stable growth cyclicals have outperformed the heavier cyclical industries. The Account's move into non-cyclical growth stocks early in the year proved timely. The Account remains underweighted in Japan due to poor valuations and a weak economic outlook. Japan has been the worst performing major market, and the Account's lack of exposure to this market also boosted relative returns.

Adverse currency changes diminished the Account's returns as measured in U.S. dollars by an estimated 2%. We believe the EAFE index has suffered a currency loss exceeding 4%, and the average manager has lost an estimated 3%. Thus, the Account's investment strategy placed it in markets suffering relatively small foreign exchange losses thereby aiding relative return performance.

The Account is subject to specific risks associated with foreign currency rates, foreign taxation and foreign economies.

Total Returns *
As of December 31, 1996

1 Year	Since Inception Date 5/2/94	10 Year
25.09%	12.83%	--

Comparison of Change in Value of \$10,000 Investment in the
International Account, EAFE and Lipper International Fund Average

Year Ended December 31,	Fund Total Return	Morgan Stanley EAFE Index	Lipper International Index
	10,000	10,000	10,000
1994	9,663	9,990	9,758
1995	11,032	11,110	10,676
1996	13,800	11,781	11,934

Note: Past performance is not predictive of future performance.

MidCap Account
(Michael R. Hamilton)

The equity market was strong in 1996, but within the market there were two different trends. Large-cap stocks performed much better than small-cap stocks. The MidCap Account returned 19.13% compared with the Lipper Mid Cap Average of 17.9%. The Account and the Lipper Average trailed the S&P 500 Index because of their emphasis on small cap stocks. While both trailed the S&P 500, this was a good year for the Account.

The financial market continues to grapple with the paradox of strong economic growth with no apparent inflation. Productivity will be key in 1997 if inflation is to remain benign. The Account's portfolio continues to be focused on companies that should enhance productivity of both labor and capital. Several of the technology, service and cyclical areas support this emphasis. The portfolio is also overweighted in the financial sector as bank consolidation continues.

Continued profit growth will be important in 1997 as well. Companies with more predictable and visible earnings growth are preferred. This continues to be those that are low cost producers and have competitive barriers to entry. Selectivity in all sectors will be crucial to outperformance.

Total Returns *
As of December 31, 1996

1 Year 5 Year Since Inception Date 12/18/87
21.11% 16.64% 17.73%

Comparison of Change in Value of \$10,000 Investment
in the MidCap Account, S&P 500 and
Lipper Mid Cap Fund Average

Year Ended December 31,	Fund Total Return	S&P 500 Index	Lipper MID CAP Index
	10,000	10,000	10,000
1988	12,369	11,661	11,476
1989	15,070	15,356	14,586
1990	13,186	14,877	14,067
1991	20,240	19,412	21,275
1992	23,264	20,891	23,213
1993	27,750	22,992	26,625
1994	27,967	23,294	26,079
1995	36,080	32,037	34,469
1996	43,697	39,388	40,646

Note: Past performance is not predictive of future performance.

Important Notes of the Growth-Oriented Accounts:

Standard & Poor's 500 Stock Index: an unmanaged index of 500 widely held common stocks representing industrial, financial, utility and transportation companies listed on the New York Stock Exchange, American Stock Exchange and the Over-the-Counter market.

Lipper Growth Fund Average: This average consists of funds which normally invest in companies whose long-term earnings are expected to grow significantly faster than the earnings of the stocks represented in the major unmanaged stock indices. The one-year average at December 31, 1996 contained 669 funds.

Lipper Flexible Portfolio Fund Average: This average consists of funds which allocate their investments across various asset classes, including domestic common stocks, bonds and money market instruments, with a focus on total return. The one-year average at December 31, 1996 contained 186 funds.

Lipper Balanced Fund Average: this average consists of mutual funds which attempt to conserve principal by maintaining at all times a balanced portfolio of both stocks and bonds. Typically, the stock/bond ratio ranges around 60%/40%. The one year average at December 31, 1996 contained 272 mutual funds.

Lipper Growth & Income Fund Average: this average consists of funds which combine a growth of earnings orientation and an income requirement for level and/or rising dividends. The one year average at December 31, 1996 contained 522 funds.

Lipper Mid Cap Fund Average: This average consists of funds which by prospectus or portfolio practice, limit their investments to companies with average market

capitalizations and/or revenues between \$800 million and the average market capitalization of the Wilshire 4500 Index (as captured by the Vanguard Index Extended Market Fund). The one-year average at December 31, 1996 contained 154 funds.

Morgan Stanley Capital International EAFE (Europe, Australia and Far East) Index: This average reflects an arithmetic, market value weighted average of performance of 1,920 listed securities which are listed on the stock exchanges of the following countries: Australia, Austria, Belgium, Denmark, Netherlands, New Zealand, Norway, Singapore/Malaysia, Spain, Sweden, Switzerland, and the United Kingdom.

Lipper International Fund Average: This average consists of funds which invest in securities primarily traded in markets outside of the United States. The one-year average at December 31, 1996 contained 331 funds.

Income-Oriented Accounts:

Bond Account
(Scott A. Bennett)

The Bond Account's performance in 1996 lagged when compared to 1995. 1995 was a banner year, mainly because of dramatically declining interest rates. During 1996 interest rates increased throughout most of the year based on fears of increasing inflation. This hurt the Account's relative performance as the duration target of 7 years (actual duration at 12/31/96 was 6.98 years) is longer than the average BBB rated bond fund and the BAA Lehman Corporate Index. Relative performance was also negatively impacted by the lack of a significant amount of less than investment grade bonds in the portfolio. High yield (less than investment grade) debt performed extremely well during 1996, with many of the top performing funds in the Lipper BAA universe having significant exposures to this asset class.

Over the long-term, the Account continues to outperform the average BBB fund. This is attributed to remaining fully invested and not trying to guess interest rates. The BBB corporate bond class continued to be an attractive asset class in 1996, outperforming all other taxable investment grade classes. Spreads continued to narrow during the year with defaults low and a large amount of funds chasing the available bonds.

Total Returns *
As of December 31, 1996

1 Year	5 Year	Since Inception Date 12/18/87
2.36%	8.20%	9.55%

Comparison of Change in Value of \$10,000 Investment in the Bond Account,
Lehman Brothers BAA Corporate Index and Lipper Corporate Debt BBB Rated Fund
Average

Year Ended December 31,	Fund Total Return	Lehman BAA Index	Lipper BBB Avg
	10,000	10,000	10,000
1988	10,991	11,129	10,900
1989	12,514	12,699	12,060
1990	13,167	13,595	12,751
1991	15,369	16,113	15,020
1992	16,810	17,512	16,258
1993	18,771	19,665	18,261
1994	18,227	18,707	17,447
1995	22,268	22,959	20,948
1996	22,794	23,882	21,616

Note: Past performance is not predictive of future performance.

Government Securities Account
(Martin J. Schafer)

Interest rates rose in 1996, which dampened absolute fixed income returns. The Account underperformed the Lipper U.S. Mortgage Fund Average and the Lehman MBS Index in 1996 due to its slightly longer duration. However, since the Account's inception of 4/9/87 it has outperformed the Lipper U.S. Mortgage Fund Average and is competitive with the Lehman MBS Index.

Results were enhanced last year through identification and selection of certain undervalued sectors of mortgage-backed securities for a portion of the portfolio. These securities have now become very popular with Wall Street and other investors, resulting in their increasing in value.

The current portfolio is well positioned for the period ahead. It has a number of securities that are "seasoned" (e.g., original 30 year loans that have

been outstanding for three years or more) and therefore valued more highly in the marketplace. There are few securities priced above par, so prepayment risk is negligible. If the future continues to be an era of economic prosperity we should continue to see strong housing markets and housing turnover that will cause prepayments on our securities to exceed market expectations. These repayments are welcomed, as the portfolio is priced at a discount and the Account will be paid-off at par.

Total Returns *
As of December 31, 1996

1 Year	5 Year	Since Inception Date 4/9/87
3.35%	6.68%	8.63%

Comparison of Change in Value of \$10,000 Investment in the Government Securities Account, Lehman Brothers Mortgage Index and Lipper U.S. Mortgage Fund Average

Year Ended December 31,	Fund Total Return	Lehman Mortgage Index	Lipper U.S. Mortgage Index
	10,000	10,000	10,000
1987	10,099	10,204	10,104
1988	10,939	11,094	10,858
1989	12,645	12,808	12,224
1990	13,852	14,183	13,370
1991	16,200	16,410	15,348
1992	17,308	17,551	16,285
1993	19,051	18,751	17,499
1994	18,188	18,450	16,769
1995	21,656	21,549	19,491
1996	22,381	22,702	20,245

Note: Past performance is not predictive of future performance.

Important Notes of the Income-Oriented Accounts:

Lehman Brothers, BAA Corporate Index: an unmanaged index of all publicly issued fixed rate nonconvertible, dollar-denominated, SEC-registered corporate debt rated Baa or BBB by Moody's or S&P.

Lipper Corporate Debt BBB Rated Funds Average: this average consists of mutual funds investing at least 65% of their assets in corporate and government debt issues rated by S&P or Moody's in the top four grades. The one year average at December 31, 1996 contained 102 mutual funds.

Lehman Brothers Mortgage Index: an unmanaged index of 15- and 30-year fixed rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal National Mortgage Association (FNMA).

Lipper U.S. Mortgage Fund Average: this average consists of mutual funds investing at least 65% of their assets in mortgages/securities issued or guaranteed as to principal and interest by the U.S. Government and certain federal agencies. The one year average at December 31, 1996 contained 59 mutual funds.

Note: Mutual fund data from Lipper Analytical Services, Inc.

DETERMINATION OF NET ASSET VALUE OF ACCOUNT SHARES

The net asset value of each Account's shares is determined daily, Monday through Friday, as of the close of trading on the New York Stock Exchange, except on days on which changes in the value of the Account's portfolio securities will not materially affect the current net asset value of the Account's redeemable securities, on days during which an Account receives no order for the purchase or sale of its redeemable securities and no tender of such a security for redemption, and on customary national business holidays. The net asset value per share of each Account is determined by dividing the value of the Account's securities plus all other assets, less all liabilities, by the number of Account shares outstanding.

Growth-Oriented and Income-Oriented Accounts

The following valuation information applies to the Growth-Oriented and Income-Oriented Accounts. Securities for which market quotations are readily available are valued using those quotations. Other securities are valued by using market quotations, prices provided by market makers or estimates of market values obtained from yield data and other factors relating to instruments or securities with similar characteristics in accordance with procedures established in good faith by the Board of Directors. Securities with remaining maturities of 60 days or less are valued at amortized cost when it is determined by the Board that amortized cost reflects fair value. Other assets are valued at

fair value as determined in good faith by the Board of Directors of the Fund.

As previously described, some of the Accounts may purchase foreign securities whose trading is substantially completed each day at various times prior to the close of the New York Stock Exchange. The values of such securities used in computing net asset value per share are usually determined as of such times. Occasionally, events which affect the values of such securities and foreign currency exchange rates may occur between the times at which they are generally determined and the close of the New York Stock Exchange and would therefore not be reflected in the computation of the Account's net asset value. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value as determined in good faith by the Manager or Sub-Advisor under procedures established and regularly reviewed by the Board of Directors. To the extent the Account invests in foreign securities listed on foreign exchanges which trade on days on which the Account does not determine its net asset value, for example Saturdays and other customary national U.S. Holidays, the Account's net asset value could be significantly affected on days when shareholders have no access to the Account.

Money Market Account

The Money Market Account values its securities at amortized cost. For a description of this calculation procedure see the Fund's Statement of Additional Information.

PERFORMANCE CALCULATION

From time to time, the Accounts may publish advertisements containing information (including graphs, charts, tables and examples) about the performance of one or more of the Accounts. The Account's yield and total return figures described below will vary depending upon market conditions, the composition of the Account's portfolios and operating expenses. These factors and possible differences in the methods used in calculating yield and total return should be considered when comparing the Accounts' performance figures to performance figures published for other investment vehicles. The Accounts may also quote rankings, yields or returns as published by independent statistical services or publishers, and information regarding the performance of certain market indices. Any performance data quoted for the Accounts represents only historical performance and is not intended to indicate future performance of the Accounts. The calculation of average annual total return and yield for the Accounts does not include fees and charges of the separate accounts that invest in the Accounts and, therefore, does not reflect the investment performance of those separate accounts. For further information on how the Accounts calculate yield and total return figures, see the Statement of Additional Information.

Average Annual Total Return

Each Account may advertise its respective average annual total return. Average annual total return for each Account is computed by calculating the average annual compounded rate of return over the stated period that would equate an initial \$1,000 investment to the ending redeemable value assuming the reinvestment of all dividends and capital gains distributions at net asset value. The same assumptions are made when computing cumulative total return by dividing the ending redeemable value by the initial investment. The Accounts may also quote rankings, yields or returns as published by independent statistical services or publishers, and information regarding the performance of certain market indices.

Yield and Effective Yield

From time to time the Money Market Account may advertise its respective yield and effective yield. The yield of the Account refers to the income generated by an investment in the Account over a seven-day period. This income is then annualized. That is, the amount of income generated by the investment during that week is assumed to be generated each week over a 52-week period and is shown as a percentage of the investment. The effective yield is calculated similarly but, when annualized, the income earned by an investment in the Account is assumed to be reinvested. The effective yield will be slightly higher than the yield because of the compounding effect of this assumed reinvestment.

The yield for the Money Market Account will fluctuate daily as the income earned on the investments of the Account fluctuates. Accordingly, there is no assurance that the yield quoted on any given occasion will remain in effect for any period of time. The Account is one of a Series of Accounts issued by an open-end investment company and there is no guarantee that the net asset value or any stated rate of return will remain constant. A shareholder's investment in the Account is not insured. Investors comparing results of the Account with investment results and yields from other sources such as banks or savings and loan associations should understand these distinctions. Historical and comparative yield information may, from time to time, be presented by the Account.

INCOME DIVIDENDS, DISTRIBUTIONS AND TAX STATUS

It is the policy of each Account to distribute substantially all net

investment income and net realized gains. Through such distributions, and by satisfying certain other requirements, the Fund intends to qualify for the tax treatment accorded to regulated investment companies under the applicable provisions of the Internal Revenue Code. This means that in each year in which the Fund so qualifies it will be exempt from federal income tax upon the amounts so distributed to investors.

Any dividends from the net investment income of the Accounts (except the Money Market Account) will normally be payable to the shareholders annually, and any net realized gains will be distributed annually. All dividends and capital gains distributions are applied to purchase additional Account shares at net asset value as of the payment date without the imposition of any sales charge.

Each Account will notify shareholders of the portion of each distribution which constitutes investment income or capital gain. In view of the complexity of tax considerations, it is advisable for Eligible Purchasers considering the purchase of shares of the Accounts to consult with tax advisors on the federal and state tax aspects of their investments and redemptions.

Money Market Account

The Money Market Account declares dividends of all its daily net investment income on each day the Account's net asset value per share is determined. Dividends are payable daily and are automatically reinvested in full and fractional shares of the Account at the then current net asset value unless a shareholder requests payment in cash.

Net investment income, for dividend purposes, consists of (1) accrued interest income plus or minus accrued discount or amortized premium; plus or minus (2) all net short-term realized gains and losses; minus (3) all accrued expenses of the Account. Expenses of the Account are accrued each day. Net income will be calculated immediately prior to the determination of net asset value per share of the Account.

Since the Account's policy is, under normal circumstances, to hold portfolio securities to maturity and to value portfolio securities at amortized cost, it does not expect any capital gains or losses. If the Account does experience gains, however, it could result in an increase in dividends. Capital losses could result in a decrease in dividends. If for some extraordinary reason the Account realizes net long-term capital gains, it will distribute them once every 12 months.

Since the net income of the Account (including realized gains and losses on the portfolio securities) is declared as a dividend each time the net income of the Account is determined, the net asset value per share of the Account normally remains at \$1.00 immediately after each determination and dividend declaration. Any increase in the value of a shareholder's investment in the Account, representing reinvestment of dividend income, is reflected by an increase in the number of shares of the Account.

Normally the Account will have a positive net income at the time of each determination thereof. Net income may be negative if an unexpected liability must be accrued or a loss is realized. If the net income of the Account determined at any time is a negative amount, the net asset value per share will be reduced below \$1.00. If this happens, the Account may endeavor to restore the net asset value per share to \$1.00 by reducing the number of outstanding shares by redeeming proportionately from shareholders without the payment of any monetary consideration, such number of full and fractional shares as is necessary to maintain a net asset value per share of \$1.00. Each shareholder will be deemed to have agreed to such a redemption in these circumstances by investing in the Account. The Account may seek to achieve the same objective of restoring the net asset value per share to \$1.00 by not declaring dividends from net income on subsequent days until restoration, with the result that the net asset value per share would increase to the extent of positive net income which is not declared as a dividend, or any other method approved by the Board of Directors.

The Board of Directors may revise the above dividend policy, or postpone the payment of dividends, if the Account should have or anticipate any large presently unexpected expense, loss or fluctuation in net assets which in the opinion of the Board might have a significant adverse affect on shareholders.

ELIGIBLE PURCHASERS AND PURCHASE OF SHARES

Only Eligible Purchasers may purchase shares of the Accounts. Eligible Purchasers are limited to (a) separate accounts of Principal Mutual Life Insurance Company or of other insurance companies; (b) Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof; (c) trustees or other managers of any qualified profit sharing, incentive or bonus plan established by Principal Mutual Life Insurance Company or any subsidiary or affiliate thereof for the employees of such company, subsidiary or affiliate. Such trustees or managers may purchase Account shares only in their capacities as trustees or managers and not for their personal accounts. The Board of Directors of the Fund reserves the right to broaden or limit the designation of Eligible Purchasers.

Each Account serves as an underlying investment medium for variable annuity contracts and variable life insurance policies that are funded in separate accounts established by Principal Mutual Life Insurance Company. It is conceivable that in the future it may be disadvantageous for variable life insurance separate accounts and variable annuity separate accounts to invest in the Accounts simultaneously. Although neither Principal Mutual Life Insurance Company nor the Accounts currently foresee any such disadvantages either to variable life insurance policy owners or to variable annuity contract owners, the Fund's Board of Directors intends to monitor events in order to identify any material conflicts between such policy owners and contract owners and to determine what action, if any, should be taken in response thereto. Such action could include the sale of Account shares by one or more of the separate accounts, which could have adverse consequences. Material conflicts could result from, for example, (1) changes in state insurance laws, (2) changes in Federal income tax law, (3) changes in the investment management of an Account, or (4) differences in voting instructions between those given by policy owners and those given by contract owners.

Shares are purchased from Princor Financial Services Corporation, the principal underwriter for the Fund. There are no sales charges on the Accounts' shares. There are no restrictions on amounts to be invested in the Accounts' shares.

Shareholder accounts for each Account will be maintained under an open account system. Under this system, an account is automatically opened and maintained for each new investor. Each investment is confirmed by sending the investor a statement of account showing the current purchase and the total number of shares then owned. The statement of account is treated by each Account as evidence of ownership of Account shares in lieu of stock certificates, and unless written request is made to the Account, stock certificates will not be issued or delivered to investors. Certificates, which can be stolen or lost, are unnecessary except for special purposes such as collateral for a loan. Fractional interests in the Account's shares are reflected to three decimal places in the statement of account, but any stock certificates will be issued only for full shares owned.

If an offer to purchase shares is received by any of the Accounts before the close of trading on the New York Stock Exchange, the shares will be issued at the offering price (net asset value of Account shares) computed on that day. If an offer is received after the close of trading or on a day which is not a trading day, the shares will be issued at the offering price computed on the first succeeding day on which a price is determined. Dividends on the Money Market Account shares will be paid on the next day following the effective date of a purchase order.

SHAREHOLDER RIGHTS

The following information is applicable to each Account of the Principal Variable Contracts Fund, Inc. Each Account share is entitled to one vote either in person or by proxy at all shareholder meetings for that Account. This includes the right to vote on the election of directors, selection of independent accountants and other matters submitted to meetings of shareholders of the Account. Each share has equal rights with every other share of the Account as to dividends, earnings, voting, assets and redemption. Shares are fully paid and non-assessable, and have no preemptive or conversion rights. Shares of an Account may be issued as full or fractional shares, and each fractional share has proportionately the same rights, including voting, as are provided for a full share. Shareholders of the Fund may remove any director with or without cause by the vote of a majority of the votes entitled to be cast at a meeting of all Account shareholders.

The bylaws of the Fund provide that the Board of Directors of the Fund may increase or decrease the aggregate number of shares which the Fund has authority to issue without a shareholder vote.

The bylaws of the Fund also provide that the Fund need not hold an annual meeting of shareholders in any year in which none of the following is required to be acted on by shareholders under the Investment Company Act of 1940: election of directors; approval of investment advisory agreement; ratification of selection of independent public accountants; and approval of distribution agreement. The Fund intends to hold shareholder meetings only when required by law and at such other times as may be deemed appropriate by the Board of Directors.

Shareholder inquiries should be directed to the Principal Variable Contracts Fund, Inc. at The Principal Financial Group, Des Moines, Iowa 50392.

NON-CUMULATIVE VOTING: The Fund's shares have non-cumulative voting rights which means that the holders of more than 50% of the shares voting for the election of directors of the Fund can elect 100% of the directors if they choose to do so, and in such event, the holders of the remaining shares voting for the election of directors will not be able to elect any directors.

Principal Mutual Life Insurance Company votes each Account's shares allocated to each of its separate accounts registered under the Investment

Company Act of 1940 and attributable to variable annuity contracts or variable life insurance policies participating therein in accordance with instructions received from contract or policy holders, participants and annuitants. Other shares of each Account held by each registered separate account, including those for which no timely instructions are received, are voted in proportion to the instructions that are received with respect to contracts or policies participating in that separate account. Shares of each of the Accounts held in the general account of Principal Mutual Life Insurance Company or in its unregistered separate accounts are voted in proportion to the instructions that are received with respect to contracts and policies participating in its registered and unregistered separate accounts. If Principal Mutual determines pursuant to applicable law that an Account's shares held in one or more separate accounts or in its general account need not be voted pursuant to instructions received with respect to participating contracts or policies, it then may vote those Account shares in its own right.

REDEMPTION OF SHARES

Except for the third paragraph below, most of the following discussion of redemption procedures is relevant only to Eligible Purchasers other than variable annuity and variable life separate accounts of Principal Mutual Life Insurance Company, and its wholly-owned subsidiaries.

Each Account will redeem its shares upon request. There is no charge for redemption. If no certificates have been issued, a shareholder simply writes a letter to the appropriate Account requesting redemption of any part or all of the shares. The letter must be signed exactly as the account is registered. If certificates have been issued, they must be properly endorsed and forwarded with the request. If payment is to be made to the registered shareholder or joint shareholders, the Account will not require a signature guarantee as a part of a proper endorsement; otherwise the shareholder's signature must be guaranteed by either a commercial bank, trust company, credit union, savings and loan association, national securities exchange member, or by a brokerage firm. The price at which the shares are redeemed will be the net asset value per share as next computed after the request (with appropriate certificate, if any) is received by the Account in proper and complete form. The amount received for shares upon redemption may be more or less than the cost of such shares depending upon the net asset value at the time of redemption.

Redemption proceeds will be sent within three business days after receipt of request for redemption in proper form. However, each Account may suspend the right of redemption during any period when (a) trading on the New York Stock Exchange is restricted as determined by the Securities and Exchange Commission or such Exchange is closed for other than weekends and holidays; (b) an emergency exists, as determined by the Securities and Exchange Commission, as a result of which (i) disposal by the Account of securities owned by it is not reasonably practicable, or (ii) it is not reasonably practicable for the Account fairly to determine the value of its net assets; or (c) the Commission by order so permits for the protection of security holders of the Account. An Account will redeem only those shares for which it has received good payment. To avoid the inconvenience of such a delay, shares may be purchased with a certified check, bank cashier's check or money order. During the period prior to the time a redemption from the Money Market Account is effective, dividends on such shares will accrue and be payable and the shareholder will be entitled to exercise all other rights of beneficial ownership.

Restricted Transfer: Shares of each of the Accounts may be transferred to an Eligible Purchaser. However, whenever any of the Accounts is requested to transfer shares to other than an Eligible Purchaser, the Account has the right at its election to purchase such shares at their net asset value next effective following the time at which the request for transfer is presented; provided, however, that the Account must notify the transferee or transferees of such shares in writing of its election to purchase such shares within seven (7) days following the date of such request and settlement for such shares shall be made within such seven-day period.

ADDITIONAL INFORMATION

Custodian: Bank of New York, 48 Wall Street, New York, New York 10286, is custodian of the portfolio securities and cash assets of each of the Accounts except the International Account. The custodian for the International Account is Chase Manhattan Bank, Global Securities Services, Chase Metro Tech Center, Brooklyn, New York 11245. The custodians perform no managerial or policymaking functions for the funds.

Organization and Share Ownership: Effective January 1, 1998, an Agreement and Plan of Reorganization and Liquidation was implemented under which a Series of the Principal Variable Contracts Fund, Inc. adopted the assets and liabilities of the corresponding Fund. The Funds were incorporated in the state of Maryland on the following dates: Balanced Fund - November 26, 1986; Bond Fund - November 26, 1986; Capital Accumulation Fund - May 26, 1989 (effective November 1, 1989 succeeded to the business of a predecessor Fund that had been incorporated in Delaware on February 6, 1969); Emerging Growth Fund - February 20, 1987; Government Securities Fund - June 7, 1985; Growth Fund - August 20, 1993; Money Market Fund - June 10, 1982; and World Fund - August 20, 1993.

Principal Mutual Life Insurance Company owns 100% of each Fund's outstanding shares.

Capitalization: The authorized capital stock of each Account consists of 100,000,000 shares of common stock (500,000,000 for Money Market Account), \$.01 par value.

Financial Statements: Copies of the financial statements of each Account will be mailed to each shareholder of that Account semi-annually. At the close of each fiscal year, each Account's financial statements will be audited by a firm of independent auditors. The firm of Ernst & Young LLP has been appointed to audit the financial statements of each Account for their respective present fiscal years.

Registration Statement: This Prospectus omits some information contained in the Statement of Additional Information (also known as Part B of the Registration Statement) and Part C of the Registration Statements which the Fund has filed with the Securities and Exchange Commission. The Funds' Statement of Additional Information is hereby incorporated by reference into this Prospectus. A copy of the Statement of Additional Information can be obtained upon request, free of charge, by writing or telephoning the Fund. You may obtain a copy of Part C of the Registration Statements filed with the Securities and Exchange Commission, Washington, D.C., from the Commission upon payment of the prescribed fees.

Principal Underwriter: Princor Financial Services Corporation, The Principal Financial Group, Des Moines, Iowa 50392-0200, is the principal underwriter for the Fund.

This page left blank intentionally.

PART B

PRINCIPAL VARIABLE CONTRACTS FUND, INC.

Statement of Additional Information

dated December 31, 1997

This Statement of Additional Information provides information about the Fund in addition to the information that is contained in the Fund's Prospectus, dated December 31, 1997.

This Statement of Additional Information is not a prospectus. It should be read in conjunction with the Fund's Prospectus, a copy of which can be obtained free of charge by writing or telephoning:

Principal Variable Contracts Fund, Inc.
The Principal Financial Group
Des Moines, Iowa 50392-0200
Telephone: 1-800-247-4123

TABLE OF CONTENTS

Investment Policies and Restrictions of the Fund.....	3
Growth-Oriented Accounts.....	3
Income-Oriented Accounts.....	8
Money Market Account.....	11
Account Investments.....	13
Directors and Officers of the Fund.....	24
Manager and Sub-Advisors	26
Cost of Manager's Services	27
Brokerage on Purchases and Sales of Securities.....	29
Determination of Net Asset Value of Account Shares.....	31
Performance Calculation.....	33
Tax Status.....	35
General Information and History.....	35
Financial Statements.....	36
Appendix A.....	37

INVESTMENT POLICIES AND RESTRICTIONS OF THE FUND

The following information about the Principal Variable Contracts Fund, Inc. an incorporated, diversified, open-end management investment company, commonly called a mutual fund, supplements the information provided in the Prospectus under the caption "Investment Objectives, Policies and Restrictions." The Fund offers multiple Accounts.

There are three categories of Accounts: Growth-Oriented Accounts, which include five Accounts which seek primarily capital appreciation through investments in equity securities (Aggressive Growth, Capital Value, Growth, International and MidCap) and two Accounts which seek a total investment return including both capital appreciation and income through investments in equity and debt securities (Asset Allocation and Balanced); Income-Oriented Accounts, which include three Accounts which seek primarily a high level of income through investments in debt securities (Bond, Government Securities and High Yield) and a Money Market Account, which seeks primarily a high level of income through investments in short-term debt securities.

In seeking to achieve its investment objective, each Account has adopted as matters of fundamental policy certain investment restrictions which cannot be changed without approval by the holders of the lesser of: (i) 67% of the Account's shares present or represented at a shareholders' meeting at which the holders of more than 50% of such shares are present or represented by proxy; or (ii) more than 50% of the outstanding shares of the Account. Similar shareholder approval is required to change the investment objective of each of the Accounts. The following discussion provides for each Account a statement of its investment objective, a description of its investment restrictions that are matters of fundamental policy and a description of any investment restrictions it may have adopted that are not matters of fundamental policy and may be changed without shareholder approval. For purposes of the investment restrictions, all percentage and rating limitations apply at the time of acquisition of a security, and any subsequent change in any applicable percentage resulting from market fluctuations or in a rating by a rating service will not require elimination of any security from the portfolio. Unless specifically identified as a matter of fundamental policy, each investment policy discussed in the Prospectus or the Statement of Additional Information is not fundamental and may be changed by the Fund's Board of Directors.

GROWTH-ORIENTED ACCOUNTS

Investment Objectives

Aggressive Growth Account (formerly known as Principal Aggressive Growth Fund, Inc.) seeks to provide long-term capital appreciation by investing primarily in growth-oriented common stocks of medium and large capitalization U.S. corporations and, to a limited extent, foreign corporations.

Asset Allocation Account (formerly known as Principal Asset Allocation Fund, Inc.) seeks to generate a total investment return consistent with the preservation of capital.

Balanced Account (formerly known as Principal Balanced Fund, Inc.) seeks to generate a total investment return consisting of current income and capital appreciation while assuming reasonable risks in furtherance of the investment objective.

Capital Value Account (formerly known as Principal Capital Accumulation Fund, Inc.) seeks to achieve primarily long-term capital appreciation and secondarily growth of investment income through the purchase primarily of common stocks, but the Account may invest in other securities.

Growth Account (formerly known as Principal Growth Fund, Inc.) seeks growth of capital through the purchase primarily of common stocks, but the Account may invest in other securities.

International Account (formerly known as Principal World Fund, Inc.) seeks long-term growth of capital by investing in a portfolio of equity securities of companies domiciled in any of the nations of the world.

MidCap Account (formerly known as Principal Emerging Growth Fund, Inc.) seeks to achieve capital appreciation by investing primarily in securities of emerging and other growth-oriented companies.

Investment Restrictions

Aggressive Growth Account, Asset Allocation Account, Balanced Account, Growth Account, International Account and MidCap Account

Each of the following numbered restrictions is a matter of fundamental policy and may not be changed without shareholder approval. The Aggressive Growth Account, Asset Allocation Account, Balanced Account, Growth Account, International Account and MidCap Account each may not:

- (1) Issue any senior securities as defined in the Investment Company Act of 1940. Purchasing and selling securities and futures contracts and options thereon and borrowing money in accordance with restrictions described below do not involve the issuance of a senior security.
- (2) Purchase or retain in its portfolio securities of any issuer if those officers or directors of the Account or the Manager owning beneficially more than one-half of 1% (0.5%) of the securities of the issuer together own beneficially more than 5% of such securities.
- (3) Invest in commodities or commodity contracts, but it may purchase and sell financial futures contracts and options on such contracts.
- (4) Invest in real estate, although it may invest in securities which are secured by real estate and securities of issuers which invest or deal in real estate.
- (5) Borrow money, except for temporary or emergency purposes, in an amount not to exceed 5% of the value of the Account's total assets at the time of the borrowing. The Balanced Account may borrow only from banks.
- (6) Make loans, except that the Account may (i) purchase and hold debt obligations in accordance with its investment objective and policies, (ii) enter into repurchase agreements, and (iii) lend its portfolio securities without limitation against collateral (consisting of cash or securities issued or guaranteed by the United States Government or its agencies or instrumentalities) equal at all times to not less than 100% of the value of the securities loaned.
- (7) Invest more than 5% of its total assets in the securities of any one issuer (other than obligations issued or guaranteed by the United States Government or its agencies or instrumentalities) except that this limitation shall apply only with respect to 75% of the total assets of the Aggressive Growth Account, Asset Allocation Account, Growth Account and International Account; or purchase more than 10% of the outstanding voting securities of any one issuer.
- (8) Act as an underwriter of securities, except to the extent the Account may be deemed to be an underwriter in connection with the sale of securities held in its portfolio.
- (9) Concentrate its investments in any particular industry or industries, except that the Account may invest not more than 25% of the value of its total assets in a single industry.
- (10) Sell securities short (except where the Account holds or has the right to obtain at no added cost a long position in the securities sold that equals or exceeds the securities sold short) or purchase any securities on margin, except it may obtain such short-term credits as are necessary for the clearance of transactions. The deposit or payment of margin in connection with transactions in options and financial futures contracts is not considered the purchase of securities on margin.
- (11) Invest in interests in oil, gas or other mineral exploration or development programs, although the Account may invest in securities of issuers which invest in or sponsor such programs.

Each of these Accounts has also adopted the following restrictions which are not fundamental policies and may be changed without shareholder approval. It is contrary to each Account's present policy to:

- (1) Invest more than 15% of its total assets in securities not readily marketable and in repurchase agreements maturing in more than seven days. The value of any options purchased in the Over-the-Counter market, including all covered spread options and the assets used as cover for any options written in the Over-the-Counter market are included as part of this 15% limitation.
- (2) Purchase warrants in excess of 5% of its total assets, of which 2% may be invested in warrants that are not listed on the New York or American Stock Exchange. The 2% limitation for the International Account does not apply to warrants listed on the Toronto Stock Exchange or the Chicago Board Options Exchange.
- (3) Purchase securities of any issuer having less than three years' continuous operation (including operations of any predecessors) if such purchase would cause the value of the Account's investments in all such issuers to exceed 5% of the value of its total assets.

- (4) Pledge, mortgage or hypothecate its assets, except to secure permitted borrowings. The deposit of underlying securities and other assets in escrow and other collateral arrangements in connection with transactions in put and call options, futures contracts and options on futures contracts are not deemed to be pledges or other encumbrances.
- (5) Invest in companies for the purpose of exercising control or management.
- (6) Invest more than 10% (25% for the Aggressive Growth Account) of its total assets in securities of foreign issuers. This restriction does not pertain to the International Account or the Asset Allocation Account.
- (7) Invest more than 5% of its total assets in the purchase of covered spread options and the purchase of put and call options on securities, securities indices and financial futures contracts. Options on financial futures contracts and options on securities indices will be used solely for hedging purposes; not for speculation.
- (8) Invest more than 5% of its assets in initial margin and premiums on financial futures contracts and options on such contracts.
- (9) Invest in arbitrage transactions.
- (10) Invest in real estate limited partnership interests.

The Balanced Account and MidCap Account have also adopted the following restrictions which are not fundamental policies and may be changed without shareholder approval. It is contrary to each such Account's present policy to:

- (1) Purchase securities of other investment companies except in connection with a merger, consolidation, or plan of reorganization or by purchase in the open market of securities of closed-end companies where no underwriter or dealer's commission or profit, other than a customary broker's commission, is involved, and if immediately thereafter not more than 10% of the value of the Account's total assets would be invested in such securities.

The Aggressive Growth, Asset Allocation, Growth and International Accounts have also adopted the following restriction which is not a fundamental policy and may be changed without shareholder approval. It is contrary to each such Account's present policy to:

- (1) Invest its assets in the securities of any investment company except that the Account may invest not more than 10% of its assets in securities of other investment companies, invest not more than 5% of its total assets in the securities of any one investment company, or acquire not more than 3% of the outstanding voting securities of any one investment company except in connection with a merger, consolidation or plan of reorganization, and the Account may purchase securities of closed-end companies in the open market where no underwriter or dealer's commission or profit, other than a customary broker's commission, is involved.

Capital Value Account

Each of the following numbered restrictions is a matter of fundamental policy and may not be changed without shareholder approval. The Capital Value Account may not:

- (1) Concentrate its investments in any one industry. No more than 25% of the value of its total assets will be invested in any one industry.
- (2) Purchase the securities of any issuer if the purchase will cause more than 5% of the value of its total assets to be invested in the securities of any one issuer (except U. S. Government securities).
- (3) Purchase the securities of any issuer if the purchase will cause more than 10% of the voting securities, or any other class of securities of the issuer, to be held by the Account.
- (4) Underwrite securities of other issuers, except that the Account may acquire portfolio securities under circumstances where if sold the Account might be deemed an underwriter for purposes of the Securities Act of 1933.
- (5) Purchase securities of any company with a record of less than three years' continuous operation (including that of predecessors) if the purchase would cause the value of the Account's aggregate

investments in all such companies to exceed 5% of the Account's total assets.

- (6) Engage in the purchase and sale of illiquid interests in real estate. For this purpose, readily marketable interests in real estate investment trusts are not interests in real estate.
- (7) Engage in the purchase and sale of commodities or commodity contracts.
- (8) Purchase or retain in its portfolio securities of any issuer if those officers and directors of the Fund or the Manager owning beneficially more than one-half of one percent (0.5%) of the securities of the issuer together own beneficially more than 5% of such securities.
- (9) Purchase securities on margin, except it may obtain such short-term credits as are necessary for the clearance of transactions. The Account will not issue or acquire put and call options.
- (10) Invest in companies for the purpose of exercising control or management.
- (11) Invest more than 5% of its assets at the time of purchase in rights and warrants (other than those that have been acquired in units or attached to other securities).
- (12) Invest more than 20% of its total assets in securities of foreign issuers.

In addition:

- (13) The Account may make loans through the purchase in private offerings of debentures or other evidences of indebtedness of types customarily purchased by institutional investors.
- (14) The Account does not propose to borrow money except for temporary or emergency purposes from banks in an amount not to exceed the lesser of (i) 5% of the value of the Account's assets, less liabilities other than such borrowings, or (ii) 10% of the Account's assets taken at cost at the time such borrowing is made. The Account may not pledge, mortgage, or hypothecate its assets (at value) to an extent greater than 15% of the gross assets taken at cost.
- (15) It is contrary to the Account's present policy to purchase warrants in excess of 5% of its total assets of which 2% may be invested in warrants that are not listed on the New York or American Stock Exchange.

The Account has also adopted the following restrictions which are not fundamental policies and may be changed without shareholder approval. It is contrary to the Account's present policy to:

- (1) Invest its assets in the securities of any investment company except that the Account may invest not more than 10% of its assets in securities of other investment companies, invest not more than 5% of its total assets in the securities of any one investment company, or acquire not more than 3% of the outstanding voting securities of any one investment company except in connection with a merger, consolidation, or plan of reorganization, and the Account may purchase securities of closed-end companies in the open market where no underwriter or dealer's commission or profit, other than a customary broker's commission, is involved.
- (2) Invest more than 15% of its total assets in securities not readily marketable and in repurchase agreement maturing in more than seven days.

INCOME-ORIENTED ACCOUNTS

Investment Objectives

Bond Account seeks to provide as high a level of income as is consistent with preservation of capital and prudent investment risk.

Government Securities Account seeks a high level of current income, liquidity and safety of principal by purchasing obligations issued or guaranteed by the United States Government or its agencies, with emphasis on Government National Mortgage Association Certificates ("GNMA Certificates"). The guarantee by the United States Government extends only to principal and interest; Account shares are not guaranteed by the United States Government. There are

certain risks unique to GNMA Certificates.

High Yield Account seeks high current income primarily by purchasing high yielding, lower or non-rated fixed income securities which are believed to not involve undue risk to income or principal. Capital growth is a secondary objective when consistent with the objective of high current income.

Investment Restrictions

Bond Account and High Yield Account

Each of the following numbered restrictions is a matter of fundamental policy and may not be changed without shareholder approval. The Bond Account and High Yield Account each may not:

- (1) Issue any senior securities as defined in the Investment Company Act of 1940. Purchasing and selling securities and futures contracts and options thereon and borrowing money in accordance with restrictions described below do not involve the issuance of a senior security.
- (2) Purchase or retain in its portfolio securities of any issuer if those officers or directors of the Account or the Manager owning beneficially more than one-half of 1% (0.5%) of the securities of the issuer together own beneficially more than 5% of such securities.
- (3) Invest in commodities or commodity contracts, but it may purchase and sell financial futures contracts and options on such contracts.
- (4) Invest in real estate, although it may invest in securities which are secured by real estate and securities of issuers which invest or deal in real estate.
- (5) Borrow money, except for temporary or emergency purposes, in an amount not to exceed 5% of the value of the Account's total assets at the time of the borrowing. The Bond Account and High Yield Account may borrow only from banks.
- (6) Make loans, except that the Account may (i) purchase and hold debt obligations in accordance with its investment objective and policies, (ii) enter into repurchase agreements, and (iii) lend its portfolio securities without limitation against collateral (consisting of cash or securities issued or guaranteed by the United States Government or its agencies or instrumentalities) equal at all times to not less than 100% of the value of the securities loaned.
- (7) Invest more than 5% of its total assets in the securities of any one issuer (other than obligations issued or guaranteed by the United States Government or its agencies or instrumentalities); or purchase more than 10% of the outstanding voting securities of any one issuer.
- (8) Act as an underwriter of securities, except to the extent the Account may be deemed to be an underwriter in connection with the sale of securities held in its portfolio.
- (9) Concentrate its investments in any particular industry or industries, except that the Bond Account and High Yield Account each may invest not more than 25% of the value of its total assets in a single industry.
- (10) Sell securities short (except where the Account holds or has the right to obtain at no added cost a long position in the securities sold that equals or exceeds the securities sold short) or purchase any securities on margin, except it may obtain such short-term credits as are necessary for the clearance of transactions. The deposit or payment of margin in connection with transactions in options and financial futures contracts is not considered the purchase of securities on margin.
- (11) Invest in interests in oil, gas or other mineral exploration or development programs, although the Account may invest in securities of issuers which invest in or sponsor such programs.

Each of these Accounts has also adopted the following restrictions which are not fundamental policies and may be changed without shareholder approval. It is contrary to each Account's present policy to:

- (1) Invest more than 15% of its total assets in securities not readily marketable and in repurchase agreements maturing in more than seven days. The value of any options purchased in the Over-the-Counter market, including all covered spread options and the assets used as

cover for any options written in the Over-the-Counter market are included as part of this 15% limitation.

- (2) Purchase warrants in excess of 5% of its total assets, of which 2% may be invested in warrants that are not listed on the New York or American Stock Exchange.
- (3) Purchase securities of any issuer having less than three years' continuous operation (including operations of any predecessors) if such purchase would cause the value of the Account's investments in all such issuers to exceed 5% of the value of its total assets.
- (4) Purchase securities of other investment companies except in connection with a merger, consolidation, or plan of reorganization or by purchase in the open market of securities of closed-end companies where no underwriter or dealer's commission or profit, other than a customary broker's commission, is involved, and if immediately thereafter not more than 10% of the value of the Account's total assets would be invested in such securities.
- (5) Pledge, mortgage or hypothecate its assets, except to secure permitted borrowings. The deposit of underlying securities and other assets in escrow and other collateral arrangements in connection with transactions in put and call options, futures contracts and options on futures contracts are not deemed to be pledges or other encumbrances.
- (6) Invest in companies for the purpose of exercising control or management.
- (7) Invest more than 20% of its total assets in securities of foreign issuers.
- (8) Invest more than 5% of its total assets in the purchase of covered spread options and the purchase of put and call options on securities, securities indices and financial futures contracts. Options on financial futures contracts and options on securities indices will be used solely for hedging purposes; not for speculation.
- (9) Invest more than 5% of its assets in initial margin and premiums on financial futures contracts and options on such contracts.
- (10) Invest in arbitrage transactions.
- (11) Invest in real estate limited partnership interests.

Government Securities Account

Each of the following numbered restrictions is a matter of fundamental policy and may not be changed without shareholder approval. The Government Securities Account may not:

- (1) Issue any senior securities as defined in the Act except insofar as the Account may be deemed to have issued a senior security by reason of (a) purchasing any securities on a standby, when-issued or delayed delivery basis; or (b) borrowing money in accordance with restrictions described below.
- (2) Purchase any securities other than obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities, except that the Account may maintain reasonable amounts in cash or commercial paper or purchase short-term debt securities not issued or guaranteed by the U.S. Government or its agencies or instrumentalities for daily cash management purposes or pending selection of particular long-term investments.
- (3) Act as an underwriter of securities, except to the extent the Account may be deemed to be an underwriter in connection with the sale of GNMA certificates held in its portfolio.
- (4) Engage in the purchase and sale of interests in real estate, including interests in real estate investment trusts (although it will invest in securities secured by real estate or interests therein, such as mortgage-backed securities) or invest in commodities or commodity contracts, oil and gas interests, or mineral exploration or development programs.
- (5) Purchase or retain in its portfolio securities of any issuer if those officers and directors of the Fund or the Manager owning beneficially more than one-half of 1% (0.5%) of the securities of the issuer together own beneficially more than 5% of such securities.
- (6) Sell securities short or purchase any securities on margin, except

it may obtain such short-term credits as are necessary for the clearance of transactions. The deposit or payment of margin in connection with transactions in options and financial futures contracts is not considered the purchase of securities on margin.

- (7) Invest in companies for the purpose of exercising control or management.
- (8) Make loans, except that the Account may purchase or hold debt obligations in accordance with the investment restrictions set forth in paragraph (2) and may enter into repurchase agreements for such securities, and may lend its portfolio securities without limitation against collateral consisting of cash, or securities issued or guaranteed by the United States Government or its agencies or instrumentalities, which is equal at all times to 100% of the value of the securities loaned.
- (9) Borrow money, except for temporary or emergency purposes, in an amount not to exceed 5% of the value of the Account's total assets at the time of the borrowing.
- (10) Enter into repurchase agreements maturing in more than seven days if, as a result thereof, more than 10% of the value of the Account's total assets would be invested in such repurchase agreements and other assets without readily available market quotations.
- (11) Invest more than 5% of its total assets in the purchase of covered spread options and the purchase of put and call options on securities, securities indices and financial futures contracts.
- (12) Invest more than 5% of its assets in initial margin and premiums on financial futures contracts and options on such contracts.

The Government Securities Account has also adopted the following restrictions which are not a fundamental policy and may be changed without shareholder approval. It is contrary to the Government Securities Account's present policy to:

- (1) Pledge, mortgage or hypothecate its assets, except to secure permitted borrowings. The deposit of underlying securities and other assets in escrow and other collateral arrangements in connection with transactions in put and call options, futures contracts and options on future contracts are not deemed to be pledges or other encumbrances.
- (2) Invest its assets in the securities of any investment company except that the Account may invest not more than 10% of its assets in securities of other investment companies, invest not more than 5% of its total assets in the securities of any one investment company, or acquire not more than 3% of the outstanding voting securities of any one investment company except in connection with a merger, consolidation, or plan of reorganization, and the Account may purchase securities of closed-end companies in the open market where no underwriter or dealer's commission or profit, other than a customary broker's commission, is involved.

MONEY MARKET ACCOUNT

Investment Objective

Money Market Account seeks as high a level of income available from short-term securities as is considered consistent with preservation of principal and maintenance of liquidity by investing in a portfolio of money market instruments.

Investment Restrictions

Money Market Account

Each of the following numbered restrictions is a matter of fundamental policy and may not be changed without shareholder approval. The Money Market Account may not:

- (1) Concentrate its investments in any one industry. No more than 25% of the value of its total assets will be invested in securities of issuers having their principal activities in any one industry, other than securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities, or obligations of domestic branches of U.S. banks and savings institutions. (See "Bank Obligations").
- (2) Purchase the securities of any issuer if the purchase will cause more than 25% of the value of its total assets to be invested in the securities of any one issuer (except securities issued or

guaranteed by the U.S. Government, its agencies or instrumentalities).

- (3) Purchase the securities of any issuer if the purchase will cause more than 10% of the outstanding voting securities of the issuer to be held by the Account (other than securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities).
- (4) Invest a greater percentage of its total assets in securities not readily marketable than is allowed by federal securities rules or interpretations.
- (5) Act as an underwriter except to the extent that, in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under the federal securities laws.
- (6) Purchase securities of any company with a record of less than 3 years continuous operation (including that of predecessors) if the purchase would cause the value of the Account's aggregate investments in all such companies to exceed 5% of the value of the Account's total assets.
- (7) Engage in the purchase and sale of illiquid interests in real estate, including interests in real estate investment trusts (although it may invest in securities secured by real estate or interests therein) or invest in commodities or commodity contracts, oil and gas interests, or mineral exploration or development programs.
- (8) Purchase or retain in its portfolio securities of any issuer if those officers and directors of the Account or the Manager owning beneficially more than one-half of 1% (0.5%) of the securities of the issuer together own beneficially more than 5% of such securities.
- (9) Purchase securities on margin, except it may obtain such short-term credits as are necessary for the clearance of transactions. The Account will not issue or acquire put and call options, straddles or spreads or any combination thereof.
- (10) Invest in companies for the purpose of exercising control or management.
- (11) Make loans to others except through the purchase of debt obligations in which the Account is authorized to invest and by entering into repurchase agreements (see "Account Investments").
- (12) Borrow money, except from banks for temporary or emergency purposes, including the meeting of redemption requests which might otherwise require the untimely disposition of securities, in an amount not to exceed the lesser of (i) 5% of the value of the Account's assets, or (ii) 10% of the value of the Account's net assets taken at cost at the time such borrowing is made. The Account will not issue senior securities except in connection with such borrowings. The Account may not pledge, mortgage, or hypothecate its assets (at value) to an extent greater than 10% of the net assets.
- (13) Invest in uncertificated time deposits maturing in more than seven days; uncertificated time deposits maturing from two business days through seven calendar days may not exceed 10% of the value of the Account's total assets.
- (14) Enter into repurchase agreements maturing in more than seven days if, as a result thereof, more than 10% of the value of the Account's total assets would be invested in such repurchase agreements and other assets (excluding time deposits) without readily available market quotations.

The Money Market Account has also adopted the following restriction which is not a fundamental policy and maybe changed without shareholder approval. It is contrary to the Money Market Account's present policy to:

- (1) Invest its assets in the securities of any investment company except that the Account may invest not more than 10% of its assets in securities of other investment companies, invest not more than 5% of its total assets in the securities of any one investment company, or acquire not more than 3% of the outstanding voting securities of any one investment company except in connection with a merger, consolidation, or plan of reorganization, and the Account may purchase securities of closed-end companies in the open market where no underwriter or dealer's commission or profit, other than a customary broker's commission, is involved.

The following information further supplements the discussion of the Account's investment objectives and policies in the Prospectus under the caption "INVESTMENT OBJECTIVES, POLICIES AND RESTRICTIONS."

Selections of equity securities for the Accounts, except the Aggressive Growth and Asset Allocation Accounts, are made based upon an approach described broadly as that of fundamental analysis. Three basic steps are involved in this analysis. First is the continuing study of basic economic factors in an effort to conclude what the future general economic climate is likely to be over the next one to two years. Second, given some conviction as to the likely economic climate, the Account attempts to identify the prospects for the major industrial, commercial and financial segments of the economy, by looking at such factors as demand for products, capacity to produce, operating costs, pricing structure, marketing techniques, adequacy of raw materials and components, domestic and foreign competition, and research productivity, to ascertain prospects for each industry for the near and intermediate term. Finally, determinations are made regarding earnings prospects for individual companies within each industry by considering the same types of factors described above. These earnings prospects are then evaluated in relation to the current price of the securities of each company.

Although the Accounts may pursue the investment practices described under the captions Restricted Securities, Foreign Securities, Spread Transactions, Options on Securities and Securities Indices, and Futures Contracts and Options on Futures Contracts, Currency Contracts, Repurchase Agreements, Lending of Portfolio Securities and When Issued and Delay of Delivery Securities, none of the Accounts either committed during the last fiscal year or currently intends to commit during the present fiscal year more than 5% of its net assets to any of the practices, with the following exceptions. Investments in foreign securities by the Aggressive Growth, Asset Allocation and International Accounts are expected to exceed 5% of each Account's net assets.

Restricted Securities

Each of the following Accounts has adopted investment restrictions as non-fundamental policies that limit its investments in restricted securities and other illiquid securities to 15% of its assets: Aggressive Growth, Asset Allocation, Balanced, Bond, Capital Value, Growth, High Yield, International and MidCap Accounts.

Generally, restricted securities are not readily marketable because they are subject to legal or contractual restrictions upon resale. They may be sold only in a public offering with respect to which a registration statement is in effect under the Securities Act of 1933 or in a transaction which is exempt from the registration requirements of that act. When registration is required, an Account may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Account may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Account might obtain a less favorable price than prevailed when it decided to sell. Restricted securities and other securities not readily marketable will be priced at fair value as determined in good faith by or under the direction of the Board of Directors.

Foreign Securities

Each of the following Accounts has adopted investment restrictions as non-fundamental policies that limit its investments in foreign securities to the indicated percentage of its assets: Asset Allocation and International Accounts - 100% ; Aggressive Growth - 25%; Bond, Capital Value, High Yield 20%; Balanced, Growth and MidCap - 10%. Debt securities issued in the United States pursuant to a registration statement filed with the Securities and Exchange Commission are not considered "foreign securities" for purposes of this investment limitation.

Investment in foreign securities presents certain risks, including those resulting from fluctuations in currency exchange rates, revaluation of currencies, the imposition of foreign taxes, future political and economic developments including war, expropriations, nationalization, the possible imposition of currency exchange controls and other foreign governmental laws or restrictions, reduced availability of public information concerning issuers, and the fact that foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards or to other regulatory practices and requirements comparable to those applicable to domestic issuers. Moreover, securities of many foreign issuers may be less liquid and their prices more volatile than those of comparable domestic issuers. In addition, transactions in foreign securities may be subject to higher costs, and the time for settlement of transactions in foreign securities may be longer than the settlement period for domestic issuers. Each Account's investment in foreign securities may also result in higher custodial costs and the costs associated with currency conversions.

Spread Transactions, Options on Securities and Securities Indices, and Futures Contracts and Options on Futures Contracts

The Aggressive Growth, Asset Allocation, Balanced, Bond, Government Securities, Growth, High Yield, International and MidCap Accounts may each engage in the practices described under this heading. None of the Accounts will invest more than 5% of its assets in the purchase of call and put options on individual securities, securities indices and futures contracts. In the following discussion, the terms "the Account," "each Account" or "the Accounts" refer to each of these Accounts.

Spread Transactions

Each Account may purchase from securities dealers covered spread options. Such covered spread options are not presently exchange listed or traded. The purchase of a spread option gives the Account the right to put, or sell, a security that it owns at a fixed dollar spread or fixed yield spread in relationship to another security that the Account does not own, but which is used as a benchmark. The risk to the Account in purchasing covered spread options is the cost of the premium paid for the spread option and any transaction costs. In addition, there is no assurance that closing transactions will be available. The purchase of spread options can be used to protect each Account against adverse changes in prevailing credit quality spreads, i.e., the yield spread between high quality and lower quality securities. The security covering the spread option will be maintained in a segregated account by each Account's custodian. The Accounts do not consider a security covered by a spread option to be "pledged" as that term is used in the Accounts' policy limiting the pledging or mortgaging of assets.

Options on Securities and Securities Indices

Each Account may write (sell) and purchase call and put options on securities in which it may invest and on securities indices based on securities in which the Account may invest. The Accounts may write call and put options to generate additional revenue, and may write and purchase call and put options in seeking to hedge against a decline in the value of securities owned or an increase in the price of securities which the Account plans to purchase.

Writing Covered Call and Put Options. When an Account writes a call option, it gives the purchaser of the option, in return for the premium it receives, the right to buy from the Account the underlying security at a specified price at any time before the option expires. When an Account writes a put option, it gives the purchaser of the option, in return for the premium it receives, the right to sell to the Account the underlying security at a specified price at any time before the option expires.

The premium received by an Account, when it writes a put or call option, reflects, among other factors, the current market price of the underlying security, the relationship of the exercise price to the market price, the time period until the expiration of the option and interest rates. The premium will generate additional income for the Account if the option expires unexercised or is closed out at a profit. By writing a call, an Account limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option, but it retains the risk of loss if the price of the security should decline. By writing a put, an Account assumes the risk that it may have to purchase the underlying security at a price that may be higher than its market value at time of exercise.

The Accounts write only covered options and will comply with applicable regulatory and exchange cover requirements. The Accounts usually will own the underlying security covered by any outstanding call option that it has written. With respect to an outstanding put option that it has written, each Account will deposit and maintain with its custodian cash, U.S. Government securities or other liquid securities with a value at least equal to the exercise price of the option.

Once an Account has written an option, it may terminate its obligation, before the option is exercised, by effecting a closing transaction, which is accomplished by the Account's purchasing an option of the same series as the option previously written. The Accounts will have a gain or loss depending on whether the premium received when the option was written exceeds the closing purchase price plus related transaction costs.

Purchasing Call and Put Options. When an Account purchases a call option, it receives, in return for the premium it pays, the right to buy from the writer of the option the underlying security at a specified price at any time before the option expires. The Account may purchase call options in anticipation of an increase in the market value of securities that it intends ultimately to buy. During the life of the call option, the Account would be able to buy the underlying security at the exercise price regardless of any increase in the market price of the underlying security. In order for a call option to result in a gain, the market price of the underlying security must rise to a level that exceeds the sum of the exercise price, the premium paid and transaction costs.

When an Account purchases a put option, it receives, in return for the premium it pays, the right to sell to the writer of the option the underlying security at a specified price at any time before the option expires. The Account may purchase put options in anticipation of a decline in the market value of the underlying security. During the life of the put option, the Account would be able to sell the underlying security at the exercise price regardless of any decline in the market price of the underlying security. In order for a put option to result in a gain, the market price of the underlying security must decline, during the option period, below the exercise price sufficiently to cover the premium and transaction costs.

Once an Account has purchased an option, it may close out its position by selling an option of the same series as the option previously purchased. The Account will have a gain or loss depending on whether the closing sale price exceeds the initial purchase price plus related transaction costs.

Options on Securities Indices. Each Account may purchase and sell put and call options on any securities index based on securities in which the Account may invest. Securities index options are designed to reflect price fluctuations in a group of securities or segment of the securities market rather than price fluctuations in a single security. Options on securities indices are similar to options on securities, except that the exercise of securities index options requires cash payments and does not involve the actual purchase or sale of securities. The Accounts would engage in transactions in put and call options on securities indices for the same purposes as they would engage in transactions in options on securities. When an Account writes call options on securities indices, it will hold in its portfolio underlying securities which, in the judgment of the Manager or the Sub-Advisor, correlate closely with the securities index and which have a value at least equal to the aggregate amount of the securities index options.

Risks Associated with Options Transactions. An options position may be closed out only on an exchange which provides a secondary market for an option of the same series. Although the Accounts will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option, or at any particular time. For some options, no secondary market on an exchange or elsewhere may exist. If an Account is unable to effect closing sale transactions in options it has purchased, the Account would have to exercise its options in order to realize any profit and may incur transaction costs upon the purchase or sale of underlying securities pursuant thereto. If an Account is unable to effect a closing purchase transaction for a covered option that it has written, it will not be able to sell the underlying securities, or dispose of the assets held in a segregated account, until the option expires or is exercised. An Account's ability to terminate option positions established in the over-the-counter market may be more limited than for exchange-traded options and may also involve the risk that broker-dealers participating in such transactions might fail to meet their obligations.

Futures Contracts and Options on Futures

Each Account may purchase and sell financial futures contracts and options on those contracts. Financial futures contracts are commodities contracts based on financial instruments such as U.S. Treasury bonds or bills or on securities indices such as the S&P 500 Index. Futures contracts, options on futures contracts and the commodity exchanges on which they are traded are regulated by the Commodity Futures Trading Commission ("CFTC"). Through the purchase and sale of futures contracts and related options, an Account may seek to hedge against a decline in securities owned by the Account or an increase in the price of securities which the Account plans to purchase.

Futures Contracts. When an Account sells a futures contract based on a financial instrument, the Account becomes obligated to deliver that kind of instrument at a specified future time for a specified price. When an Account purchases that kind of contract, it becomes obligated to take delivery of the instrument at a specified time and to pay the specified price. In most instances, these contracts are closed out by entering into an offsetting transaction before the settlement date, thereby canceling the obligation to make or take delivery of specific securities. The Account realizes a gain or loss depending on whether the price of an offsetting purchase plus transaction costs are less or more than the price of the initial sale or on whether the price of an offsetting sale is more or less than the price of the initial purchase plus transaction costs. Although the Account will usually liquidate futures contracts on financial instruments in this manner, they may instead make or take delivery of the underlying securities whenever it appears economically advantageous to do so.

A futures contract based on a securities index provides for the purchase or sale of a group of securities at a specified future time for a specified price. These contracts do not require actual delivery of securities, but result in a cash settlement based upon the difference in value of the index between the time the contract was entered into and the time it is liquidated, which may be at its expiration or earlier if it is closed out by entering into an offsetting transaction.

When a futures contract is purchased or sold a brokerage commission is paid, but unlike the purchase or sale of a security or option, no price or premium is paid or received. Instead, an amount of cash or U.S. Government securities, which varies, but is generally about 5% of the contract amount, is deposited by the Account with its custodian for the benefit of the futures commission merchant through which the Account engages in the transaction. This amount is known as "initial margin." It does not involve the borrowing of funds by the Account to finance the transaction, but instead represents a "good faith" deposit assuring the performance of both the purchaser and the seller under the futures contract. It is returned to the Account upon termination of the futures contract, if all the Account's contractual obligations have been satisfied.

Subsequent payments to and from the broker, known as "variation margin," are required to be made on a daily basis as the price of the futures contract fluctuates, making the long or short positions in the futures contract more or less valuable, a process known as "marking to market." If the position is closed out by taking an opposite position prior to the settlement date of the futures contract, a final determination of variation margin is made, additional cash is required to be paid to or released by the broker, and the Account realizes a loss or gain.

In using futures contracts, the Accounts will seek to establish more certainly than would otherwise be possible the effective price of or rate of return on portfolio securities or securities that the Account proposes to acquire. An Account, for example, may sell futures contracts in anticipation of a rise in interest rates which would cause a decline in the value of its debt investments. When this kind of hedging is successful, the futures contracts should increase in value when the Account's debt securities decline in value and thereby keep the Account's net asset value from declining as much as it otherwise would. An Account may also sell futures contracts on securities indices in anticipation of or during a stock market decline in an endeavor to offset a decrease in the market value of its equity investments. When an Account is not fully invested and anticipates an increase in the cost of securities it intends to purchase, it may purchase financial futures contracts. When increases in the prices of equities are expected, an Account may purchase futures contracts on securities indices in order to gain rapid market exposure that may partially or entirely offset increases in the cost of the equity securities it intends to purchase.

Options on Futures. The Accounts may also purchase and write call and put options on futures contracts. A call option on a futures contract gives the purchaser the right, in return for the premium paid, to purchase a futures contract (assume a long position) at a specified exercise price at any time before the option expires. A put option gives the purchaser the right, in return for the premium paid, to sell a futures contract (assume a short position), for a specified exercise price, at any time before the option expires.

Upon the exercise of a call, the writer of the option is obligated to sell the futures contract (to deliver a long position to the option holder) at the option exercise price, which will presumably be lower than the current market price of the contract in the futures market. Upon exercise of a put, the writer of the option is obligated to purchase the futures contract (deliver a short position to the option holder) at the option exercise price, which will presumably be higher than the current market price of the contract in the futures market. However, as with the trading of futures, most options are closed out prior to their expiration by the purchase or sale of an offsetting option at a market price that will reflect an increase or a decrease from the premium originally paid.

Options on futures can be used to hedge substantially the same risks as might be addressed by the direct purchase or sale of the underlying futures contracts. For example, if an Account anticipated a rise in interest rates and a decline in the market value of the debt securities in its portfolio, it might purchase put options or write call options on futures contracts instead of selling futures contracts.

If an Account purchases an option on a futures contract, it may obtain benefits similar to those that would result if it held the futures position itself. But in contrast to a futures transaction, the purchase of an option involves the payment of a premium in addition to transaction costs. In the event of an adverse market movement, however, the Account will not be subject to a risk of loss on the option transaction beyond the price of the premium it paid plus its transaction costs.

When an Account writes an option on a futures contract, the premium paid by the purchaser is deposited with the Account's custodian, and the Account must maintain with its custodian all or a portion of the initial margin requirement on the underlying futures contract. The Account assumes a risk of adverse movement in the price of the underlying futures contract comparable to that involved in holding a futures position. Subsequent payments to and from the broker, similar to variation margin payments, are made as the premium and the initial margin requirement are marked to market daily. The premium may partially offset an unfavorable change in the value of portfolio securities, if the option is not exercised, or it may reduce the amount of any loss incurred by the Account if the option is exercised.

Risks Associated with Futures Transactions. There are a number of risks associated with transactions in futures contracts and related options. An Account's successful use of futures contracts is subject to the Manager's and the Sub-Advisor's ability to predict correctly the factors affecting the market values of the Account's portfolio securities. For example, if an Account was hedged against the possibility of an increase in interest rates which would adversely affect debt securities held by the Account and the prices of those debt securities instead increased, the Account would lose part or all of the benefit of the increased value of its securities which it hedged because it would have offsetting losses in its futures positions. Other risks include imperfect correlation between price movements in the financial instrument or securities index underlying the futures contract, on the one hand, and the price movements of either the futures contract itself or the securities held by the Account, on the other hand. If the prices do not move in the same direction or to the same extent, the transaction may result in trading losses.

Prior to exercise or expiration, a position in futures may be terminated only by entering into a closing purchase or sale transaction. This requires a secondary market on the relevant contract market. The Account will enter into a futures contract or related option only if there appears to be a liquid secondary market therefor. There can be no assurance, however, that such a liquid secondary market will exist for any particular futures contract or related option at any specific time. Thus, it may not be possible to close out a futures position once it has been established. Under such circumstances, the Account would continue to be required to make daily cash payments of variation margin in the event of adverse price movements. In such situations, if the Account has insufficient cash, it may be required to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. In addition, the Account may be required to perform under the terms of the futures contracts it holds. The inability to close out futures positions also could have an adverse impact on the Account's ability effectively to hedge its portfolio.

Most United States futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. This daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no more trades may be made on that day at a price beyond that limit. The daily limit governs only price movements during a particular trading day and therefore does not limit potential losses because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

Limitations on the Use of Futures and Options on Futures. Each Account intends to come within an exclusion from the definition of "commodity pool operator" provided by CFTC regulations by complying with certain limitations on the use of futures and related options prescribed by those regulations.

None of the Accounts will purchase or sell futures contracts or options thereon if immediately thereafter the aggregate initial margin and premiums exceed 5% of the fair market value of the Account's assets, after taking into account unrealized profits and unrealized losses on any such contracts it has entered into (except that in the case of an option that is in-the-money at the time of purchase, the in-the-money amount generally may be excluded in computing the 5%).

The Accounts will enter into futures contracts and related options transactions only for bona fide hedging purposes as permitted by the CFTC and for other appropriate risk management purposes, if any, which the CFTC may deem appropriate for mutual funds excluded from the regulations governing commodity pool operators. The Accounts are not permitted to engage in speculative futures trading. Each Account will determine that the price fluctuations in the futures contracts and options on futures used for hedging or risk management purposes are substantially related to price fluctuations in securities held by the Account or which it expects to purchase. In pursuing traditional hedging activities, each Account will sell futures contracts or acquire puts to protect against a decline in the price of securities that the Account owns, and each Account will purchase futures contracts or calls on futures contracts to protect the Account against an increase in the price of securities the Account intends to purchase before it is in a position to do so.

When an Account purchases a futures contract, or purchases a call option on a futures contract, it will place any asset, including equity securities and non-investment grade debt, in a segregated account, so long as the asset is liquid and marked to the market daily. The amount so segregated plus the amount of initial margin held for the account of its broker equals the market value of the futures contract.

The Accounts will not maintain open short positions in futures contracts, call options written on futures contracts, and call options written on securities indices if, in the aggregate, the value of the open positions (marked to market) exceeds the current market value of that portion of its securities portfolio being hedged by those futures and options plus or minus the unrealized gain or loss on those open positions, adjusted for the historical volatility relationship between that portion of the portfolio and the contracts (i.e., the Beta volatility factor). To the extent an Account has written call options on specific securities in that portion of its portfolio, the value of those securities will be deducted from the current market value of that portion of the securities portfolio. If this limitation should be exceeded at any time, the Account will take prompt action to close out the appropriate number of open short positions to bring its open futures and options positions within this limitation.

Currency Contracts

The Aggressive Growth, Asset Allocation and International Accounts each may engage in currency transactions with securities dealers, financial institutions or other parties that are deemed creditworthy by the Account's Sub-Advisor to hedge the value of portfolio securities denominated in particular currencies against fluctuations in relative value. Currency transactions include forward currency contracts, exchange-listed currency futures contracts and options thereon and exchange-listed and over-the-counter options on currencies. A forward currency contract involves a privately negotiated obligation to purchase or sell (with delivery generally required) a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract.

The Accounts will engage in currency transactions only for hedging and other non-speculative purposes, including transaction hedging and position hedging. Transaction hedging is entering into a currency transaction with respect to specific assets or liabilities of the Account, which will generally arise in connection with the purchase or sale of the Account's portfolio securities or the receipt of income from them. Position hedging is entering into a currency transaction with respect to portfolio securities positions denominated or generally quoted in that currency. The Accounts will not enter into a transaction to hedge currency exposure to an extent greater, after netting all transactions intended wholly or partially to offset other transactions, than the aggregate market value (at the time of entering into the transaction) of the securities held by the Account that are denominated or generally quoted in or currently convertible into the currency, other than with respect to proxy hedging as described below.

The Accounts may cross-hedge currencies by entering into transactions to purchase or sell one or more currencies that are expected to increase or decline in value relative to other currencies to which the Account has or in which the Account expects to have exposure. To reduce the effect of currency fluctuations on the value of existing or anticipated holdings of its securities, the Account may also engage in proxy hedging. Proxy hedging is often used when the currency to which an Account's holding is exposed is difficult to hedge generally or difficult to hedge against the dollar. Proxy hedging entails entering into a forward contract to sell a currency, the changes in the value of which are generally considered to be linked to a currency or currencies in which some or all of an Account's securities are or are expected to be denominated, and to buy dollars. The amount of the contract would not exceed the market value of the Account's securities denominated in linked currencies.

Except when an Account enters into a forward contract in connection with the purchase or sale of a security denominated in a foreign currency or for other non-speculative purposes, which requires no segregation, a currency contract that obligates the Account to buy or sell a foreign currency will generally require the Account to hold an amount of that currency or liquid securities denominated in that currency equal to the Account's obligations or to segregate liquid high grade debt obligations equal to the amount of the Account's obligations.

Currency hedging involves some of the same risks and considerations as other transactions with similar instruments. Currency transactions can result in losses to an Account if the currency being hedged fluctuates in value to a degree or in a direction that is not anticipated. Further, the risk exists that the perceived linkage between various currencies may not be present or may not be present during the particular time that an Account is engaging in proxy hedging. Currency transactions are also subject to risks different from those of other portfolio transactions. Because currency control is of great importance to the issuing governments and influences economic planning and policy, purchases and sale of currency and related instruments can be adversely affected by government exchange controls, limitations or restrictions on repatriation of currency, and manipulations or exchange restrictions imposed by governments. These forms of governmental actions can result in losses to an Account if it is unable to deliver or receive currency or monies in settlement of obligations and could also cause hedges it has entered into to be rendered useless, resulting in full currency exposure as well as incurring transaction costs. Currency exchange rates may also fluctuate based on factors extrinsic to a country's economy. Buyers and sellers of currency futures contracts are subject to the same risks

that apply to the use of futures contracts generally. Further, settlement of a currency futures contract for the purchase of most currencies must occur at a bank based in the issuing nation. Trading options on currency futures contracts is relative new, and the ability to establish and close out positions on these options is subject to the maintenance of a liquid market that may not always be available.

Repurchase Agreements

All the Accounts may invest in repurchase agreements. None of the Accounts will enter into repurchase agreements that do not mature within seven days if any such investment, together with other illiquid securities held by the Account, would amount to more than 10% of its assets. Repurchase agreements will typically involve the acquisition by the Account of debt securities from a selling financial institution such as a bank, savings and loan association or broker-dealer. A repurchase agreement provides that the Account will sell back to the seller and that the seller will repurchase the underlying securities at a specified price and at a fixed time in the future. Repurchase agreements may be viewed as loans by an Account collateralized by the underlying securities ("collateral"). This arrangement results in a fixed rate of return that is not subject to market fluctuation during the Account's holding period. Although repurchase agreements involve certain risks not associated with direct investments in debt securities, each of the Accounts follows procedures established by the Board of Directors which are designed to minimize such risks. These procedures include entering into repurchase agreements only with large, well-capitalized and well-established financial institutions, which have been approved by the Board of Directors and which the Manager believes present minimum credit risks. In addition, the value of the collateral underlying the repurchase agreement will always be at least equal to the repurchase price, including accrued interest. In the event of a default or bankruptcy by a selling financial institution, the affected Account bears a risk of loss. In seeking to liquidate the collateral, an Account may be delayed in or prevented from exercising its rights and may incur certain costs. Further to the extent that proceeds from any sale upon a default of the obligation to repurchase were less than the repurchase price, the Account could suffer a loss.

Lending of Portfolio Securities

All the Accounts may lend their portfolio securities. None of the Accounts intends to lend its portfolio securities if as a result the aggregate of such loans made by the Account would exceed 30% of its total assets. Portfolio securities may be loaned to unaffiliated broker-dealers and other unaffiliated qualified financial institutions provided that such loans are callable at any time on not more than five business days' notice and that cash or government securities equal to at least 100% of the market value of the securities loaned, determined daily, is deposited by the borrower with the Account and is maintained each business day in a segregated account. While such securities are on loan, the borrower will pay the Account any income accruing thereon, and the Account may invest any cash collateral, thereby earning additional income, or may receive an agreed upon fee from the borrower. Borrowed securities must be returned when the loan is terminated. Any gain or loss in the market price of the borrowed securities which occurs during the term of the loan inures to the Account and its shareholders. An Account may pay reasonable administrative, custodial and other fees in connection with such loans and may pay a negotiated portion of the interest earned on the cash or government securities pledged as collateral to the borrower or placing broker. An Account does not vote securities that have been loaned, but it will call a loan of securities in anticipation of an important vote.

When-Issued and Delayed Delivery Securities

Each of the Accounts may from time to time purchase securities on a when-issued basis and may purchase or sell securities on a delayed delivery basis. The price of such a transaction is fixed at the time of the commitment, but delivery and payment take place on a later settlement date, which may be a month or more after the date of the commitment. No interest accrues to the purchaser during this period, and the securities are subject to market fluctuation, which involves the risk for the purchaser that yields available in the market at the time of delivery may be higher than those obtained in the transaction. Each Account will only purchase securities on a when-issued or delayed delivery basis with the intention of acquiring the securities, but an Account may sell the securities before the settlement date, if such action is deemed advisable. At the time an Account makes the commitment to purchase securities on a when-issued or delayed delivery basis, it will record the transaction and thereafter reflect the value, each day, of the securities in determining its net asset value. Each Account will also establish a segregated account with its custodian bank in which it will maintain cash or cash equivalents, United States Government securities and other high grade debt obligations equal in value to the Account's commitments for such when-issued or delayed delivery securities. The availability of liquid assets for this purpose and the effect of asset segregation on an Account's ability to meet its current obligations, to honor requests for redemption and to have its investment portfolio managed properly will limit the extent to which the Account may engage in forward commitment agreements. Except as may be imposed by these factors, there is no limit on the percent of an Account's total assets that may be

committed to transactions in such agreements.

Money Market Instruments

The Money Market Account will invest all of its available assets in money market instruments maturing in 397 days or less. The types of instruments which this Account may purchase are described below.

- (1) U.S. Government Securities -- Securities issued or guaranteed by the U.S. Government, including treasury bills, notes and bonds.
- (2) U.S. Government Agency Securities -- Obligations issued or guaranteed by agencies or instrumentalities of the U.S. Government. U.S. agency obligations include, but are not limited to, the Student Loan Marketing Association, Federal Intermediate Credit Banks, and the Federal National Mortgage Association. U.S. instrumentality obligations include, but are not limited to, the Export-Import Bank and Farmers Home Administration. Some obligations issued or guaranteed by U.S. Government agencies and instrumentalities, such as those issued by Federal Intermediate Credit Banks, are supported by the right of the issuer to borrow from the Treasury, others such as those issued by the Federal National Mortgage Association, by discretionary authority of the U.S. Government to purchase certain obligations of the agency or instrumentality, and others, such as those issued by the Student Loan Marketing Association, only by the credit of the agency or instrumentality.
- (3) Bank Obligations -- Certificates of deposit, time deposits and bankers' acceptances of U.S. commercial banks having total assets of at least one billion dollars, and of the overseas branches of U.S. commercial banks and foreign banks, which in the Manager's opinion, are of comparable quality, provided each such bank with its branches has total assets of at least five billion dollars, and certificates, including time deposits of domestic savings and loan associations having at least one billion dollars in assets which are insured by the Federal Savings and Loan Insurance Corporation. The Account may acquire obligations of U.S. banks which are not members of the Federal Reserve System or of the Federal Deposit Insurance Corporation. Any obligations of foreign banks shall be denominated in U.S. dollars. Obligations of foreign banks and obligations of overseas branches of U.S. banks are subject to somewhat different regulations and risks than those of U.S. domestic banks. For example, an issuing bank may be able to maintain that the liability for an investment is solely that of the overseas branch which could expose the Account to a greater risk of loss. In addition, obligations of foreign banks or of overseas branches of U.S. banks may be affected by governmental action in the country of domicile of the branch or parent bank. Examples of adverse foreign governmental actions include the imposition of currency controls, the imposition of withholding taxes on interest income payable on such obligations, interest limitations, seizure or nationalization of assets, or the declaration of a moratorium. Deposits in foreign banks or foreign branches of U.S. banks are not covered by the Federal Deposit Insurance Corporation. The Account will only buy short-term instruments where the risks of adverse governmental action are believed by the Manager to be minimal. The Account will consider these factors along with other appropriate factors in making an investment decision to acquire such obligations and will only acquire those which, in the opinion of management, are of an investment quality comparable to other debt securities bought by the Account. The Account may invest in certificates of deposit of selected banks having less than one billion dollars of assets providing the certificates do not exceed the level of insurance (currently \$100,000) provided by the applicable government agency.

A certificate of deposit is issued against funds deposited in a bank or savings and loan association for a definite period of time, at a specified rate of return. Normally they are negotiable. However, the Account may occasionally invest in certificates of deposit which are not negotiable. Such certificates may provide for interest penalties in the event of withdrawal prior to their maturity. A bankers' acceptance is a short-term credit instrument issued by corporations to finance the import, export, transfer or storage of goods. They are termed "accepted" when a bank guarantees their payment at maturity and reflect the obligation of both the bank and drawer to pay the face amount of the instrument at maturity.

- (4) Commercial Paper -- Short-term promissory notes issued by corporations which at time of purchase are rated A-1 or better by Standard and Poor's ("S&P") or Prime-1 or better by Moody's Investors Service, Inc. ("Moody's") or, if not rated, issued or guaranteed by a corporation with outstanding debt rated AA or better by S&P or Aa or better by Moody's. The Account will not invest in master demand notes. (See Appendix A.)
- (5) Short-term Corporate Debt -- Corporate notes, bonds and debentures which at the time of purchase are rated AA or better by S&P or Aa or better by Moody's provided such securities have one year or less remaining to maturity. (See Appendix A.)
- (6) Repurchase Agreements -- Instruments under which securities are purchased from a bank or securities dealer with an agreement by the seller to

repurchase the securities at the same price plus interest at a specified rate. (See "ACCOUNT INVESTMENTS Repurchase Agreements.")

The ratings of Moody's and S&P, which are described in Appendix A, represent their opinions as to the quality of the money market instruments which they undertake to rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. These ratings are the initial criteria for selection of portfolio investments, but the Manager will further evaluate these securities.

Portfolio Turnover

Portfolio turnover will normally differ for each Account, may vary from year to year, as well as within a year, and may be affected by portfolio sales necessary to meet cash requirements for redemptions of Account shares. The portfolio turnover rate for an Account is calculated by dividing the lesser of purchases or sales of its portfolio securities during the fiscal year by the monthly average of the value of its portfolio securities (excluding from the computation all securities, including options, with maturities at the time of acquisition of one year or less). A high rate of portfolio turnover generally involves correspondingly greater brokerage commission expenses, which must be borne directly by the Account. No portfolio turnover rate can be calculated for the Money Market Account because of the short maturities of the securities in which it invests. The portfolio turnover rates for each of the other Accounts for its most recent and immediately preceding fiscal periods, respectively, were as follows: Aggressive Growth - 166.9% and 172.9%; Asset Allocation - 108.2% and 47.1%; Balanced - 22.6% and 25.7%; Bond - 1.7% and 5.9%; Capital Value 48.5% and 49.2%; Government Securities - 8.4% and 9.8%; Growth - 2.0% and 6.9%; High Yield - 32.0% and 35.1%; International - 12.5% and 15.6%; MidCap - 8.8% and 13.1%.

DIRECTORS AND OFFICERS OF THE FUNDS

The following listing discloses the principal occupations and other principal business affiliations of the Fund's Officers and Directors during the past five years. All mailing addresses are The Principal Financial Group, Des Moines, Iowa 50392, unless otherwise indicated.

@James D. Davis, 63, Director. 4940 Center Court, Bettendorf, Iowa. Attorney. Vice President, Deere and Company, Retired.

Roy W. Ehrle, 69, Director. 2424 Jordan Trail, West Des Moines, Iowa. Vice Chairman, Principal Mutual Life Insurance Company, Retired.

Pamela A. Ferguson, 54, Director. P.O. Box 805, Grinnell, Iowa. Professor of Mathematics, Grinnell College since 1998. Prior thereto, President, Grinnell College.

@Richard W. Gilbert, 57, Director. 1357 Asbury Avenue, Winnetka, IL. President, Gilbert Communications, Inc. since 1993. Prior thereto, President and Publisher, Pioneer Press.

*J. Barry Griswell, 48, Director and Chairman of the Board. Executive Vice President, Principal Mutual Life Insurance Company since 1996. Senior Vice President 1991-1996. Director and Chairman of the Board, Principal Management Corporation, Prncor Financial Services Corporation.

*Stephan L. Jones, 62, Director and President. Vice President, Principal Mutual Life Insurance Company since 1986. Director and President, Prncor Financial Services Corporation and Principal Management Corporation.

*Ronald E. Keller, 61, Director. Executive Vice President, Principal Mutual Life Insurance Company since 1992. Prior thereto, Senior Vice President, Principal Mutual Life Insurance Company. Director, Prncor Financial Services Corporation and Principal Management Corporation. Director and Chairman, Invista Capital Management, Inc.

@Barbara A. Lukavsky, 57, Director. 3920 Grand Avenue, Des Moines, Iowa. President and CEO, Lu San ELITE USA, L.C.

&Richard G. Peebler, 68, Director. 1916 79th Street, Des Moines, Iowa. Professor, Drake University, College of Business and Public Administration, since 1990.

*Craig L. Bassett, 45, Treasurer. Director - Treasury, since 1996. Prior thereto, Associate Treasurer, Principal Mutual Life Insurance Company since 1988.

*Michael J. Beer, 36, Financial Officer. Senior Vice President and Chief Operating Officer, Prncor Financial Services Corporation and Principal Management Corporation, since 1997. Prior thereto, Vice President and Chief

Operating Officer 1995-1997. Prior thereto, Financial Officer.

*David J. Brown, 37, Assistant Counsel. Counsel, Principal Mutual Life Insurance Company since 1995. Attorney 1994-1995. Prior thereto, Attorney, Dickinson, Mackaman, Tyler & Hogan, P.C. 1986-1994.

*Michael W. Cumings, 46, Assistant Counsel. Counsel, Principal Mutual Life Insurance Company since 1989.

* Arthur S. Filean, 59, Vice President and Secretary. Vice President, Princor Financial Services Corporation since 1990. Vice President, Principal Management Corporation since 1996.

* Ernest H. Gillum, 42, Assistant Secretary. Assistant Vice President, Registered Products, Princor Financial Services Corporation and Principal Management Corporation, since 1995. Prior thereto, Product Development and Compliance Officer.

Jane E. Karli, 40, Assistant Treasurer. Senior Accounting and Custody Administrator, Principal Mutual Life Insurance Company since 1994; Senior Investment Cost Accountant 1993- 1994; Senior Investment Accountant 1992-1993; Prior thereto, Manager-Investment Accounting and Treasury.

*Michael D. Roughton, 46, Counsel. Counsel, Principal Mutual Life Insurance Company since 1994. Prior thereto, Assistant Counsel. Counsel, Invista Capital Management, Inc., Princor Financial Services Corporation, Principal Investors Corporation and Principal Management Corporation.

@ Member of Audit and Nominating Committee.

* Affiliated with the Manager of the Fund or its parent and considered an "Interested Person," as defined in the Investment Company Act of 1940, as amended.

& Member of the Executive Committee. The Executive Committee is elected by the Board of Directors and may exercise all the powers of the Board of Directors, with certain exceptions, when the Board is not in session and shall report its actions to the Board.

All Directors and Officers listed above hold similar positions with nineteen mutual funds sponsored by Principal Mutual Life Insurance Company. In addition, James D. Davis, Pamela A. Ferguson, Stephan L. Jones, J. Barry Griswell, Barbara A. Lukavsky, and all of the officers hold similar positions with one other Fund sponsored by Principal Mutual Life Insurance Company.

The following information relates to compensation paid by each Account during the fiscal year ended December 31, 1996.

Director -----	Each Account -----
James D. Davis	\$1,200
Roy W. Ehrle	\$1,200
Pamela A. Ferguson	\$1,350
Richard W. Gilbert	\$1,200
Barbara A. Lukavsky	\$1,350
Richard G. Peebler	\$1,350*

* Richard G. Peebler received \$1,350 from each of the Account. He received an additional \$75 from Aggressive Growth, Asset Allocation, Balanced, Capital Value, International and MidCap Accounts due to his participation in the executive committee of each of those Accounts.

The Fund does not provide retirement benefits for any of the directors. Total compensation from the investment companies included in the fund complex for the fiscal year ended December 31, 1996 was as follows:

James D. Davis	\$32,100	Richard W. Gilbert	\$33,000
Roy W. Ehrle	\$30,900	Barbara A. Lukavsky	\$35,850
Pamela A. Ferguson	\$35,850	Richard G. Peebler	\$33,525

All of the outstanding shares of the Fund are owned by Principal Mutual Life Insurance Company and its Separate Accounts B and C and Variable Life Separate Account. As of December 31, 1996, the Officers and Directors as a group owned none of the outstanding shares of the Fund.

MANAGER AND SUB-ADVISORS

The Manager of each of the Accounts is Principal Management Corporation (formerly known as Princor Management Corporation (the "Manager"), a wholly-owned subsidiary of Princor Financial Services Corporation which is a wholly-owned subsidiary of Principal Holding Company. Principal Holding Company is a holding company which is a wholly-owned subsidiary of Principal Mutual Life Insurance Company, a mutual life insurance company organized in 1879 under the laws of the state of Iowa. The address of the Manager is The Principal Financial

Group, Des Moines, Iowa 50392. The Manager was organized on January 10, 1969 and since that time has managed various mutual funds sponsored by Principal Mutual Life Insurance Company.

The Manager has executed an agreement with Invista Capital Management, Inc. ("Invista") under which Invista has agreed to assume the obligations of the Manager to provide investment advisory services for the Balanced, Capital Value, Government Securities, Growth, International and MidCap Accounts. The Manager will reimburse Invista for the cost of providing these services. Invista, an indirectly wholly-owned subsidiary of Principal Mutual Life Insurance Company and an affiliate of the Manager, was founded in 1985 and manages investments for institutional investors, including Principal Mutual Life. Assets under management at December 31, 1996 were approximately \$19.6 billion. Invista's address is 1800 Hub Tower, 699 Walnut, Des Moines, Iowa 50309.

The Manager has also executed an agreement with Morgan Stanley Asset Management Inc. ("MSAM") under which MSAM has agreed to assume the obligations of the Manager to provide investment advisory services for the Aggressive Growth Account and Asset Allocation Account. The Manager pays MSAM a fee for such investment advisory services. MSAM, with principal offices at 1221 Avenue of the Americas, New York, NY 10020, provides a broad range of portfolio management services to customers in the United States and abroad. At December 31, 1996, MSAM managed investments totaling approximately \$72.6 billion, including approximately \$54.9 billion under active management and \$17.7 billion as Named Fiduciary or Fiduciary Adviser.

Each of the persons affiliated with the Fund who is also an affiliated person of the Manager or a Sub-Advisor is named below, together with the capacities in which such person is affiliated:

Name	Office Held With The Fund	Office Held With The Manager/Invista
Craig Bassett	Treasurer	Treasurer (Manager)
Michael J. Beer	Financial Officer	Senior Vice President & Chief Operating Officer (Manager)
Arthur S. Filean	Vice President and Secretary	Vice President (Manager)
Ernest H. Gillum	Assistant Secretary	Assistant Vice President, Registered Products (Manager)
J. Barry Griswell	Director and Chairman of the Board	Director and Chairman of the Board (Manager)
Stephan L. Jones	Director and President	Director (Manager)
Ronald E. Keller	Director	Director and President (Manager)
		Director (Manager)
		Director and Chairman of the Board (Invista)
Michael D. Roughton	Counsel	Counsel (Manager; Invista)

COST OF MANAGER'S SERVICES

For providing the investment advisory services, and specified other services, the Manager, under the terms of the Management Agreement for the Fund, is entitled to receive a fee computed and accrued daily and payable monthly, at the following annual rates:

<TABLE>
<CAPTION>

	Net Asset Value of Fund	Aggressive Growth and Asset Allocation Accounts	International Account	MidCap Account	High Yield and Balanced Accounts	All Other Accounts
<S>	<C>	<C>	<C>	<C>	<C>	<C>
First	\$100,000,000	.80%	.75%	.65%	.60%	.50%
Next	100,000,000	.75%	.70%	.60%	.55%	.45%
Next	100,000,000	.70%	.65%	.55%	.50%	.40%
Next	100,000,000	.65%	.60%	.50%	.45%	.35%
Over	400,000,000	.60%	.55%	.45%	.40%	.30%

</TABLE>

There is no assurance that any of the Accounts' net assets will reach sufficient amounts to be able to take advantage of the rate decreases. The net asset value of each Account on December 31, 1996 and the rate of the fee for each Account for investment management services as provided in the Management Agreement for the fiscal year then ended were as follows:

Account	Net Assets as of December 31, 1996	Management Fee For Year Ended December 31, 1996

Aggressive Growth	\$	90,105,549	.80%
Asset Allocation		61,631,138	.80
Balanced		93,157,669	.60
Bond		63,386,561	.50
Capital Value		205,018,528	.48
Government Securities		85,099,858	.50
Growth		99,611,910	.50
High Yield		13,740,343	.60
International		71,682,015	.75
MidCap		137,160,881	.64
Money Market		46,244,249	.50

Under a Sub-Advisory Agreement between Invista and the Manager, Invista performs all the investment advisory responsibilities of the Manager under the Management Agreement for the Balanced, Capital Value, Government Securities, Growth, International and MidCap Accounts and is reimbursed by the Manager for the cost of providing such services.

Under a Sub-Advisory Agreement between MSAM and the Manager, MSAM performs all the investment advisory responsibilities of the Manager under the Management Agreement for the Aggressive Growth and Asset Allocation Accounts.

The Manager pays MSAM a fee that is accrued daily and payable monthly. The fee is based on the net asset value of each Account as follows: first \$40 million of net assets - the fee is 0.45%; next \$160 million - 0.30%; next \$100 million - 0.25%; and net assets over \$300 million - 0.20%.

Except for certain Fund expenses set out below, the Manager is responsible for expenses, administrative duties and services including the following: Expenses incurred in connection with the registration of the Fund and Fund shares with the Securities and Exchange Commission and state regulatory agencies; office space, facilities and costs of keeping the books of the Fund; compensation of personnel and officers and any directors who are also affiliated with the Manager; fees for auditors and legal counsel; preparing and printing Fund prospectuses; administration of shareholder accounts, including issuance, maintenance of open account system, dividend disbursement, reports to shareholders, and redemption. However, some or all of these expenses may be assumed by Principal Mutual Life Insurance Company and some or all of the administrative duties and services may be delegated by the Manager to Principal Mutual Life Insurance Company or affiliate thereof.

Each Account pays for certain corporate expenses incurred in its operation. Among such expenses, the Account pays brokerage commissions on portfolio transactions, transfer taxes and other charges and fees attributable to investment transactions, any other local, state or federal taxes, fees and expenses of all directors of the Fund who are not persons affiliated with the Manager, interest, fees for Custodian of the Account, and the cost of meetings of shareholders.

Fees paid for investment management services during the periods indicated were as follows:

	Management Fees For Year Ended December 31,		
	1996	1995	1994
Aggressive Growth	\$491,699	\$180,022	\$ 53,716 *
Asset Allocation	425,427	272,724	127,034 *
Balanced	420,010	206,614	131,488
Bond	260,242	122,783	72,199
Capital Value	816,437	591,891	637,781
Government Securities	360,968	202,554	195,469
Growth	357,833	137,029	24,971 **
High Yield	75,111	64,422	57,369
International	376,123	172,258	38,147 **
MidCap	606,697	264,411	94,644
Money Market	208,822	140,895	125,791

* Period beginning June 1, 1994 and ended December 31, 1994. ** Period beginning May 1, 1994 and ended December 31, 1994.

The Management Agreements, Sub-Advisory Agreements and Investment Service Agreements, pursuant to which Principal Mutual Life Insurance Company has agreed to furnish certain personnel, services and facilities required by the Manager to enable it to fulfill its investment advisory responsibilities for each of the Accounts except the Aggressive Growth and Asset Allocation Accounts, were last approved by the Fund's Board of Directors on September 8, 1997. Each of these agreements provides for continuation in effect from year to year only so long as such continuation is specifically approved at least annually either by the Board of Directors of the Fund or by vote of a majority of the outstanding voting securities of an Account of the Fund, provided that in either event such continuation shall be approved by vote of a majority of the Directors who are not "interested persons" (as defined in the Investment Company Act of 1940) of the Manager, Principal Mutual Life Insurance Company or its subsidiaries, the Fund and, in the case of the Sub- Advisory Agreement for each of the Accounts

other than the Aggressive Growth and Asset Allocation Accounts, Invista, and in the case of the Sub-Advisory Agreement for each of the Aggressive Growth and Asset Allocation Accounts, MSAM, cast in person at a meeting called for the purpose of voting on such approval. The Agreements may be terminated at any time on 60 days written notice to the Manager by the Board of Directors of the Fund or by a vote of a majority of the outstanding securities of the Fund and by the Manager, Invista, MSAM or Principal Mutual Life Insurance Company, as the case may be, on 60 days written notice to the Fund. The Agreements will automatically terminate in the event of their assignment.

BROKERAGE ON PURCHASES AND SALES OF SECURITIES

In distributing brokerage business arising out of the placement of orders for the purchase and sale of securities for any Account, the objective of the Accounts' Manager or Sub-Advisor is to obtain the best overall terms. In pursuing this objective, the Manager, or Sub-Advisor, considers all matters it deems relevant, including the breadth of the market in the security, the price of the security, the financial condition and executing capability of the broker or dealer and the reasonableness of the commission, if any (for the specific transaction and on a continuing basis). This may mean in some instances that the Manager, or Sub-Advisor, will pay a broker commissions that are in excess of the amount of commission another broker might have charged for executing the same transaction when the Manager, or Sub-Advisor, believes that such commissions are reasonable in light of (a) the size and difficulty of transactions (b) the quality of the execution provided and (c) the level of commissions paid relative to commissions paid by other institutional investors. (Such factors are viewed both in terms of that particular transaction and in terms of all transactions that broker executes for accounts over which the Manager, or Sub-Advisor, exercises investment discretion. The Manager, or Sub-Advisor, may purchase securities in the over-the-counter market, utilizing the services of principal market makers, unless better terms can be obtained by purchases through brokers or dealers, and may purchase securities listed on the New York Stock Exchange from non-Exchange members in transactions off the Exchange.) The Manager, or Sub-Advisor, gives consideration in the allocation of business to services performed by a broker (e.g. the furnishing of statistical data and research generally consisting of information of the following types: analyses and reports concerning issuers, industries, economic factors and trends, portfolio strategy and performance of client accounts). If any such allocation is made, the primary criteria used will be to obtain the best overall terms for such transactions. The Manager, or Sub-Advisor, may pay additional commission amounts for research services but generally does not do so. Such statistical data and research information received from brokers or dealers may be useful in varying degrees and the Manager, or Sub-Advisor, may use it in servicing some or all of the accounts it manages. Some statistical data and research information may not be useful to the Manager, or Sub-Advisor, in managing the client account, brokerage for which resulted in the Manager's, or Sub-Advisor's, receipt of the statistical data and research information. However, in the Manager's, or Sub-Advisor's, opinion, the value thereof is not determinable and it is not expected that the Manager's, or Sub-Advisor's, expenses will be significantly reduced since the receipt of such statistical data and research information is only supplementary to the Manager's, or Sub-Advisor's, own research efforts. The Manager, or Sub-Advisor, allocated portfolio transactions for the Aggressive Growth Account, Asset Allocation Account, Balanced Account, Capital Value Account, Growth Account, International Account and MidCap Account to certain brokers during the fiscal year ended December 31, 1996 due to research services provided by such brokers. These portfolio transactions resulted in commissions paid to such brokers by the Funds in the amounts of \$15,242, \$15,438, \$13,692, \$29,405, \$500, \$3,955 and \$2,591, respectively.

Purchases and sales of debt securities and money market instruments usually will be principal transactions; portfolio securities will normally be purchased directly from the issuer or from an underwriter or marketmaker for the securities. Such transactions are usually conducted on a net basis with the Account paying no brokerage commissions. Purchases from underwriters will include a commission or concession paid by the issuer to the underwriter, and the purchases from dealers serving as marketmakers will include the spread between the bid and asked prices.

The following table shows the brokerage commissions paid during the periods indicated. In each year, 100% of the commissions paid by each Account went to broker-dealers which provided research, statistical or other factual information.

Total Brokerage Commissions Paid
Fiscal Year Ended
December 31,

Account	1996	1995	1994
-----	----	----	----
Aggressive Growth	\$250,591	\$102,404	\$37,910*
Asset Allocation	109,360	35,476	40,055*
Balanced	46,458	18,780	14,596
Capital Value	183,156	142,577	149,871
Growth	45,131	28,870	7,280**

International	156,842	78,939	43,151**
MidCap	63,355	31,588	7,527

* Period beginning June 1, 1994 and ended December 31, 1994.

** Period beginning May 1, 1994 and ended December 31, 1994.

Brokerage commissions paid to affiliates during the year ended December 31, 1996 were as follows:

Commissions Paid to Principal Financial Securities, Inc.

Account	Total Dollar Amount	As Percent of Total Commissions	As Percent of Dollar Amount of Commissionable Transactions
Capital Value	\$ 6,612	3.61%	7.92%
Growth	438	.97%	.86%

Commissions Paid to Morgan Stanley and Co.

Account	Total Dollar Amount	As Percent of Total Commissions	As Percent of Dollar Amount of Commissionable Transactions
Balanced	\$ 1,300	2.80%	1.82%
Capital Value	3,650	1.99%	1.48%
International	3,176	2.02%	1.78%

Morgan Stanley and Co. is affiliated with Morgan Stanley Asset Management, Inc., which acts as a sub-advisor to two Accounts included in the Fund.

The Manager acts as investment advisor for each of the funds sponsored by Principal Mutual Life Insurance Company and places orders to trade portfolio securities for the funds and these Accounts, except the Aggressive Growth Account and Asset Allocation Account. If, in carrying out the investment objectives of the Accounts, occasions arise when purchases or sales of the same equity securities are to be made for two or more of the Accounts or Funds at the same time, (or, in the case of Accounts managed by Invista, for two or more Funds and any other accounts managed by Invista), the Manager or Invista may submit the orders to purchase or, whenever possible, to sell, to a broker/dealer for execution on an aggregate or "bunched" basis. The Manager (or, in the case of Accounts managed by Invista, Invista) may create several aggregate or "bunched" orders relating to a single security at different times during the same day. On such occasion, the Manager (or, in the case of Accounts managed by Invista, Invista) will employ a computer program to randomly order the Accounts whose individual orders for purchase or sale make up each aggregate or "bunched" order. Securities purchased or proceeds of sales received on each trading day with respect to each such aggregate or "bunched" orders shall be allocated to the various Accounts (or, in the case of Invista, the various Accounts or Funds and other client accounts) whose individual orders for purchase or sale make up the aggregate or "bunched" order by filling each Account's or Fund's (or, in the case of Invista, each Account's or Fund's or other client account's) order, in the sequence arrived at by the random ordering. Securities purchased for funds (or, in the case of Invista, Accounts, Funds and other clients accounts) participating in an aggregate or "bunched" order will be placed into those Accounts and, where applicable, other client accounts at a price equal to the average of the prices achieved in the course of filling that aggregate or "bunched" order.

If purchases or sales of the same debt securities are to be made for two or more of the Accounts or Funds at the same time, the securities will be purchased or sold proportionately in accordance with the amount of such security sought to be purchased or sold at that time for each Account or Fund. If the purchase or sale of securities consistent with the investment objectives of the Accounts or one or more of the other clients for which MSAM acts as investment sub-advisor or advisor is to be made at the same time, the securities will be purchased or sold proportionately in accordance with the amount of such security sought to be purchased or sold at that time for each Account or client.

DETERMINATION OF NET ASSET VALUE OF ACCOUNT SHARES

Growth-Oriented and Income-Oriented Accounts

The net asset values of the shares of each of the Growth-Oriented and Income-Oriented Accounts are determined daily, Monday through Friday, as of the close of trading on the New York Stock Exchange, except on days on which changes in the value of an Account's portfolio securities will not materially affect the current net asset value of that Account's redeemable securities, on days during which an Account receives no order for the purchase or sale of its redeemable securities and no tender of such a security for redemption, and on customary national business holidays. The Accounts treat as customary national business holidays those days on which the New York Stock Exchange is closed for New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. The net asset value per share for each Account is determined by dividing the value of securities in the Account's investment portfolio plus all other assets, less all liabilities, by the number of Account shares outstanding. Securities for which

market quotations are readily available, including options and futures traded on an exchange, are valued at market value, which is currently determined using the last reported sale price or, if no sales are reported, as is regularly the case for some securities traded over-the-counter, the last reported bid price. When reliable market quotations are not considered to be readily available, which may be the case, for example, with respect to certain debt securities, preferred stocks, foreign securities and over-the-counter options, the investments are valued by using market quotations, prices provided by market makers, which may include dealers with which the Account has executed transactions, or estimates of market values obtained from yield data and other factors relating to instruments or securities with similar characteristics in accordance with procedures established in good faith by the Board of Directors. Securities with remaining maturities of 60 days or less are valued at amortized cost. Other assets are valued at fair value as determined in good faith by the Board of Directors.

Generally, trading in foreign securities is substantially completed each day at various times prior to the close of the New York Stock Exchange. The values of such securities used in computing net asset value per share are usually determined as of such times. Occasionally, events which affect the values of such securities and foreign currency exchange rates may occur between the times at which they are generally determined and the close of the New York Stock Exchange and would therefore not be reflected in the computation of the Account's net asset value. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value as determined in good faith by the Manager under procedures established and regularly reviewed by the Board of Directors. To the extent the Account invests in foreign securities listed on foreign exchanges which trade on days on which the Account does not determine its net asset value, for example Saturdays and other customary national U.S. holidays, the Account's net asset value could be significantly affected on days when shareholders have no access to the Account.

Certain securities issued by companies in emerging market countries may have more than one quoted valuation at any given point in time, sometimes referred to as a "local" price and a "premium" price. The premium price is often a negotiated price which may not consistently represent a price at which a specific transaction can be effected. It is the policy of International Account to value such securities at prices at which it is expected those shares may be sold, and the Manager or any sub-adviser, is authorized to make such determinations subject to such oversight by the Fund's Board of Directors as may from time to time be necessary.

Money Market Account

The net asset value of shares of the Money Market Account is determined at the same time and on the same days as each of the Growth-Oriented Accounts and Income-Oriented Accounts as described above. The net asset value per share for the Account is computed by dividing the total value of the Account's securities and other assets, less liabilities, by the number of Account shares outstanding.

All securities held by the Money Market Account will be valued on an amortized cost basis. Under this method of valuation, a security is initially valued at cost; thereafter, the Account assumes a constant proportionate amortization in value until maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the security. While this method provides certainty in valuation, it may result in periods during which value, as determined by amortized cost, is higher or lower than the price that would be received upon sale of the security.

Use of the amortized cost valuation method by the Money Market Account requires the Account to maintain a dollar weighted average maturity of 90 days or less and to purchase only obligations that have remaining maturities of 397 days or less or have a variable or floating rate of interest. In addition, the Account can invest only in "Eligible Securities" as that term is defined in Regulations issued under the Investment Company Act of 1940 (see the Fund's Prospectus for a more complete description) determined by the Board of Directors to present minimal credit risks.

The Board of Directors has established procedures designed to stabilize, to the extent reasonably possible, the Account's price per share as computed for the purpose of sales and redemptions at \$1.00. Such procedures include a directive to the Manager to test price the portfolio or specific securities thereof upon certain changes in the Treasury Bill auction interest rate for the purpose of identifying possible deviations in the net asset value per share calculated by using available market quotations or equivalents from \$1.00 per share. If such deviation exceeds 1/2 of 1%, the Board of Directors will promptly consider what action, if any, will be initiated. In the event the Board of Directors determines that a deviation exists which may result in material dilution or other unfair results to shareholders, the Board will take such corrective action as it regards as appropriate, including: the sale of portfolio instruments prior to maturity; the withholding of dividends; redemptions of shares in kind; the establishment of a net asset value per share based upon

available market quotations; or splitting, combining or otherwise recapitalizing outstanding shares. The Account may also reduce the number of shares outstanding by redeeming proportionately from shareholders, without the payment of any monetary compensation, such value at \$1.00 per share.

PERFORMANCE CALCULATION

Each of the Accounts may from time to time advertise its performance in terms of total return. The figures used for total return and yield are based on the historical performance of an Account, or its corresponding, predecessor mutual fund, show the performance of a hypothetical investment and are not intended to indicate future performance. Total return and yield will vary from time to time depending upon market conditions, the composition of an Account's portfolio and operating expenses. These factors and possible differences in the methods used in calculating performance figures should be considered when comparing an Account's performance to the performance of some other kind of investment. The calculations of total return and yield for the Accounts do not include the fees and charges of the separate accounts that invest in the Accounts and, therefore, do not reflect the investment performance of those separate accounts.

Each Account may also include in its advertisements performance rankings and other performance-related information published by independent statistical services or publishers, such as Lipper Analytical Services, Weisenberger Investment Companies Services, Money Magazine, Forbes, The Wall Street Journal, Barron's and Changing Times, and comparisons of the performance of an Account to that of various market indices, such as the S&P 500 Index, Lehman Brothers GNMA Index, Dow Jones Industrials Index, and the Salomon Brothers Investment Grade Bond Index.

Total Return

When advertising total return figures, each of the Growth-Oriented Accounts and Income-Oriented Accounts will include its average annual total return for each of the one, five and ten year periods (or if shorter, the period during which its corresponding predecessor fund's registration statement has been in effect) that end on the last day of the most recent calendar quarter. Average annual total return is computed by calculating the average annual compounded rate of return over the stated period that would equate an initial \$1,000 investment to the ending redeemable value assuming the reinvestment of all dividends and capital gains distributions at net asset value. In its advertising, an Account may also include average annual total return for some other period or cumulative total return for a specified period. Cumulative total return is computed by dividing the ending redeemable value (assuming the reinvestment of all dividends and capital gains distributions at net asset value) by the initial investment.

The following table shows as of December 31, 1996 average annual total return for each of the Accounts for the periods indicated:

Account	1-Year	5-Year	10-Year
Aggressive Growth	27.43%	28.25%(3)	N/A
Asset Allocation	19.53%	14.73%(3)	N/A
Balanced	19.32%	12.68%	12.59%(1)
Bond	8.96%	8.03%	9.37%(1)
Capital Value	28.41%	17.02%	11.84%
Government Securities	8.57%	6.81%	8.84%
Growth	23.95%	18.62%(2)	N/A
High Yield	16.42%	10.23%	9.95%(1)
International	31.61%	16.34%(2)	N/A
MidCap	24.01%	20.45%	18.17%(1)

(1) Period beginning December 18, 1987 and ending June 30, 1997.

(2) Period beginning May 1, 1994 and ending June 30, 1997.

(3) Period beginning June 1, 1994 and ending June 30, 1997.

Yield

Money Market Account

The Money Market Account may advertise its yield and its effective yield.

Yield is computed by determining the net change, exclusive of capital changes, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to obtain the base period return, and then multiplying the base period return by (365/7) with the resulting yield figure carried to at least the nearest hundredth of one percent. As of December 31, 1996, the Money Market Account's yield was 5.00%. Because realized capital gains or losses in an Account's portfolio are not included in

the calculation, the Account's net investment income per share for yield purposes may be different from the net investment income per share for dividend purposes, which includes net short-term realized gains or losses on the Account's portfolio.

Effective yield is computed by determining the net change, exclusive of capital changes, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to obtain the base period return, and then compounding the base period return by adding 1, raising the sum to a power equal to 365 divided by 7, and subtracting 1 from the result. The resulting effective yield figure is carried to at least the nearest hundredth of one percent. As of December 31, 1996, the Money Market Account's effective yield was 5.13%.

The yield quoted at any time for the Money Market Account represents the amount that was earned during a specific, recent seven-day period and is a function of the quality, types and length of maturity of instruments in the Account's portfolio and the Account's operating expenses. The length of maturity for the portfolio is the average dollar weighted maturity of the portfolio. This means that the portfolio has an average maturity of a stated number of days for its issues. The calculation is weighted by the relative value of each investment.

The yield for the Money Market Account will fluctuate daily as the income earned on the investments of the Account fluctuates. Accordingly, there is no assurance that the yield quoted on any given occasion will remain in effect for any period of time. There is no guarantee that the net asset value or any stated rate of return will remain constant. A shareholder's investment in the Account is not insured. Investors comparing results of the Money Market Account with investment results and yields from other sources such as banks or savings and loan associations should understand these distinctions. Historical and comparative yield information may, from time to time, be presented by the Account.

TAX STATUS

It is the policy of each Account to distribute substantially all net investment income and net realized gains. Through such distributions, and by satisfying certain other requirements, the Fund intends to qualify for the tax treatment accorded to regulated investment companies under the applicable provisions of the Internal Revenue Code. This means that in each year in which the Fund so qualifies, it will be exempt from federal income tax upon the amount so distributed to investors.

For federal income tax purposes, capital gains and losses on futures contracts or options thereon, index options or options traded on qualified exchanges are generally treated at 60% long-term and 40% short-term. In addition, an Account must recognize any unrealized gains and losses on such positions held at the end of the fiscal year. An Account may elect out of such tax treatment, however, for a futures or options position that is part of an "identified mixed straddle" such as a put option purchased by the Account with respect to a portfolio security. Gains and losses on futures and options included in an identified mixed straddle will be considered 100% short-term and unrealized gain or loss on such positions will not be realized at year end. The straddle provisions of the Code may require the deferral of realized losses to the extent that the Account has unrealized gains in certain offsetting positions at the end of the fiscal year, and may also require recharacterization of all or a part of losses on certain offsetting positions from short-term to long-term, as well as adjustment of the holding periods of straddle positions.

The 1986 Tax Reform Act imposes an excise tax on mutual funds which fail to distribute net investment income and capital gains by the end of the calendar year in accordance with the provisions of the Act. The Fund intends to comply with the Act's requirements and to avoid this excise tax.

GENERAL INFORMATION AND HISTORY

Following is a description of a reorganization completed by each of the Funds on December 31, 1997. The terms of each reorganization were identical, therefore, the description is intended to apply to each of the funds. "Liquidating Corporation" as used below means each of the following funds, all of which were incorporated in the State of Maryland:

Fund	Date of Incorporation
Principal Aggressive Growth Fund	08/20/93
Principal Asset Allocation Fund	08/20/93
Principal Balanced Fund	11/26/86
Principal Bond Fund	11/26/86
Principal Capital Accumulation Fund	05/26/89
Principal Emerging Growth Fund	02/20/87
Principal Government Securities Fund	06/07/85

Principal Growth Fund	08/20/93
Principal High Yield Fund	12/02/86
Principal Money Market Fund	06/10/82
Principal World Fund	08/20/93

"Surviving Corporation" refers to Principal Variable Contract Fund, Inc., a Maryland Corporation, Incorporated on May 27, 1997.

On September 16, 1997, a majority of the outstanding shares of the Liquidating Corporation approved a proposal to permit the Liquidating Corporation to transfer all of its assets and liabilities to the Surviving Corporation in accordance with an Agreement and Plan of Reorganization and Liquidation dated July 1, 1997 (the "Agreement") between the Liquidating Corporation and Surviving Corporation (the "Reorganization"). The Agreement was authorized and approved by the Boards of Directors of the Liquidating Corporation and the Surviving Corporation in accordance with the laws of Maryland. The net asset values of the shares were unaffected by the Reorganization.

The primary purpose for the Reorganization was to develop a "series company" structure rather than a "multiple fund" structure for the Principal Funds. Management of the Liquidating Corporation concluded that a series company form would simplify the operation of and provide greater flexibility in managing the investment medium used to fund the variable contracts that invested in the Liquidating Corporation.

By approving the Plan, the shareholders of the Liquidating Corporation authorized the Liquidating Corporation, as the sole shareholder of the corresponding series of shares prior to the Reorganization to:

1. Elect as directors of the Surviving Corporation of all the Liquidating Corporation's Directors at the time of the Reorganization;
2. Ratify the selection of Ernst & Young LLP as the independent auditors of the Surviving Corporation;
3. Approve the Management Agreement, Investment Service Agreement, and Sub- Advisory Agreements for the Surviving Corporation; and
4. Approve the transactions required of the Surviving Corporation to implement the Reorganization.

The shareholders also authorized the liquidation and dissolution of the Liquidating Corporation

FINANCIAL STATEMENTS

The financial statements for the Accounts for the fiscal period ended December 31, 1996 appearing in the Annual Report to Shareholders and the report thereon of Ernst and Young LLP, independent auditors, appearing therein are incorporated by reference in this Statement of Additional Information. The Annual Report will be furnished, without charge, to investors who request copies of the Statement of Additional Information.

APPENDIX A

Description of Bond Ratings:

Moody's Investors Service, Inc. Bond Ratings

Aaa:

Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa:

Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A:

Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to

principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa:

Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba:

Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B:

Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa:

Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca:

Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C:

Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

CONDITIONAL RATING: Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

RATING REFINEMENTS: Moody's may apply numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa through B in its bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and a modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

SHORT-TERM NOTES: The four ratings of Moody's for short-term notes are MIG 1, MIG 2, MIG 3 and MIG 4; MIG 1 denotes "best quality, enjoying strong protection from established cash flows"; MIG 2 denotes "high quality" with "ample margins of protection"; MIG 3 notes are of "favorable quality...but lacking the undeniable strength of the preceding grades"; MIG 4 notes are of "adequate quality, carrying specific risk for having protection...and not distinctly or predominantly speculative."

Description of Moody's Commercial Paper Ratings

Moody's Commercial Paper ratings are opinions of the ability to repay punctually promissory obligations not having an original maturity in excess of nine months. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

Issuers rated Prime-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations.

Issuers rated Prime-2 (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations.

Issuers rated Prime-3 (or related supporting institutions) have an acceptable capacity for repayment of short-term promissory obligations.

Issuers rated Not Prime do not fall within any of the Prime rating categories.

Description of Standard & Poor's Corporation's Debt Ratings:

A Standard & Poor's debt rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment may take into consideration obligors such as guarantors, insurers, or lessees.

The debt rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources Standard & Poor's considers reliable. Standard & Poor's does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information, or for other circumstances.

The ratings are based, in varying degrees, on the following considerations:

- I. Likelihood of default -- capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
- II. Nature of and provisions of the obligation;
- III. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditor's rights.

AAA:

Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA:

Debt rated "AA" has a very strong capacity to pay interest and repay principal and differs from the highest-rated issues only in small degree.

A:

Debt rated "A" has a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

BBB:

Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher-rated categories.

BB, B, CCC, CC:

Debt rated "BB", "B", "CCC" and "CC" is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "CC" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

C:

The rating "C" is reserved for income bonds on which no interest is being paid.

D:

Debt rated "D" is in default, and payment of interest and/or repayment of principal is in arrears.

Plus (+) or Minus (-): The ratings from "AA" to "B" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Provisional Ratings: The letter "p" indicates that the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the bonds being rated and indicates that payment of debt service requirements is largely or entirely dependent

upon the successful and timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. The investor should exercise his own judgment with respect to such likelihood and risk.

NR:

Indicates that no rating has been requested, that there is insufficient information on which to base a rating or that Standard & Poor's does not rate a particular type of obligation as a matter of policy.

Standard & Poor's, Commercial Paper Ratings

A Standard & Poor's Commercial Paper Rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from "A" for the highest quality obligations to "D" for the lowest. Ratings are applicable to both taxable and tax-exempt commercial paper. The four categories are as follows:

A:

Issues assigned the highest rating are regarded as having the greatest capacity for timely payment. Issues in this category are delineated with the numbers 1, 2 and 3 to indicate the relative degree of safety.

A-1 This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Issues that possess overwhelming safety characteristics will be given a "+" designation.

A-2 Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high as for issues designated "A-1".

A-3 Issues carrying this designation have a satisfactory capacity for timely payment. They are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the highest designations.

B:

Issues rated "B" are regarded as having only an adequate capacity for timely payment. However, such capacity may be damaged by changing conditions or short-term adversities.

C:

This rating is assigned to short-term debt obligations with a doubtful capacity for payment.

D:

This rating indicates that the issue is either in default or is expected to be in default upon maturity.

The Commercial Paper Rating is not a recommendation to purchase or sell a security. The ratings are based on current information furnished to Standard & Poor's by the issuer and obtained by Standard & Poor's from other sources it considers reliable. The ratings may be changed, suspended, or withdrawn as a result of changes in or unavailability of, such information.

Standard & Poor's rates notes with a maturity of less than three years as follows:

SP-1 A very strong, or strong, capacity to pay principal and interest. Issues that possess overwhelming safety characteristics will be given a "+" designation.

SP-2 A satisfactory capacity to pay principal and interest.

SP-3 A speculative capacity to pay principal and interest.

PART C OTHER INFORMATION

Item 24. Financial Statements and Exhibits

(a) Financial Statements included in the Registration Statement

- (1) Part A:
Financial Highlights for each of the four years in the period ended December 31, 1996, for the period from July 1, 1992 through December 31, 1992, for each of the four years in the period ended June 30, 1992 and for the period from December 18, 1987 through June 30, 1988.
- (2) Part B:
None
- (b) Exhibits
 - (1a) Articles of Amendment (Filed 4/12/96)
 - (1b) Articles of Incorporation (Filed 4/12/96)
 - (2) Bylaws (Filed 4/12/96)
 - (5a) Management Agreement (Filed 4/12/96)
 - (5b) Investment Service Agreement (Filed 4/12/96)
 - (5c) Sub-Advisory Agreement (Filed 4/12/96)
 - (6) Distribution Agreement (Filed 4/12/96)
 - (8) Custody Agreement (Filed 4/12/96)
 - (9) Agreement and Plan of Reorganization and Liquidation (Filed 10/23/97)
 - (10) Opinion of Counsel (Filed 4/12/96)
 - (11) Consent of Independent Auditors
 - (12) Audited Financial Statements as of December 31, 1996, including the Report of Ernst & Young LLP, independent auditors for the Registrant.
 - (12a) Semiannual Financial Statements as of June 30, 1997.
 - (13) Investment Letter (Filed 4/12/96)
 - (16) Total Return Performance Quotation (Filed 4/12/96)
 - (27) Financial Data Schedule

Item 25. Persons Controlled by or Under Common Control with Depositor

Principal Mutual Life Insurance Company (incorporated as a mutual life insurance company under the laws of Iowa);

Sponsored the organization of the following mutual funds, some of which it controls by virtue of owning voting securities:

Principal Asset Allocation Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company and its separate accounts on October 8, 1997.

Principal Aggressive Growth Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company and its separate accounts on October 8, 1997.

Princor Balanced Fund, Inc. (a Maryland Corporation) 0.88% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal Balanced Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company and its separate accounts on October 8, 1997.

Princor Blue Chip Fund, Inc. (a Maryland Corporation) 1.30% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Princor Bond Fund, Inc. (a Maryland Corporation) 1.43% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal Bond Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company and its separate accounts on October 8, 1997.

Princor Capital Accumulation Fund, Inc. (a Maryland Corporation) 29.63% of outstanding shares owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal Capital Accumulation Fund, Inc. (a Maryland Corporation) 100.0% of outstanding shares owned by Principal Mutual Life Insurance Company and its Separate Accounts on October 8, 1997.

Princor Cash Management Fund, Inc. (a Maryland Corporation) 2.25% of outstanding shares owned by Principal Mutual Life Insurance Company (including subsidiaries and affiliates) on October 8, 1997.

Princor Emerging Growth Fund, Inc. (a Maryland Corporation) 0.61% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997

Principal Emerging Growth Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company and its Separate Accounts on October 8, 1997.

Princor Government Securities Income Fund, Inc. (a Maryland Corporation) 0.40% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal Government Securities Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company and its Separate Accounts on October 8, 1997.

Princor Growth Fund, Inc. (a Maryland Corporation) 0.51% of outstanding shares owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal Growth Fund, Inc. (a Maryland Corporation) 100.0% of outstanding shares are owned by Principal Mutual Life Insurance Company and its Separate Accounts on October 8, 1997.

Princor High Yield Fund, Inc. (a Maryland Corporation) 21.18% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal High Yield Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company and its Separate Accounts on October 8, 1997.

Principal International Emerging Markets Fund, Inc. (a Maryland Corporation) 86.90% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal International SmallCap Fund, Inc. (a Maryland Corporation) 82.32% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Princor Limited Term Bond Fund, Inc. (a Maryland Corporation) 50.89% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal Money Market Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company and its Separate Accounts on October 8, 1997.

Principal Special Markets Fund, Inc. (a Maryland Corporation) 100.00% of shares outstanding of the International Emerging Markets Portfolio, 50.72% of the shares outstanding of the International Securities Portfolio, 100% of shares outstanding of the International SmallCap Portfolio and 100.00% of the shares outstanding of the Mortgage-Backed Securities Portfolio were owned by Principal Mutual Life Insurance Company on November 17, 1997.

Princor Tax-Exempt Bond Fund, Inc. (a Maryland Corporation) 0.57% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Princor Tax-Exempt Cash Management Fund, Inc. (a Maryland Corporation) 1.03% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Princor Utilities Fund, Inc. (a Maryland Corporation) 1.56% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Princor World Fund, Inc. (a Maryland Corporation) 23.36% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Principal World Fund, Inc. (a Maryland Corporation) 100.0% of shares outstanding owned by Principal Mutual Life Insurance Company on October 8, 1997.

Subsidiaries organized and wholly-owned by Principal Mutual Life Insurance Company:

- a. Principal Holding Company (an Iowa Corporation) A holding company wholly-owned by Principal Mutual Life Insurance Company.

- b. PT Asuransi Jiwa Principal Egalita Indonesia (an Indonesia Corporation)

Subsidiaries wholly-owned by Principal Holding Company:

- a. Petula Associates, Ltd. (an Iowa Corporation) a real estate development company.
- b. Patrician Associates, Inc. (a California Corporation) a real estate development company.
- c. Principal Development Associates, Inc. (a California Corporation) a real estate development company.
- d. Princor Financial Services Corporation (an Iowa Corporation) a registered broker-dealer.
- e. Invista Capital Management, Inc. (an Iowa Corporation) a registered investment adviser.
- f. Principal Marketing Services, Inc. (a Delaware Corporation) a corporation formed to serve as an interface between marketers and manufacturers of financial services products.
- g. The Principal Financial Group, Inc. (a Delaware corporation) a general business corporation established in connection with the new corporate identity. It is not currently active.
- h. Delaware Charter Guarantee & Trust Company (a Delaware Corporation) a nondepository trust company.
- i. Principal Securities Holding Corporation (a Delaware Corporation) a holding company.
- j. Principal Health Care, Inc. (an Iowa Corporation) a developer and administrator of managed care systems.
- k. Principal Financial Advisors, Inc. (an Iowa Corporation) a registered investment advisor.
- l. Principal Asset Markets, Inc. (an Iowa Corporation) a residential mortgage loan broker.
- m. Principal Portfolio Services, Inc. (an Iowa Corporation) a mortgage due diligence company.
- n. Principal International, Inc. (an Iowa Corporation) a company formed for the purpose of international business development.
- o. Principal Spectrum Associates, Inc. (a California Corporation) a real estate development company.
- p. Principal Commercial Advisors, Inc. (an Iowa Corporation) a company that purchases, manages and sells commercial real estate assets.
- q. Principal FC, Ltd. (an Iowa Corporation) a limited purpose investment corporation.
- r. Principal Residential Mortgage, Inc. (an Iowa Corporation) a residential mortgage loan broker.
- s. Equity FC, Ltd. (an Iowa Corporation) engaged in investment transactions including limited partnership and limited liability companies.
- t. Principal L.L.C. (an Illinois Corporation) a limited liability company.

Subsidiaries organized and wholly-owned by Princor Financial Services Corporation:

- a. Princor Management Corporation (an Iowa Corporation) a registered investment advisor.
- b. Principal Investors Corporation (a New Jersey Corporation) a registered broker-dealer with the Securities Exchange Commission. It is not currently active.

Subsidiary wholly owned by Principal Securities Holding Corporation:

- a. Principal Financial Securities, Inc. (a Delaware Corporation) an investment banking and securities brokerage firm.

Subsidiary wholly owned by Delaware Charter Guarantee & Trust Company:

- a. Trust Consultants, Inc. (a California Corporation) a Consulting and Administration of Employee Benefit Plans.

Subsidiaries organized and wholly-owned by Principal Health Care, Inc.:

- a. The Admar Group, Inc. (a Florida Corporation) a national managed care service organization that developes and manages preferred provider organizations.
- b. Principal Health Care Management Corporation (an Iowa Corporation) provide management services to health maintenance organizations.
- c. Principal Health Care of the Carolinas, Inc. (a North Carolina Corporation) a health maintenance organization.
- d. Principal Health Care of Delaware, Inc. (a Delaware Corporation) a health maintenance organization.
- e. Principal Health Care of Florida, Inc. (a Florida Corporation) a health maintenance organization.
- f. Principal Health Care of Georgia, Inc. (a Georgia Corporation) a health maintenance organization.
- g. Principal Health Care of Illinois, Inc. (an Illinois Corporation) a health maintenance organization.
- h. Principal Health Care of Indiana, Inc. (a Delaware Corporation) a health maintenance organization.
- i. Principal Health Care of Iowa, Inc. (an Iowa Corporation) a health maintenance organization.
- j. Principal Health Care of Kansas City, Inc. (a Missouri Corporation) a health maintenance organization.
- k. Principal Health Care of Louisiana, Inc. (a Louisiana Corporation) a health maintenance organization.
- l. Principal Health Care of the Mid-Atlantic, Inc. (a Virginia Corporation) a health maintenance organization.
- m. Principal Health Care of Nebraska, Inc. (a Nebraska Corporation) a health maintenance organization.
- n. Principal Health Care of Pennsylvania, Inc. (a Pennsylvania Corporation) a health maintenance organization.
- o. Principal Health Care of St. Louis, Inc. (a Delaware Corporation) a health maintenance organization.
- p. Principal Health Care of South Carolina, Inc. (A South Carolina Corporation) a health maintenance organization.
- q. Principal Health Care of Tennessee, Inc. (a Tennessee Corporation) a health maintenance organization.
- r. Principal Health Care of Texas, Inc. (a Texas Corporation) a health maintenance organization.
- s. United Health Care Services of Iowa, Inc. (an Iowa Corporation) a health maintenance organization.

Subsidiary owned by The Admar Group, Inc.:

- a. Admar Corporation (a California Corporation) a managed care services organization.
- b. Admar Insurance Marketing, Inc. (a California Corporation) a managed care services organization.
- c. Benefit Plan Administrators, Inc. (a Colorado Corporation) a managed care services organization.
- d. SelectCare Management Co., Inc. (a California Corporation) a managed care services organization.
- e. Image Financial & Insurance Services, Inc. (a California Corporation) a managed care services organization.

- f. WM. G. Hofgard & Co., Inc. (a California Corporation) a managed care services organization.

Subsidiaries owned by Principal International, Inc.:

- a. Principal Insurance Company Limited (a Hong Kong Corporation) sells insurance and pension products.
- b. Principal International Argentina, S.A. (an Argentina services corporation).
- c. Principal International Asia Limited (a Hong Kong Corporation) a corporation operating as a regional headquarters for Asia.
- d. Principal International de Chile, S.A. (a Chile Corporation) a holding company.
- e. Principal International Espana, S.A. de Seguros de Vida (a Spain Corporation) a life insurance company.
- f. Principal Mexico Compania de Seguros, S.A. de C.V. (a Mexico Corporation) a life insurance company.
- g. Qualitas Medica, S.A. (an Argentina HMO) a health maintenance organization.
- h. Afore Confia-Principal, S.a. de C.V. (a Mexico Corporation).
- i. Zao Principal International (a Russia Corporation) inactive.

Subsidiaries owned by Principal International Argentina, S.A.:

- a. Ethika-Jacaranda S.A. Administradora de Fondos de Jubilaciones y Pensions (an Argentina company) a pension company.
- b. Princor Compania de Seguros de Retiro, S.A. (an Argentina Corporation) an individual annuity/employee benefit company.
- c. Prinlife Compania de Seguros de Vida, S.A. (an Argentina Corporation) a life insurance company.

Subsidiary owned by Principal International de Chile, S.A.:

- a. BanRenta Compania de Seguros de Vida, S.A. (a Chile Corporation).

Subsidiary owned by Principal International Espana, S.A. de Seguros de Vida:

- a. Princor International Espana Sociedad Anonima de Agencia de Seguros (a Spain Corporation) an insurance agency.

Subsidiary owned by Afore Confia-Principal, S.A. de C.V.:

- a. Siefore Confia-Principal, S.A. de C.V. (a Mexico Corporation) an investment fund company.

Item 26. Number of Holders of Securities - As of: November 30, 1997

(1)	(2)
Title of Class	Number of Holders
Principal Balanced Fund, Inc.	
Common	1

Item 27. Indemnification

Under Section 2-418 of the Maryland General Corporation Law, with respect to any proceedings against a present or former director, officer, agent or employee (a "corporate representative") of the Registrant, the Registrant may indemnify the corporate representative against judgments, fines, penalties, and amounts paid in settlement, and against expenses, including attorneys' fees, if such expenses were actually incurred by the corporate representative in connection with the proceeding, unless it is established that:

- (i) The act or omission of the corporate representative was material to the matter giving rise to the proceeding; and
 - 1. Was committed in bad faith; or
 - 2. Was the result of active and deliberate dishonesty; or
- (ii) The corporate representative actually received an improper personal benefit in money, property, or services; or

(iii) In the case of any criminal proceeding, the corporate representative had reasonable cause to believe that the act or omission was unlawful.

If a proceeding is brought by or on behalf of the Registrant, however, the Registrant may not indemnify a corporate representative who has been adjudged to be liable to the Registrant. Under the Registrant's Articles of Incorporation and Bylaws, directors and officers of Registrant are entitled to indemnification by the Registrant to the fullest extent permitted under Maryland law and the Investment Company Act of 1940. Reference is made to Article VI, Section 7 of the Registrant's Articles of Incorporation, Article 12 of Registrant's Bylaws and Section 2-418 of the Maryland General Corporation Law.

The Registrant has agreed to indemnify, defend and hold the Distributor, its officers and directors, and any person who controls the Distributor within the meaning of Section 15 of the Securities Act of 1933, free and harmless from and against any and all claims, demands, liabilities and expenses (including the cost of investigating or defending such claims, demands or liabilities and any counsel fees incurred in connection therewith) which the Distributor, its officers, directors or any such controlling person may incur under the Securities Act of 1933, or under common law or otherwise, arising out of or based upon any untrue statement of a material fact contained in the Registrant's registration statement or prospectus or arising out of or based upon any alleged omission to state a material fact required to be stated in either thereof or necessary to make the statements in either thereof not misleading, except insofar as such claims, demands, liabilities or expenses arise out of or are based upon any such untrue statement or omission made in conformity with information furnished in writing by the Distributor to the Registrant for use in the Registrant's registration statement or prospectus: provided, however, that this indemnity agreement, to the extent that it might require indemnity of any person who is also an officer or director of the Registrant or who controls the Registrant within the meaning of Section 15 of the Securities Act of 1933, shall not inure to the benefit of such officer, director or controlling person unless a court of competent jurisdiction shall determine, or it shall have been determined by controlling precedent that such result would not be against public policy as expressed in the Securities Act of 1933, and further provided, that in no event shall anything contained herein be so construed as to protect the Distributor against any liability to the Registrant or to its security holders to which the Distributor would otherwise be subject by reason of willful misfeasance, bad faith, or gross negligence, in the performance of its duties, or by reason of its reckless disregard of its obligations under this Agreement. The Registrant's agreement to indemnify the Distributor, its officers and directors and any such controlling person as aforesaid is expressly conditioned upon the Registrant being promptly notified of any action brought against the Distributor, its officers or directors, or any such controlling person, such notification to be given by letter or telegram addressed to the Registrant.

Item 28. Business or Other Connection of Investment Adviser

A complete list of the officers and directors of the investment adviser, Princor Management Corporation, are set out below. This list includes some of the same people (designated by an *), who are serving as officers and directors of the Registrant. For these people the information as set out in the Statement of Additional Information (See Part B) under the caption "Directors and Officers of the Fund" is incorporated by reference.

Craig R. Barnes Vice President	The Principal Financial Group Des Moines, Iowa 50392	President and Director Invista Capital Management, Inc.
*Craig L. Bassett Treasurer		See Part B
*Michael J. Beer Senior Vice President and Chief Operating Officer	Same	See Part B
Mary L. Bricker Assistant Corporate Secretary	Same	Counsel & Assistant Corporate Secretary Principal Mutual Life Insurance Company
Ray S. Crabtree Director	Same	Executive Vice President Principal Mutual Life Insurance Company
David J. Drury Director	Same	Chief Executive Officer and Chairman of the Board Principal Mutual Life Insurance Company

*Arthur S. Filean Vice President	Same	See Part B
Paul N. Germain Assistant Vice President - Operations	Same	Assistant Vice President- Operations Princor Financial Services Corporation
Michael H. Gersie Director	Same	Senior Vice President Principal Mutual Life Insurance Company
*Ernest H. Gillum Assistant Vice President - Registered Products	Same	See Part B
Thomas J. Graf Director	Same	Senior Vice President Principal Mutual Life Insurance Company
*J. Barry Griswell Chairman of the Board and Director	Same	See Part B
Joyce N. Hoffman Vice President and Corporate Secretary	Same	Vice President and Corporate Secretary Principal Mutual Life Insurance Company
*Stephan L. Jones Director and President	Same	See Part B
Ronald E. Keller Director	Same	Executive Vice President Principal Mutual Life Insurance Company
Gregg R. Narber Director	Same	Senior Vice President & General Counsel Principal Mutual Life Insurance Company
Layne A. Rasmussen Controller - Mutual Funds	Same	Controller Princor Financial Services Corporation
Elizabeth R. Ring Controller	Same	Controller Princor Financial Services Corporation
*Michael D. Roughton Counsel	Same	See Part B
Charles E. Rohm Director	Same	Executive Vice President Principal Mutual Life Insurance Company
Jean B. Schustek Product Compliance Officer - Registered Products	Same	Product Compliance Officer Princor Financial Services Corporation
Dewain A. Sparrgrove Vice President	Same	Vice President- Investment Securities Principal Mutual Life Insurance Company

Princor Management Corporation serves as investment adviser and dividend disbursing and transfer agent for, Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc., Principal Special Markets Fund, Inc., Principal World Fund, Inc., Princor Balanced Fund, Inc., Princor Blue Chip Fund, Inc., Princor Bond Fund, Inc., Princor Capital Accumulation Fund, Inc., Princor Cash Management Fund, Inc., Princor Emerging Growth Fund, Inc., Princor Government Securities Income Fund, Inc., Princor Growth Fund, Inc., Princor High Yield Fund, Inc., Principal International Emerging Markets Fund, Inc., Principal International SmallCap Fund, Inc., Princor Limited Term Bond Fund, Inc., Princor Tax-Exempt Bond Fund, Inc., Princor Tax-Exempt Cash Management Fund, Inc., Princor Utilities Fund, Inc. and Princor World Fund, Inc. - funds sponsored by Principal Mutual Life Insurance Company.

(a) Princor Financial Services Corporation, principal underwriter for Registrant, acts as principal underwriter for, Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc., Principal Special Markets Fund, Inc., Principal World Fund, Inc., Princor Balanced Fund, Inc., Princor Blue Chip Fund, Inc., Princor Bond Fund, Inc., Princor Capital Accumulation Fund, Inc., Princor Cash Management Fund, Inc., Princor Emerging Growth Fund, Inc., Princor Government Securities Income Fund, Inc., Princor Growth Fund, Inc., Princor High Yield Fund, Inc., Principal International Emerging Markets Fund, Inc., Principal International SmallCap Fund, Inc., Princor Limited Term Bond Fund, Inc., Princor Tax-Exempt Bond Fund, Inc., Princor Tax-Exempt Cash Management Fund, Inc., Princor Utilities Fund, Inc., Princor World Fund, Inc. and for variable annuity contracts participating in Principal Mutual Life Insurance Company Separate Account B, a registered unit investment trust for retirement plans adopted by public school systems or certain tax-exempt organizations pursuant to Section 403(b) of the Internal Revenue Code, Section 457 retirement plans, Section 401(a) retirement plans, certain non-qualified deferred compensation plans and Individual Retirement Annuity Plans adopted pursuant to Section 408 of the Internal Revenue Code, and for variable life insurance contracts issued by Principal Mutual Life Insurance Company Variable Life Separate Account, a registered unit investment trust.

(b)	(1)	(2)	(3)
Name and principal business address		Positions and offices with principal underwriter	Positions and offices with registrant
Robert W. Baehr The Principal Financial Group Des Moines, IA 50392		Marketing Services Officer	None
Craig L. Bassett The Principal Financial Group Des Moines, IA 50392		Treasurer	Treasurer
Michael J. Beer The Principal Financial Group Des Moines, IA 50392		Senior Vice President and Chief Operating Officer	Vice President
Mary L. Bricker The Principal Financial Group Des Moines, IA 50392		Assistant Corporate Secretary	None
Lynn A. Brones The Principal Financial Group Des Moines, IA 50392		Vice President - Investment Network	None
Ray S. Crabtree The Principal Financial Group Des Moines, IA 50392		Director	None
David J. Drury The Principal Financial Group Des Moines, IA 50392		Director	None
Arthur S. Filean The Principal Financial Group Des Moines, IA 50392		Vice President	Vice President and Secretary
Paul N. Germain The Principal Financial Group Des Moines, IA 50392		Assistant Vice President - Operations	None
Michael H. Gersie The Principal Financial Group Des Moines, IA 50392		Director	None
Ernest H. Gillum The Principal		Assistant Vice President - Registered Products	Assistant Secretary

Financial Group Des Moines, IA 50392		
William C. Gordon The Principal Financial Group Des Moines, IA 50392	Insurance License Officer	None
Thomas J. Graf The Principal Financial Group Des Moines, IA 50392	Director	None
J. Barry Griswell The Principal Financial Group Des Moines, IA 50392	Director and Chairman of the Board	Director and Chairman of the Board
Joyce N. Hoffman The Principal Financial Group Des Moines, IA 50392	Vice President and Corporate Secretary	None
Stephan L. Jones The Principal Financial Group Des Moines, IA 50392	Director and President	Director and President
Ronald E. Keller The Principal Financial Group Des Moines, IA 50392	Director	Director
John R. Lepley The Principal Financial Group Des Moines, IA 50392	Senior Vice President - Marketing and Distribution	None
Gregg R. Narber The Principal Financial Group Des Moines, IA 50392	Director	None
Mark M. Oswald The Principal Financial Group Des Moines, IA 50392	Compliance Officer	None
Layne A. Rasmussen The Principal Financial Group Des Moines, IA 50392	Controller - Mutual Funds	None
Elizabeth R. Ring The Principal Financial Group Des Moines, IA 50392	Controller	None
Charles E. Rohm The Principal Financial Group Des Moines, IA 50392	Director	None
Michael D. Roughton The Principal Financial Group Des Moines, IA 50392	Counsel	Counsel
Jean B. Schustek The Principal Financial Group Des Moines, IA 50392	Product Compliance Officer - Registered Products	None
Kyle R. Selberg The Principal Financial Group Des Moines, IA 50392	Vice President-Marketing	None
Susan R. Sorensen The Principal Financial Group Des Moines, IA 50392	Marketing Officer	None
Roger C. Stroud The Principal	Assistant Director - Marketing	None

(c) Inapplicable.

Item 30. Location of Accounts and Records

All accounts, books or other documents of the Registrant are located at the offices of the Registrant and its Investment Adviser in the Principal Mutual Life Insurance Company home office building, The Principal Financial Group, Des Moines, Iowa 50392.

Item 31. Management Services

Inapplicable.

Item 32. Undertakings

Indemnification

Reference is made to Item 27 above, which discusses circumstances under which directors and officers of the Registrant shall be indemnified by the Registrant against certain liabilities and expenses incurred by them by reason of being a director or officer of the Registrant.

Notwithstanding the provisions of Registrant's Articles of Incorporation and Bylaws, the Registrant hereby makes the following undertaking:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant, pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant, in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person of the Registrant, in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue

Shareholder Communications

Registrant hereby undertakes to call a meeting of shareholders for the purpose of voting upon the question of removal of a director or directors when requested in writing to do so by the holders of at least 10% of the Registrant's outstanding shares of common stock and in connection with such meeting to comply with the provisions of Section 16(c) of the Investment Company Act of 1940 relating to shareholder communications

Delivery of Annual Report to Shareholders

The registrant hereby undertakes to furnish each person to whom a prospectus is delivered a copy of the registrant's latest annual report to shareholders, upon request and without charge.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940 the Registrant certifies that it meets all of the requirements for effectiveness of this Registration Statement and has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Des Moines and State of Iowa, on the 15th day of December, 1997.

Principal Balanced Fund, Inc.

(Registrant)

By /s/ S. L. Jones

S. L. Jones
President and Director

Attest:

/s/ A. S. Filean

A. S. Filean
Vice President and Secretary

Pursuant to the requirement of the Securities Act of 1933, this Amendment to the Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ S. L. Jones</u> S. L. Jones	President and Director (Principal Executive Officer)	<u>12/15/97</u>
<u>(J. B. Griswell)*</u> J. B. Griswell	Director and Chairman of the Board	<u>12/15/97</u>
<u>/s/ M. J. Beer</u> M. J. Beer	Financial Officer (Principal Financial and Accounting Officer)	<u>12/15/97</u>
<u>(J. D. Davis)*</u> J. D. Davis	Director	<u>12/15/97</u>
<u>(R. W. Ehrle)*</u> R. W. Ehrle	Director	<u>12/15/97</u>
<u>(P. A. Ferguson)*</u> P. A. Ferguson	Director	<u>12/15/97</u>
<u>(R. W. Gilbert)*</u> R. W. Gilbert	Director	<u>12/15/97</u>
<u>(R. E. Keller)*</u> R. E. Keller	Director	<u>12/15/97</u>
<u>(B. A. Lukavsky)*</u> B. A. Lukavsky	Director	<u>12/15/97</u>
<u>(R. G. Peebler)*</u> R. G. Peebler	Director	<u>12/15/97</u>

*By /s/ S. L. Jones

S. L. Jones
President and Director

Pursuant to Powers of Attorney
Previously Filed or Included

ERNST & YOUNG LLP

Suite 3400
801 Grand Avenue
Des Moines, Iowa 50309-2764

Phone: 515 243 2727

Consent of Independent Auditors

The Board of Directors and Shareholders
Principal Balanced Fund, Inc.

We consent to the reference to our firm under the captions "Financial Highlights" and "Additional Information - Financial Statements" in each of the Prospectuses in Part A and "Financial Statements" in Part B and to the incorporation by reference in Part B of our report dated January 17, 1997 on the financial statements and the financial highlights of Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc., and Principal World Fund, Inc., in this Post Effective Amendment No. 13 to Form N-1A Registration Statement under the Securities Act of 1933 (No. 33-12867) and this Amendment No. 13 to the Registration Statement under the Investment Company Act of 1940 (No. 811-5073) of Principal Balanced Fund, Inc.

/s/ Ernst & Young LLP

Des Moines, Iowa
December 17, 1997

Ernst & Young LLP is a member of Ernst & Young International, Ltd.

A MESSAGE FROM THE PRESIDENT

To Principal Mutual Life Insurance Company Customers

Through year-end, U.S. financial markets turned in positive results. However, there were some bumps along the way. Mid-year, equity and fixed-income investors experienced a rather precipitous decline fueled by mixed economic data and concerns about rising interest rates. These fears were quelled when the Federal Reserve met December 17 and chose to leave interest rates unchanged. As a result, both equity and fixed-income markets ended the year well.

Through December 31, 1996, the Dow Jones Industrial Average returned 28.79% and the Standard & Poor's 500 Index returned 22.96% (the Dow Jones Industrial Average and the S&P 500 are unmanaged indexes comprised of common stocks. One cannot invest directly into these or any other index). Markets outside the U.S. showed mixed results. Included among the regions which posted strongest returns were Europe, Asia (excluding Japan) and Latin America. Most market experts do not expect domestic inflation rates to elevate in 1997. Assuming this proves true, investors should continue to enjoy a relatively stable market environment though past performance is never a guarantee of future investment results.

The Principal Mutual Funds are used exclusively as underlying investments within several different Principal Mutual Life Insurance Company variable insurance products. Please see your contract prospectus for a description of the Funds specifically available in your contract.

Principal Mutual Life Insurance Company continues to seek to provide our customers with top-level service and good quality variable annuity and variable life contracts. We are pleased to have you as a contract owner, and look forward to a successful 1997.

Sincerely,

/s/ Stephan L. Jones

Stephan L. Jones
President

CONTENTS

	Page
Financial Statements and Financial Highlights	
Statements of Assets and Liabilities.....	2
Statements of Operations	4
Statements of Changes in Net Assets.....	6
Notes to Financial Statements.....	10
Schedules of Investments	
Principal Aggressive Growth Fund, Inc.....	18
Principal Asset Allocation Fund, Inc.....	19
Principal Balanced Fund, Inc.....	26
Principal Bond Fund, Inc.....	29
Principal Capital Accumulation Fund, Inc.....	31
Principal Emerging Growth Fund, Inc.....	33
Principal Government Securities Fund, Inc.....	36
Principal Growth Fund, Inc.....	36
Principal High Yield Fund, Inc.....	39
Principal Money Market Fund, Inc.....	40
Principal World Fund, Inc.....	42
Financial Highlights.....	46
Report of Independent Auditors.....	52

<TABLE>
<CAPTION>
December 31, 1996

STATEMENTS OF ASSETS AND LIABILITIES

	Principal Aggressive Growth Fund, Inc.	Principal Asset Allocation Fund, Inc.	Principal Balanced Fund, Inc.	Principal Bond Fund, Inc.
<S>	<C>	<C>	<C>	<C>
Investment in securities -- at cost.....	\$78,439,912	\$55,636,193	\$84,420,596	\$61,453,159
Assets				
Investment in securities -- at value (Note 4).....	\$86,237,711	\$59,227,847	\$93,206,906	\$62,634,312
Cash	4,786,330	4,571,515	10,351	81,407
Receivables:				
Dividends and interest.....	188,774	317,109	751,024	1,223,103

Investment securities sold.....	179,111	134,816	--	--
Capital Stock sold.....	384,877	799	214,787	90,272
Total Assets	91,776,803	64,252,086	94,183,068	64,029,094
Liabilities				
Accrued expenses.....	18,905	18,593	14,885	8,448
Payables:				
Dividends and distributions to shareholders.....	1,582,605	2,553,927	1,008,939	633,016
Investment securities purchased.....	69,744	48,428	--	--
Capital Stock reacquired.....	--	--	1,575	1,069
Total Liabilities	1,671,254	2,620,948	1,025,399	642,533
Net Assets Applicable to Outstanding Shares	\$90,105,549	\$61,631,138	\$93,157,669	\$63,386,561
Capital Stock (par value: \$.01 a share)				
Shares authorized.....	100,000,000	100,000,000	100,000,000	100,000,000
Shares issued and outstanding.....	6,204,681	5,369,370	6,452,156	5,596,601
Net Asset Value Per Share	\$14.52	\$11.48	\$14.44	\$11.33
Net Assets Consist of:				
Capital Stock.....	\$ 62,047	\$ 53,693	\$ 64,522	\$ 55,966
Additional paid-in capital.....	79,340,934	56,841,171	84,240,355	62,384,524
Accumulated undistributed net investment income.....	4,793	18,594	23,644	36,471
Accumulated undistributed net realized gain (loss) from:				
Investment transactions	2,899,976	1,126,026	42,838	(271,553)
Foreign currency transactions.....	--	--	--	--
Net unrealized appreciation of investments.....	7,797,799	3,591,654	8,786,310	1,181,153
Net unrealized appreciation on translation of assets and liabilities in foreign currencies..	--	--	--	--
Total Net Assets	\$90,105,549	\$61,631,138	\$93,157,669	\$63,386,561

</TABLE>

<TABLE>

<CAPTION>

December 31, 1996

STATEMENTS OF ASSETS AND LIABILITIES

	Principal Capital Accumulation Fund, Inc.	Principal Emerging Growth Fund, Inc.	Principal Government Securities Fund, Inc.	Principal Growth Fund, Inc.
<S>	<C>	<C>	<C>	<C>
Investment in securities -- at cost.....	\$174,212,683	\$109,056,629	\$84,463,498	\$86,112,332
Assets				
Investment in securities -- at value (Note 4).....	\$206,483,512	\$136,886,546	\$85,325,737	\$98,944,796
Cash	10,932	16,620	2,332	36,055
Receivables:				
Dividends and interest.....	340,103	99,086	813,492	116,039
Investment securities sold.....	--	--	--	--
Capital Stock sold.....	484,518	199,597	6,295	543,229
Total Assets	207,319,065	137,201,849	86,147,856	99,640,119
Liabilities				
Accrued expenses.....	21,554	20,199	11,346	12,189
Payables:				
Dividends and distributions to shareholders.....	154,951	20,592	54,266	15,763
Investment securities purchased.....	2,124,032	--	981,875	--
Capital Stock reacquired.....	--	177	511	257
Total Liabilities	2,300,537	40,968	1,047,998	28,209
Net Assets Applicable to Outstanding Shares	\$205,018,528	\$137,160,881	\$85,099,858	\$99,611,910
Capital Stock (par value: \$.01 a share)				
Shares authorized.....	100,000,000	100,000,000	100,000,000	100,000,000
Shares issued and outstanding.....	6,869,636	4,611,789	8,255,462	7,222,342
Net Asset Value Per Share	\$29.84	\$29.74	\$10.31	\$13.79
Net Assets Consist of:				
Capital Stock.....	\$ 68,696	\$ 46,118	\$ 82,555	\$ 72,223
Additional paid-in capital.....	165,254,680	108,816,480	84,726,691	86,696,904
Accumulated undistributed net investment income.....	35,319	13,018	45,745	7,936

Accumulated undistributed net realized gain (loss) from:				
Investment transactions	7,389,004	455,348	(617,372)	2,383
Foreign currency transactions.....	--	--	--	--
Net unrealized appreciation of investments.....	32,270,829	27,829,917	862,239	12,832,464
Net unrealized appreciation on translation of assets and liabilities in foreign currencies..	--	--	--	--
Total Net Assets	\$205,018,528	\$137,160,881	\$85,099,858	\$99,611,910

</TABLE>

<TABLE>

<CAPTION>

December 31, 1996

STATEMENT OF NET ASSETS

	Principal High Yield Fund, Inc.	Principal Money Market Fund, Inc.	Principal World Fund, Inc.
<S>	<C>	<C>	<C>
Investment in securities -- at cost.....	\$12,972,448	\$46,091,909	\$60,080,919
Assets			
Investment in securities -- at value (Note 4).....	\$13,432,735	\$46,091,909	\$71,842,712
Cash	19,746	50,823	49,386
Receivables:			
Dividends and interest.....	291,159	135,595	144,486
Investment securities sold.....	--	--	--
Capital Stock sold.....	243	229,207	57,322
Total Assets	13,743,883	46,507,534	72,093,906
Liabilities			
Accrued expenses.....	3,540	9,317	33,160
Payables:			
Dividends and distributions to shareholders.....	--	--	27,452
Investment securities purchased.....	--	--	351,045
Capital Stock reacquired.....	--	253,968	234
Total Liabilities	3,540	263,285	411,891
Net Assets Applicable to Outstanding Shares	\$13,740,343	\$46,244,249	\$71,682,015
Capital Stock (par value: \$.01 a share)			
Shares authorized.....	100,000,000	500,000,000	100,000,000
Shares issued and outstanding.....	1,575,423	46,244,249	5,503,994
Net Asset Value Per Share	\$8.72	\$1.000	\$13.02
Net Assets Consist of:			
Capital Stock.....	\$ 15,754	\$ 462,443	\$ 55,040
Additional paid-in capital.....	14,248,237	45,781,806	59,603,313
Accumulated undistributed net investment income.....	11,449	--	24,004
Accumulated undistributed net realized gain (loss) from:			
Investment transactions	(995,384)	--	246,459
Foreign currency transactions.....	--	--	(9,568)
Net unrealized appreciation of investments.....	460,287	--	11,761,793
Net unrealized appreciation on translation of assets and liabilities in foreign currencies..	--	--	974
Total Net Assets	\$13,740,343	\$46,244,249	\$71,682,015

<FN>

See accompanying notes.

</FN>

</TABLE>

<TABLE>

<CAPTION>

Year Ended December 31, 1996

STATEMENTS OF OPERATIONS

Principal Aggressive Growth Fund, Inc.	Principal Asset Allocation Fund, Inc.	Principal Balanced Fund, Inc.	Principal Bond Fund, Inc.
--	---------------------------------------	-------------------------------	---------------------------

Net Investment Income				
Income:				
<S>	<C>	<C>	<C>	<C>
Dividends.....	\$ 930,715	\$ 753,540	\$ 934,378	\$ --
Less: Withholding tax on foreign dividends	--	--	--	--
Interest.....	237,430	1,547,262	1,923,042	3,923,811
Total Income	1,168,145	2,300,802	2,857,420	3,923,811
Expenses:				
Management and investment advisory fees (Note 3).....	491,699	425,427	420,010	260,242
Custodian fees.....	20,187	29,779	11,314	5,711
Directors' fees.....	7,904	7,930	7,927	7,830
Other.....	1,331	1,332	1,502	1,327
Total Expenses	521,121	464,468	440,753	275,110
Net Investment Income	647,024	1,836,334	2,416,667	3,648,701
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Net realized gain (loss) from:				
Investment transactions.....	10,016,661	4,149,766	4,291,386	24,994
Foreign currency transactions.....	--	--	--	--
Net increase (decrease) in unrealized appreciation/depreciation on:				
Investments	5,099,753	715,006	3,030,866	(1,454,206)
Translation of assets and liabilities in foreign currencies.....	--	--	--	--
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency	15,116,414	4,864,772	7,322,252	(1,429,212)
Net Increase in Net Assets Resulting from Operations	\$15,763,438	\$6,701,106	\$9,738,919	\$2,219,489

</TABLE>

<TABLE>

<CAPTION>

Year Ended December 31, 1996

STATEMENTS OF OPERATIONS

	Principal Capital Accumulation Fund, Inc.	Principal Emerging Growth Fund, Inc.	Principal Government Securities Fund, Inc.	Principal Growth Fund, Inc.
Net Investment Income				
Income:				
<S>	<C>	<C>	<C>	<C>
Dividends.....	\$ 4,025,859	\$ 754,816	\$ --	\$ 971,440
Less: Withholding tax on foreign dividends	--	--	--	--
Interest.....	324,117	879,048	5,055,471	556,688
Total Income	4,349,976	1,633,864	5,055,471	1,528,128
Expenses:				
Management and investment advisory fees (Note 3).....	816,437	606,697	360,968	357,833
Custodian fees.....	6,391	8,735	7,542	4,742
Directors' fees.....	7,877	7,905	7,887	7,602
Other.....	1,376	1,550	1,351	1,276
Total Expenses	832,081	624,887	377,748	371,453
Net Investment Income	3,517,895	1,008,977	4,677,723	1,156,675
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Net realized gain (loss) from:				
Investment transactions.....	26,628,772	1,954,051	98,466	242,899
Foreign currency transactions.....	--	--	--	--
Net increase (decrease) in unrealized appreciation/depreciation on:				
Investments	6,846,493	15,461,368	(1,337,219)	7,550,339
Translation of assets and liabilities in foreign currencies.....	--	--	--	--
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency	33,475,265	17,415,419	(1,238,753)	7,793,238
Net Increase in Net Assets				

Resulting from Operations \$36,993,160 \$18,424,396 \$ 3,438,970 \$8,949,913

</TABLE>

<TABLE>

<CAPTION>

Year Ended December 31, 1996

STATEMENTS OF OPERATIONS

	Principal High Yield Fund, Inc.	Principal Money Market Fund, Inc.	Principal World Fund, Inc.
Net Investment Income			
Income:			
<S>	<C>	<C>	<C>
Dividends.....	\$ --	\$ --	\$ 1,385,001
Less: Withholding tax on foreign dividends	--	--	(169,435)
Interest.....	1,241,012	2,321,335	381,561
Total Income	1,241,012	2,321,335	1,597,127
Expenses:			
Management and investment advisory fees (Note 3).....	75,111	208,822	376,123
Custodian fees.....	3,517	13,843	65,966
Directors' fees.....	7,851	8,091	7,915
Other.....	1,332	1,490	1,357
Total Expenses	87,811	232,246	451,361
Net Investment Income	1,153,201	2,089,089	1,145,766
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Net realized gain (loss) from:			
Investment transactions.....	210,672	--	875,641
Foreign currency transactions.....	--	--	(9,568)
Net increase (decrease) in unrealized appreciation/depreciation on:			
Investments	218,620	--	9,714,799
Translation of assets and liabilities in foreign currencies.....	--	--	495
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency	429,292	--	10,581,367
Net Increase in Net Assets Resulting from Operations	\$1,582,493	\$2,089,089	\$11,727,133

<FN>

See accompanying notes.

</FN>

</TABLE>

<TABLE>

<CAPTION>

Years Ended December 31

STATEMENTS OF CHANGES IN NET ASSETS

	Principal Aggressive Growth Fund, Inc.		Principal Asset Allocation Fund, Inc.	
	1996	1995	1996	1995
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 647,024	\$ 302,552	\$ 1,836,334	\$ 1,387,625
Net realized gain (loss) from investment transactions	10,016,661	4,905,174	4,149,766	1,628,048
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and liabilities in foreign currencies	5,099,753	2,660,711	715,006	3,340,632
Net Increase in Net Assets Resulting from Operations	15,763,438	7,868,437	6,701,106	6,356,305
Dividends and Distributions to Shareholders				
From net investment income.....	(642,821)	(305,795)	(1,837,566)	(1,398,405)
From net realized gain on investments and foreign currency transactions.....	(8,672,973)	(3,377,897)	(3,447,188)	(1,026,374)

	(9,315,794)	(3,683,692)	(5,284,754)	(2,424,779)
Capital Share Transactions (Note 5)				
Shares sold.....	54,678,368	14,807,229	20,370,526	7,552,421
Shares issued in reinvestment of dividends and distributions.....	7,733,190	3,683,692	2,730,827	2,424,779
Shares redeemed.....	(12,396,594)	(2,803,211)	(3,960,605)	(875,745)
Net Increase (Decrease) in Net Assets from Capital Share Transactions	50,014,964	15,687,710	19,140,748	9,101,455
Total Increase	56,462,608	19,872,455	20,557,100	13,032,981
Net Assets				
Beginning of period.....	33,642,941	13,770,486	41,074,038	28,041,057
End of period (including undistributed net investment income as set forth below)..	\$90,105,549	\$33,642,941	\$61,631,138	\$41,074,038
Undistributed Net Investment Income.....	\$ 4,793	\$ 3,483	\$ 18,594	\$ 19,826

<TABLE>
<CAPTION>
Years Ended December 31

STATEMENTS OF CHANGES IN NET ASSETS

	Principal Balanced Fund, Inc.		Principal Bond Fund, Inc.	
	1996	1995	1996	1995
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 2,416,667	\$ 1,419,736	\$ 3,648,701	\$ 1,790,567
Net realized gain (loss) from investment transactions	4,291,386	1,509,204	24,994	(178,683)
Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies	3,030,866	4,627,533	(1,454,206)	3,151,543
Net Increase in Net Assets Resulting from Operations	9,738,919	7,556,473	2,219,489	4,763,427
Dividends and Distributions to Shareholders				
From net investment income.....	(2,404,163)	(1,419,914)	(3,612,230)	(1,807,251)
From net realized gain on investments and foreign currency transactions.....	(5,078,241)	(1,126,793)	--	--
	(7,482,404)	(2,546,707)	(3,612,230)	(1,807,251)
Capital Share Transactions (Note 5)				
Shares sold.....	51,227,505	18,469,155	38,212,107	15,942,301
Shares issued in reinvestment of dividends and distributions.....	6,103,434	1,530,787	2,979,214	1,815,744
Shares redeemed.....	(11,833,111)	(4,649,589)	(12,289,678)	(1,944,884)
Net Increase (Decrease) in Net Assets from Capital Share Transactions	45,497,828	15,350,353	28,901,643	15,813,161
Total Increase	47,754,343	20,360,119	27,508,902	18,769,337
Net Assets				
Beginning of period.....	45,403,326	25,043,207	35,877,659	17,108,322
End of period (including undistributed net investment income as set forth below)..	\$ 93,157,669	\$45,403,326	\$ 63,386,561	\$35,877,659
Undistributed Net Investment Income.....	\$ 23,644	\$ 11,765	\$ 36,471	\$ --

<TABLE>
<CAPTION>
Years Ended December 31

STATEMENTS OF CHANGES IN NET ASSETS

Principal
Capital Accumulation
Fund, Inc.

	1996	1995
Operations		
<S>	<C>	<C>
Net investment income.....	\$ 3,517,895	\$ 2,706,864
Net realized gain (loss) from investment transactions	26,628,772	11,294,865
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and liabilities in foreign currencies	6,846,493	19,225,574
Net Increase in Net Assets Resulting from Operations	36,993,160	33,227,303
Dividends and Distributions to Shareholders		
From net investment income.....	(3,541,996)	(2,707,756)
From net realized gain on investments and foreign currency transactions.....	(22,300,640)	(10,552,706)
	(25,842,636)	(13,260,462)
Capital Share Transactions (Note 5)		
Shares sold.....	81,833,141	38,113,651
Shares issued in reinvestment of dividends and distributions.....	25,659,931	13,137,194
Shares redeemed.....	(49,264,748)	(56,149,805)
Net Increase (Decrease) in Net Assets from Capital Share Transactions	58,228,324	(4,898,960)
Total Increase	69,378,848	15,067,881
Net Assets		
Beginning of period.....	135,639,680	120,571,799
End of period (including undistributed net investment income as set forth below)..	\$205,018,528	\$135,639,680
Undistributed Net Investment Income.....	\$ 35,319	\$ 59,420

</TABLE>

<TABLE>

<CAPTION>

Years Ended December 31

STATEMENTS OF CHANGES IN NET ASSETS

	Principal Emerging Growth Fund, Inc.		Principal Government Securities Fund, Inc.	
	1996	1995	1996	1995
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 1,008,977	\$ 502,095	\$ 4,677,723	\$ 2,727,198
Net realized gain (loss) from investment transactions.....	1,954,051	1,202,668	98,466	(41,117)
Net realized (loss) from foreign currency transactions.....	--	--	--	--
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and liabilities in foreign currencies.....	15,461,368	8,417,614	(1,337,219)	4,199,844
Net Increase in Net Assets Resulting from Operations	18,424,396	10,122,377	3,438,970	6,885,925
Dividends and Distributions to Shareholders				
From net investment income.....	(1,000,544)	(496,559)	(4,644,240)	(2,764,369)
Excess distribution of net investment income (Note 1).....	--	--	--	--
From net realized gain on investments and foreign currency transactions	(2,245,806)	(473,643)	--	--
	(3,246,350)	(970,202)	(4,644,240)	(2,764,369)
Capital Share Transactions (Note 5)				
Shares sold.....	78,710,392	33,010,562	47,002,706	24,755,653
Shares issued in reinvestment of dividends and distributions.....	3,177,572	825,122	4,589,974	2,708,209
Shares redeemed.....	(18,425,569)	(8,379,384)	(15,367,021)	(17,627,312)
Net Increase in Net Assets from Capital Shares Transactions	63,462,395	25,456,300	36,225,659	9,836,550

	Total Increase	78,640,441	34,608,475	35,020,389	13,958,106
Net Assets					
Beginning of period.....		58,520,440	23,911,965	50,079,469	36,121,363
End of period (including undistributed (overdistributed) net investment income as set forth below).....		\$137,160,881	\$58,520,440	\$ 85,099,858	\$50,079,469
Undistributed (Overdistributed) Net Investment Income.....		\$ 13,018	\$ 6,354	\$ 45,745	\$ 16,895

<TABLE>
<CAPTION>
Years Ended December 31

STATEMENTS OF CHANGES IN NET ASSETS

	Principal Growth Fund, Inc.		Principal High Yield Fund, Inc.	
	1996	1995	1996	1995
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 1,156,675	\$ 572,297	\$ 1,153,201	\$ 976,414
Net realized gain (loss) from investment transactions.....	242,899	298,608	210,672	(49,300)
Net realized (loss) from foreign currency transactions.....	--	--	--	--
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and liabilities in foreign currencies.....	7,550,339	5,280,826	218,620	664,483
Net Increase in Net Assets Resulting from Operations	8,949,913	6,151,731	1,582,493	1,591,597
Dividends and Distributions to Shareholders				
From net investment income.....	(1,148,740)	(566,536)	(1,116,648)	(991,915)
Excess distribution of net investment income (Note 1).....	--	--	--	(25,104)
From net realized gain on investments and foreign currency transactions	(240,516)	(294,742)	--	--
	(1,389,256)	(861,278)	(1,116,648)	(1,017,019)
Capital Share Transactions (Note 5)				
Shares sold.....	55,634,083	29,355,706	437,560	673,188
Shares issued in reinvestment of dividends and distributions.....	1,373,493	753,669	1,116,648	1,017,019
Shares redeemed.....	(7,663,844)	(5,778,425)	(109,643)	(131,664)
Net Increase in Net Assets from Capital Shares Transactions	49,343,732	24,330,950	1,444,565	1,558,543
Total Increase	56,904,389	29,621,403	1,910,410	2,133,121
Net Assets				
Beginning of period.....	42,707,521	13,086,118	11,829,933	9,696,812
End of period (including undistributed (overdistributed) net investment income as set forth below).....	\$99,611,910	\$42,707,521	\$13,740,343	\$11,829,933
Undistributed (Overdistributed) Net Investment Income.....	\$ 7,936	\$ 5,761	\$ 11,449	\$ (25,104)

</TABLE>
<TABLE>
<CAPTION>
Years Ended December 31

STATEMENTS OF CHANGES IN NET ASSETS

	Principal Money Market Fund, Inc.		Principal World Fund, Inc.	
	1996	1995	1996	1995
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 2,089,089	\$ 1,502,142	\$ 1,145,766	\$ 519,182
Net realized gain (loss) from investment transactions.....	--	--	875,641	174,169
Net realized (loss) from foreign currency transactions.....	--	--	(9,568)	(5,526)
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and				

liabilities in foreign currencies.....	--	--	9,715,294	2,574,265
Net Increase in Net Assets Resulting from Operations	2,089,089	1,502,142	11,727,133	3,262,090
Dividends and Distributions to Shareholders				
From net investment income.....	(2,089,089)	(1,502,142)	(1,149,902)	(506,808)
Excess distribution of net investment income (Note 1).....	--	--	--	--
From net realized gain on investments and foreign currency transactions	--	--	(750,235)	(23,834)
	(2,089,089)	(1,502,142)	(1,900,137)	(530,642)
Capital Share Transactions (Note 5)				
Shares sold.....	119,544,896	94,151,329	38,889,383	15,630,379
Shares issued in reinvestment of dividends and distributions.....	1,914,643	1,130,170	1,849,921	530,642
Shares redeemed.....	(107,885,209)	(91,983,464)	(9,449,905)	(2,072,943)
Net Increase in Net Assets from Capital Shares Transactions	13,574,330	3,298,035	31,289,399	14,088,078
Total Increase	13,574,330	3,298,035	41,116,395	16,819,526
Net Assets				
Beginning of period.....	32,669,919	29,371,884	30,565,620	13,746,094
End of period (including undistributed (overdistributed) net investment income as set forth below).....	\$ 46,244,249	\$32,669,919	\$71,682,015	\$30,565,620
Undistributed (Overdistributed) Net Investment Income.....	\$ --	\$ --	\$ 24,004	\$ 12,505

<FN>
See accompanying notes.
</FN>
</TABLE>

December 31, 1996

NOTES TO FINANCIAL STATEMENTS

Principal Aggressive Growth Fund, Inc.
Principal Asset Allocation Fund, Inc.
Principal Balanced Fund, Inc.
Principal Bond Fund, Inc.
Principal Capital Accumulation Fund, Inc.
Principal Emerging Growth Fund, Inc.
Principal Government Securities Fund, Inc.
Principal Growth Fund, Inc.
Principal High Yield Fund, Inc.
Principal Money Market Fund, Inc.
Principal World Fund, Inc.

Note 1 -- Significant Accounting Policies

Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc. and Principal World Fund, Inc. (the "Funds") are registered under the Investment Company Act of 1940, as amended, as open-end diversified management investment companies and operate in the mutual fund industry.

Principal Money Market Fund, Inc. values its securities at amortized cost, which approximates market. Under the amortized cost method, a security is valued by applying a constant amortization to maturity of the difference between the principal amount due at maturity and the cost of the security to the fund.

The other funds value securities for which market quotations are readily available at market value, which is determined using the last reported sale price or, if no sales are reported, as is regularly the case for some securities traded over-the-counter, the last reported bid price. When reliable market quotations are not considered to be readily available, which may be the case, for example, with respect to certain debt securities and preferred stocks, the investments are valued by using market quotations, prices provided by market makers or estimates of market values obtained from yield data and other factors relating to instruments or securities with similar characteristics in accordance with procedures established in good faith by each fund's Board of Directors. Securities with remaining maturities of 60 days or less are valued at amortized cost, which approximates market.

With respect to Principal World Fund, Inc., the value of foreign securities in foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. The identified cost of the portfolio holdings is translated at

approximate rates prevailing when acquired. Income and expense amounts are translated at approximate rates prevailing when received or paid, with daily accruals of such amounts reported at approximate rates prevailing at the date of valuation.

Since the carrying amount of the foreign securities in the Principal World Fund, Inc. is determined based on the exchange rate and market values at the close of the period, it is not practicable to isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities during the period.

The Funds record investment transactions generally one day after the trade date. The identified cost basis has been used in determining the net realized gain or loss from investment transactions and unrealized appreciation or depreciation of investments. The Funds record dividend income on the ex-dividend date, except dividend income from foreign securities whereby the ex-dividend date has passed; such dividends are recorded as soon as the Funds are informed of the ex-dividend date. Interest income is recognized on an accrual basis.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amount of dividends and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in the exchange rate.

With respect to Principal Money Market Fund, Inc., all net investment income and any realized gains and losses from investment transactions are declared as dividends daily to shareholders of record as of that day. Dividends and distributions to shareholders of the other funds are recorded on the ex-dividend date.

Dividends and distributions to shareholders from net investment income and net realized gain from investment and foreign currency transactions are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. To the extent these "book/tax" differences are permanent in nature (i.e. that they result from other than timing of recognition - "temporary"), such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Reclassifications made for the years ended December 31, 1996 and 1995 were not material.

Due to the timing of dividend distributions and the differences in accounting for income and realized gains (losses) for financial statement and federal income tax purposes, the fiscal year in which amounts are distributed may differ from the year in which the income and realized gains (losses) are recorded for financial statement purposes by the fund. The differences between the income and gains distributed on a book versus tax basis are shown as excess distributions of net investment income and net realized gain on investments in the accompanying Statements of Changes in Net Assets.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 -- Federal Income Taxes

No provision for federal income taxes is considered necessary because each fund is qualified as a "regulated investment company" under the Internal Revenue Code and intends to distribute each year, substantially all of its net investment income and realized capital gains to shareholders. The cost of investments is approximately the same for both federal income tax and financial reporting purposes.

At December 31, 1996, Principal Bond Fund, Inc. had a net capital loss carryforward of approximately \$272,000 expiring in 2002 and 2003. Principal Government Securities Fund, Inc. had a net capital loss carryforward of approximately \$617,000 expiring in 2002 and 2003. Principal High Yield Fund, Inc. had a net capital loss carryforward of approximately \$995,000 expiring in 1999 through 2003.

Note 3 -- Management Agreement and Transactions With Affiliates

The Funds have agreed to pay investment advisory and management fees to Princor Management Corporation (wholly owned by Princor Financial Services Corporation, a subsidiary of Principal Mutual Life Insurance Company) (the "Manager"), computed at an annual percentage rate of each fund's average daily net assets. The annual rate used in this calculation for Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Government Securities Fund,

Inc., Principal Growth Fund, Inc. and Principal Money Market Fund, Inc. is .50% of the first \$100 million of the fund's average daily net assets, .45% of the next \$100 million of the fund's average daily net assets and .40% of the next \$100 million of the fund's average daily net assets. The annual rate used in this calculation for Principal Asset Allocation Fund, Inc. and Principal Aggressive Growth Fund, Inc. is .80% of the first \$100 million of the fund's average daily net assets. With respect to Principal Balanced Fund, Inc. and Principal High Yield Fund, Inc., the annual rate used is .60% of the first \$100 million of the fund's average daily net assets. With respect to Principal Emerging Growth Fund, Inc. the annual rate used is .65% of the first \$100 million of the fund's average daily net assets and .60% of the next \$100 million of the fund's average daily net assets. With respect to Principal World Fund, Inc., the annual rate used is .75%, of the first \$100 million of the fund's average daily net assets.

Brokerage commissions were paid to affiliates by certain of the funds, as follows:

	Year Ended December 31, 1996	Year Ended December 31, 1995
Principal Balanced Fund, Inc.	\$ 1,300	\$ 219
Principal Capital Accumulation Fund, Inc.	10,262	3,885
Principal Emerging Growth Fund, Inc.	--	910
Principal Growth Fund, Inc.	438	4,252
Principal World Fund, Inc.	3,176	2,207

All of the shares of the Funds are owned by Principal Mutual Life Insurance Company and/or one or more Separate Accounts sponsored by Principal Mutual Life Insurance Company.

Note 4 -- Investment Transactions

For the year ended December 31, 1996, the cost of investment securities purchased and proceeds from investment securities sold (not including short-term investments and U.S. government securities) by the Funds were as follows:

	Purchases	Sales
Principal Aggressive Growth Fund, Inc.	\$133,717,949	\$93,952,732
Principal Asset Allocation Fund, Inc.	65,579,307	48,240,538
Principal Balanced Fund, Inc.	37,879,789	13,472,831
Principal Bond Fund, Inc.	29,553,087	573,288
Principal Capital Accumulation Fund, Inc.	115,353,668	79,662,349
Principal Emerging Growth Fund, Inc.	61,139,785	7,036,586
Principal Government Securities Fund, Inc.	22,704,172	3,422,418
Principal Growth Fund, Inc.	45,840,119	1,232,775
Principal High Yield Fund, Inc.	4,387,611	3,785,289
Principal World Fund, Inc.	35,669,393	5,508,800

At December 31, 1996, net unrealized appreciation of investments held by the Funds was composed of the following:

<TABLE>

<CAPTION>

	Gross Unrealized		Net Unrealized Appreciation of Investments
	Appreciation	(Depreciation)	
<S>	<C>	<C>	<C>
Principal Aggressive Growth Fund, Inc.	\$ 9,867,696	\$ (2,069,897)	\$ 7,797,799
Principal Asset Allocation Fund, Inc.	5,545,004	(1,953,350)	3,591,654
Principal Balanced Fund, Inc.	10,173,472	(1,387,162)	8,786,310
Principal Bond Fund, Inc.	1,802,455	(621,302)	1,181,153
Principal Capital Accumulation Fund, Inc.	36,534,795	(4,263,966)	32,270,829
Principal Emerging Growth Fund, Inc.	32,122,187	(4,292,270)	27,829,917
Principal Government Securities Fund, Inc.	1,617,334	(755,095)	862,239
Principal Growth Fund, Inc.	17,905,917	(5,073,453)	12,832,464
Principal High Yield Fund, Inc.	518,776	(58,489)	460,287
Principal World Fund, Inc.	13,790,582	(2,028,789)	11,761,793

</TABLE>

Principal Government Securities Fund, Inc. may trade portfolio securities on a "to-be-announced" (TBA) basis. In a TBA transaction, the fund commits to purchase or sell securities for which all specific information is not known at the time of the trade. Securities purchased on a TBA basis are not settled until they are delivered to the fund, normally 15 to 30 days later. These transactions are subject to market fluctuations and their current value is determined in the same manner as for other portfolio securities. As of December 31, 1996, TBA purchase commitments involved securities with a face amount of \$1,000,000, cost of \$981,875 and market value of \$978,180. Principal Government Securities Fund, Inc. has set aside investment securities and other assets in excess of the commitments to serve as collateral.

At December 31, 1996, Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Emerging Growth Fund, Inc., Principal High Yield Fund, Inc. and Principal World Fund, Inc. held the following securities which may require registration under the Securities Act of 1933 or an exemption therefrom in order to effect a sale in the ordinary course of business.

<TABLE>
<CAPTION>

Fund	Security Description	Date of Acquisition	Cost	Value at Dec. 31, 1996	Value as a Percentage of Net Assets
<S> Principal Asset Allocation Fund, Inc.	<C> Alps 96 1 PT; Pass Through Certificates	<C> 5/22/96	<C> \$ 74,973	<C> \$ 77,754	<C> .13%
	Brooks Fiber Properties; Step-Up Senior Discount Notes	11/1/96	39,393	44,625	.08%
	CIA Brasilia De Distribuicao; GDR	5/30/96 5/31/96 7/17/96	48,825 49,987 42,550	55,192 57,418 40,949	.09% .10% .07%
	Centrais Electricas De Santa Catarin ADR	10/4/96	18,296	19,215	.03%
	Cole National Group, Inc.; Senior Subordinated Notes	11/13/96 11/14/96	29,775 24,969	30,900 25,750	.05% .04%
	First Nationwide	9/13/96	25,000	27,000	.05%
	Fomento Economico Mexicano	5/30/96 5/31/96	100,040 90,900	111,664 102,132	.19% .17%
	Globo Comunicacoes Part. Notes	12/10/96	39,776	40,150	.07%
	Grupo Financiero Bancomer SA, ADR	5/30/96 5/31/96	99,375 93,125	84,832 80,030	.14% .14%
	International Home Foods; Senior Subordinated Notes	10/29/96	30,000	31,200	.05%
	Israel Electric Corp.; Senior Notes	12/11/96	249,525	249,615	.42%
	Maxxam Group Holdings, Inc.; Senior Notes	12/18/96	40,000	40,500	.07%
	Netsat Servicios LTDA; Senior Notes	7/26/96 12/2/96	40,000 10,525	41,950 10,487	.07% .02%
	Paging Network, Inc.; Senior Subordinated Notes	10/10/96	60,000	60,525	.10%
	Parker Drilling Company; Senior Notes	11/5/96 11/5/96	10,038 19,843	10,525 21,050	.02% .04%
	PTTEP International, Ltd.; Yankee Dollar Notes	11/8/96	259,810	256,425	.43%
	Tevecap SA; Senior Notes	11/21/96	50,000	51,125	.09%
	U.S. Can Corp; Senior Subordinated Notes	10/10/96 12/02/96	15,000 15,788	15,750 15,750	.03% .03%
				1,602,513	2.72%

<CAPTION>

Fund	Security Description	Date of Acquisition	Cost	Value at Dec. 31, 1996	Value as a Percentage of Net Assets
<S> Principal Balanced Fund, Inc.	Federal-Mogul Corp.; Series D Convertible	<C> 10/15/92	<C> \$248,325	<C> \$ 260,150	<C> .28%
Principal Emerging Growth Fund, Inc.	Ciba-Geigy Corp.; Exchangeable Subordinated Debentures	3/20/91	150,000	150,000	.11%

	Sierra On Line; Convertible Subordinated Debentures	8/17/94	100,375	345,125	.25%
				495,125	.36%
Principal High Yield Fund, Inc.	Cole National Group, Inc.; Senior Subordinated Notes	11/13/96	198,500	206,000	1.50%
	Euramax International PLC; Senior Subordinated Notes	9/18/96	50,000	51,625	.38%
	Motors & Gears, Inc.; Series A Senior Notes	11/1/96	200,000	207,000	1.51%
	Parker Drilling Co.; Senior Notes	11/5/96	99,215	105,250	.77%
				956,125	4.16%
Principal World Fund, Inc.	Alfa SA; Convertible Subordinated Debentures	9/25/95	398,000	438,000	.61%
		11/20/96	329,254	328,500	.46%
	Fokus Bank	6/25/96	645,965	818,135	1.14%
	Hyundai Motor Co. Ltd. GDR	9/3/96	307,688	173,750	.24%
	Kemira OY	12/9/96	314,077	327,185	.46%
		12/10/96	131,955	133,391	.19%
		12/11/96	241,385	244,131	.34%
	Royal Plastics Group	6/25/96	272,357	334,757	.47%
		7/2/96	91,512	110,969	.15%
	Voest-Alpine Stahl	10/30/95	280,007	326,936	.46%
		3/27/96	146,558	159,915	.22%
		6/25/96	256,094	273,632	.38%
		6/27/96	145,930	152,807	.21%
				3,822,108	5.33%

</TABLE>

The Fund's investments are with various issuers in various industries. The Schedules of Investments contained herein summarize concentrations of credit risk by industry.

Note 5 -- Capital Share Transactions

Transactions in Capital Stock by fund were as follows:

<TABLE>

<CAPTION>

	Principal Aggressive Growth Fund, Inc.	Principal Asset Allocation Fund, Inc.	Principal Balanced Fund, Inc.
Year Ended December 31, 1996:			
<S>	<C>	<C>	<C>
Shares sold.....	3,918,263	1,770,239	3,602,550
Shares issued in reinvestment of dividends and distributions.....	547,658	239,060	424,022
Shares redeemed.....	(860,656)	(337,801)	(825,489)
Net Increase	3,605,265	1,671,498	3,201,083
Year Ended December 31, 1995:			
Shares sold.....	1,161,931	692,541	1,392,999
Shares issued in reinvestment of dividends and distributions.....	287,452	219,390	115,881
Shares redeemed.....	(211,535)	(78,261)	(354,061)
Net Increase	1,237,848	833,670	1,154,819

<CAPTION>

	Principal Bond Fund, Inc.	Principal Capital Accumulation Fund, Inc.	Principal Emerging Growth Fund, Inc.
Year Ended December 31, 1996:			
<S>	<C>	<C>	<C>
Shares sold.....	3,340,011	2,763,121	2,884,710
Shares issued in reinvestment of dividends and distributions.....	262,934	868,606	110,728
Shares redeemed.....	(1,065,373)	(1,641,040)	(693,851)

Net Increase	2,537,572	1,990,687	2,301,587
--------------	-----------	-----------	-----------

Year Ended December 31, 1995:			
Shares sold.....	1,388,036	1,462,128	1,443,488
Shares issued in reinvestment of dividends and distributions.....	155,537	493,432	32,984
Shares redeemed.....	(174,815)	(2,220,452)	(363,945)
Net Increase (Decrease)	1,368,758	(264,892)	1,112,527

<CAPTION>

	Principal Government Securities Fund, Inc.	Principal Growth Fund, Inc.	Principal High Yield Fund, Inc.
Year Ended December 31, 1996:			
<S>	<C>	<C>	<C>
Shares sold.....	4,520,032	4,289,963	50,390
Shares issued in reinvestment of dividends and distributions.....	445,172	99,697	128,056
Shares redeemed.....	(1,457,956)	(604,413)	(12,523)
Net Increase	3,507,248	3,785,247	165,923
Year Ended December 31, 1995:			
Shares sold.....	2,389,165	2,597,297	77,400
Shares issued in reinvestment of dividends and distributions.....	258,394	61,037	121,455
Shares redeemed.....	(1,752,028)	(517,157)	(15,228)
Net Increase	895,531	2,141,177	183,627

<CAPTION>

	Principal Money Market Fund, Inc.	Principal World Fund, Inc.
Year Ended December 31, 1996:		
<S>	<C>	<C>
Shares sold.....	119,544,896	3,308,501
Shares issued in reinvestment of dividends and distributions.....	1,914,643	144,196
Shares redeemed.....	(107,885,209)	(800,955)
Net Increase	13,574,330	2,651,742
Year Ended December 31, 1995:		
Shares sold.....	94,151,329	1,566,265
Shares issued in reinvestment of dividends and distributions.....	1,130,170	49,808
Shares redeemed.....	(91,983,464)	(202,182)
Net Increase	3,298,035	1,413,891

</TABLE>

Note 6 -- Line of Credit

The Funds have an unsecured line of credit with a bank which allows each fund to borrow up to \$500,000. Borrowings are made solely to facilitate the handling of unusual and/or unanticipated short-term cash requirements. Interest is charged to each fund, based on its borrowings, at a rate equal to the bank's Fed Funds Unsecured Rate plus 100 basis points. Additionally, a commitment fee is charged at the annual rate of .25% on the line of credit. At December 31, 1996, the Funds had no outstanding borrowings under the line of credit.

SCHEDULES OF INVESTMENTS

PRINCIPAL AGGRESSIVE GROWTH FUND, INC.

	Shares Held	Value
Common Stocks (95.71%)		
Advertising (0.15%)		
Catalina Marketing Corp.	2,500 (a)	\$ 137,812
Air Transportation, Scheduled (0.67%)		
AMR Corp.	6,800 (a)	599,250
Aircraft & Parts (7.33%)		
Allied Signal, Inc.	14,100	944,700

Boeing Co.	7,957	846,426
General Dynamics Corp.	7,400	521,700
Gulfstream Aerospace Corp.	7,000 (a)	169,750
McDonnell Douglas Corp.	12,300	787,200
Rockwell International Corp.	8,800	535,700
Sunstrand Corp.	2,400	102,000
United Technologies Corp.	40,900	2,699,400
		6,606,876
Bakery Products (1.09%)		
Einstein/Noah Bagel Corp.	11,900 (a)	354,025
Interstate Bakeries	12,700	623,888
		977,913
Beverages (0.40%)		
Coca-Cola Enterprises	7,500	363,750
Cigars (0.92%)		
Consolidated Cigar Holdings, Inc.	33,600 (a)	831,600
Congeneration -		
Small Power Producer (0.49%)		
AES Corp.	9,500 (a)	441,750
Commercial Banks (3.91%)		
Chase Manhattan Corp.	7,812	697,221
Citicorp	2,100	216,300
Wells Fargo & Co.	9,683	2,611,989
		3,525,510
Communications Equipment (1.44%)		
Larscom, Inc.	16,000 (a)	182,000
U.S. Industries, Inc.	21,000 (a)	721,875
U.S. Robotics Corp.	5,500 (a)	396,000
		1,299,875
Computer & Data Processing		
Services (6.56%)		
Adobe Systems, Inc.	9,800	366,275
First Data Corp.	13,500	492,750
GTECH Holdings Corp.	85,600 (a)	2,739,200
Microsoft Corp.	12,200 (a)	1,008,025
Netscape Communications	6,300 (a)	358,313
Oracle Systems Corp.	11,100 (a)	463,425
Sterling Commerce, Inc.	13,600 (a)	479,400
		5,907,388
Computer & Office Equipment (4.35%)		
Cisco Systems	10,400 (a)	661,700
International Business		
Machines Corp.	6,300	951,300
International Game Technology	126,400	2,306,800
		3,919,800
Consumer Products (13.28%)		
Philip Morris Cos., Inc.	42,600	\$4,797,825
RJR Nabisco	210,900	7,170,600
		11,968,425
Cutlery, Handtools, & Hardware (0.98%)		
Gillette Co.	11,300	878,575
Drug Stores & Proprietary Stores (0.43%)		
CVS Corp.	9,300	384,787
Drugs (1.26%)		
American Home Products Corp.	7,900	463,138
Pfizer, Inc.	5,800	480,675
Schering-Plough Corp.	3,000	194,250
		1,138,063
Eating & Drinking Places (3.07%)		
Boston Chicken, Inc.	32,600 (a)	1,169,525
Brinker International, Inc.	25,200 (a)	403,200
Cracker Barrel Old Country		
Store, Inc.	43,600	1,106,350
Foodmaker Inc.	9,800 (a)	86,975
		2,766,050
Electrical Industrial Apparatus (0.47%)		
Emerson Electric Co.	4,400	425,700
Electronic Components &		
Accessories (1.69%)		
Intel Corp.	11,600	1,518,875

Federal & Federally Sponsored Credit (1.02%)		
Student Loan Marketing Association	9,900	921,937
Fire, Marine, & Casualty Insurance (5.95%)		
Aetna, Inc.	15,300	1,224,000
Berkshire Hathaway, Inc.	44 (a)	1,500,400
Cigna Corp.	2,650	362,056
Loews Corp.	24,100	2,271,425
		5,357,881
Grain Mill Products (0.23%)		
Ralston-Ralston Purina Group	2,800	205,450
Grocery Stores (1.68%)		
Dominicks Supermarkets, Inc.	20,700 (a)	450,225
Food Lion, Inc.	104,600	1,059,075
		1,509,300
Hospitals (0.62%)		
Columbia/HCA Healthcare Corp.	13,700	558,275
Hotels & Motels (0.71%)		
Hilton Hotels Corp.	24,600	642,675
Industrial Inorganic Chemicals (1.32%)		
Monsanto Co.	14,300	555,913
Olin Corp.	16,900	635,862
		1,191,775
Insurance Agents, Brokers, & Services (0.52%)		
Exel Ltd.	12,300	465,862
Lumber & Other Building Materials (0.79%)		
Home Depot, Inc.	14,200	711,775
Medical Instruments & Supplies (1.47%)		
Acuson Corp.	8,900 (a)	216,938
Becton, Dickinson & Co.	19,000	824,125
U.S. Surgical Corp.	7,300	287,437
		1,328,500
Miscellaneous Amusement, Recreation Service (0.44%)		
Family Golf Centers, Inc.	13,100 (a)	394,637
Miscellaneous Apparel & Accessories (0.33%)		
Designer Holdings, Ltd.	18,200 (a)	293,475
Miscellaneous Business Services (0.74%)		
CUC International, Inc.	19,775 (a)	469,656
Viad Corp.	12,100	199,650
		669,306
Miscellaneous Electrical Equipment & Supplies (0.27%)		
Motorola, Inc.	4,000	245,500
Miscellaneous Food & Kindred Products (3.87%)		
Campbell Soup Co.	41,600	3,338,400
McCormick & Co.	6,200	146,088
		3,484,488
Miscellaneous Investing (6.74%)		
HFS, Inc.	101,600 (a)	6,070,600
Miscellaneous Manufacturers (0.59%)		
WMS Industries, Inc.	26,400 (a)	528,000
Motion Picture Production & Services (1.00%)		
Film Roman, Inc.	11,400 (a)	86,925
Viacom, Inc.	8,100 (a)	282,488
Walt Disney Company	7,600	529,150
		898,563
Motion Picture Theaters (0.02%)		

AMC Entertainment	1,400 (a)	20,125
Motor Vehicles & Equipment (0.47%)		
Ford Motor Co.	13,300	423,937
Newspapers (1.00%)		
Gannett Co.	5,600	419,300
Hollinger International, Inc.	17,100	196,650
New York Times Co.	7,500	285,000
		900,950
Periodicals (2.75%)		
K III Communications	230,100 (a)	2,473,575
Personal Credit Institutions (2.07%)		
American Express Co.	23,500	1,327,750
Dean Witter, Discover & Co.	8,200	543,250
		1,871,000
Photographic Equipment & Supplies (0.90%)		
Eastman Kodak Co.	10,050	806,513
Plastic Materials & Synthetics (0.39%)		
Hercules, Inc.	8,100	350,325
Radio & Television Broadcasting (3.16%)		
Clear Channel Communications	60,100 (a)	2,171,113
Heftel Broadcasting Co.	8,200 (a)	258,300
Infinity Broadcasting	12,500 (a)	417,187
		2,846,600
Real Estate Operators & Lessors (0.28%)		
Insignia Financial Group	11,100	249,750
Refrigeration & Service Machinery (0.01%)		
American Standard Inc.	100 (a)	3,825
Retail Stores, NEC (0.95%)		
PETsMART, Inc.	39,300 (a)	859,687
Sanitary Services (0.50%)		
WMX Technologies, Inc.	13,800	450,225
Search & Navigation Equipment (0.58%)		
Loral Space Communications	28,600 (a)	525,525
Security & Commodity Services (1.62%)		
Franklin Resources, Inc.	21,400	1,463,225
Special Industry Machinery (0.27%)		
Applied Materials, Inc.	6,800 (a)	244,375
Surety Insurance (2.46%)		
Ace Ltd.	21,500	1,292,688
The PMI Group, Inc.	16,800	930,300
		2,222,988
Telephone Communication (0.80%)		
Airtouch Communications, Inc.	11,300 (a)	285,325
Worldcom, Inc.	16,800 (a)	437,850
		723,175
Tires & Inner Tubes (0.70%)		
Goodyear Tire & Rubber Co.	12,300	631,913
Total Portfolio Investments (95.71%)		86,237,711
Cash and receivables, net of liabilities (4.29%)		3,867,838
Total Net Assets (100.00%)		\$90,105,549

(a) Non-income producing security - No dividend paid during the past twelve months.

PRINCIPAL ASSET ALLOCATION FUND, INC.

	Shares Held	Value
Common Stocks (68.92%)		
Advertising (0.03%)		
Catalina Marketing Corp.	300	\$ 16,537
Air Transportation, Scheduled (0.90%)		
AMR Corp.	1,600 (a)	141,000
British Airways PLC ADR	1,400	143,850
Cathay Pacific Airways ADR	8,500	67,033
KLM Royal Dutch Airlines	7,380	205,717
		557,600
Aircraft & Parts (2.07%)		
Allied Signal, Inc.	1,600	107,200
Boeing Co.	942	100,205
General Dynamics Corp.	800	56,400
Gulfstream Aerospace Corp.	2,200 (a)	53,350
McDonnell Douglas Corp.	2,200	140,800
Rockwell International Corp.	2,500	152,188
Sunstrand Corp.	200	8,500
United Technologies Corp.	10,000	660,000
		1,278,643
Automotive Rentals, No Drivers (0.10%)		
Ryder Systems, Inc.	2,100	59,063
Bakery Products (0.23%)		
Einstein/Noah Bagel Corp.	2,200 (a)	65,450
Interstate Bakeries	1,500	73,688
		139,138
Beverages (1.34%)		
Bass PLC ADR	5,000	138,750
CIA Cervecerias Unidas ADR	4,080	65,790
CIA Cervejaria Brahma ADR	7,750	84,728
Coca-Cola Enterprises	600	29,100
Coca-Cola Femsa S.A. ADR	2,350	67,856
Fomento Economico Mexicano	62,800 (c)	213,796
Kirin Brewery	2,300	226,550
		826,570
Blast Furnace & Basic Steel Products (0.37%)		
Australian National Industries	8,960	35,582
British Steel PLC ADS	3,500	96,250
Tubos De Acero De Mexico ADR	6,200 (a)	98,425
		230,257
Books (0.07%)		
McGraw-Hill Companies, Inc.	1,000	46,125
Cable & Other Pay TV Services (0.14%)		
Multicanal Participacoes ADR	6,800 (a)	87,125
Chemicals & Allied Products (1.41%)		
Asahi Chemical Industry Co. ADR	4,100 (a)	231,722
Bayer AG Sponsored ADR	10,735	437,449
Mitsubishi Chemical Corp.	6,100	197,079
		866,250
Cigars (0.30%)		
Consolidated Cigar Holdings, Inc.	7,400 (a)	183,150
Clay, Ceramic & Refractory Minerals (0.08%)		
English China Clays ADR	5,300	52,338
Congeneration - Small Power Producer (0.13%)		
AES Corp.	1,700 (a)	79,050
Combination Utility Services (0.26%)		
CIA Energetica De Minas		
Cemig ADR	1,880	\$ 64,048
NIPSCO Industries, Inc.	2,450	97,081
		161,129
Commercial Banks (4.52%)		
ABN-AMRO Holdings NV ADR	7,385	479,884

Allied Irish Banks ADR	2,900	113,825
Banco Central ADR	6,500	84,500
Bank of Boston Corp.	1,100	70,675
BankAmerica Corp.	550	54,862
Banker's Trust	950	81,937
Barclays PLC ADS	5,571	383,006
Brierly Investments Ltd. ADR	5,550	102,737
Chase Manhattan	1,940	173,145
Citicorp	600	61,800
Commerzbank AG ADR	3,600	91,337
First of America Bank Corp.	1,700	102,213
HSBC Holdings ADR	600	128,378
Mellon Bank Corp.	1,100	78,100
National Westminster ADR	1,900	132,050
PNC Financial Corp.	2,000	75,250
Wells Fargo & Co.	1,600	431,600
Westpac Banking ADR	4,900	139,650
		2,784,949
Commercial Printing (0.31%)		
DAI Nippon Printing Co.	1,100	192,384
Communications Equipment (0.84%)		
Alcatel Alsthom ADR	4,700	75,200
Hanson PLC ADR	2,950	19,912
Harris Corp.	1,350	92,644
Larscom, Inc.	1,800 (a)	20,475
Matsushita Electrical ADR	800	130,600
U.S. Industries, Inc.	3,800 (a)	130,625
U.S. Robotics Corp.	700	50,400
		519,856
Computer & Data Processing Services (1.51%)		
Adobe Systems, Inc.	1,200	44,850
First Data Corp.	1,600	58,400
GTECH Holdings Corp.	17,800 (a)	569,600
Microsoft Corp.	1,400	115,675
Netscape Communications	700	39,812
Oracle Systems Corp.	1,250	52,188
Sterling Commerce, Inc.	1,500 (a)	52,875
		933,400
Computer & Office Equipment (1.61%)		
Apple Computer Inc.	1,400 (a)	29,225
Cisco Systems	1,200	76,350
Hitachi Ltd. ADR	2,900	268,250
International Business Machines Corp.	1,300	196,300
International Game Technology	23,100	421,575
		991,700
Concrete, Gypsum & Plaster Products (0.30%)		
Cementos De Mexico SA ADR	16,000	114,837
Italcementi Fabrice S P A ADR	13,000	72,673
		187,510
Concrete Work (0.12%)		
Pioneer International Ltd. ADR	25,000	74,460
Construction & Related Machinery (0.63%)		
Kajima Corp. ADR	2,900	206,875
Komatsu Ltd. ADR	1,100	180,064
		386,939
Consumer Products (4.66%)		
American Brands, Inc.	900	44,663
Philip Morris Cos., Inc.	9,850	1,109,356
RJR Nabisco	50,500	1,717,000
		2,871,019
Crude Petroleum & Natural Gas (0.38%)		
Broken Hill Proprietary Ltd. ADR	2,200	62,150
Petrofina SA ADR	2,900	92,210
Societe Generale ADR	3,600	77,695
		232,055
Cutlery, Handtools & Hardware (0.16%)		
Gillette Co.	1,300	101,075

Department Stores (0.28%)		
Marui Corp. ADR	2,800	100,836
Fenney (J.C.) Co.	1,500	73,125
		173,961
Drug Store & Proprietary Stores (0.07%)		
CVS Corp.	1,000	41,375
Drugs (1.03%)		
American Home Products Corp.	800	46,900
Hafslund ADR	13,172	90,096
Novo Nordisk ADR	3,200	149,600
Nycomed	13,172	197,580
Pfizer, Inc.	700	58,013
Schering-Plough Corp.	300	19,425
Smithkline Beecham PLC ADR	1,100	74,800
		636,414
Drugs, Proprietaries & Sundries (0.26%)		
Amway Japan Ltd. ADS	6,833	113,599
Grupo Casa Autrey ADR	2,500	48,750
		162,349
Eating & Drinking Places (1.08%)		
Boston Chicken, Inc.	5,900 (a)	211,662
Brinker International, Inc.	4,200 (a)	67,200
Cracker Barrel Old Country Store, Inc.	7,500	190,313
Foodmaker Inc.	1,100 (a)	9,763
Host Marriott Corp.	11,600	185,600
		664,538
Electric Services (1.71%)		
Centrais Electricas Brasileiras S/A - Electrobras ADR	4,300	79,867
Centrais Electricas De Santa Catarin ADR	210 (a) (c)	19,215
Centrais Electricas Brasileiras ADR	16,800	300,723
Empresa Nacional De Electricidad SA ADR	1,400	98,000
EVN Energie-Vansorgung Nied ADR	3,600	108,270
GPU, Inc.	2,600	87,425
National Power ADR	3,300	111,788
Northeast Utilities, Inc.	1,400	18,550
Pinnacle West Capital Corp.	2,400	76,200
Shangdong Huaneng Power Development Ltd. ADS	8,000	\$ 78,000
Texas Utilities Co.	1,800	73,350
		1,051,388
Electrical Industrial Apparatus (0.08%)		
Emerson Electric Co.	500	48,375
Electronic Components & Accessories (0.91%)		
Intel Corp.	2,200	288,063
Kyocera Corp. ADR	1,500	183,000
Texas Instruments	1,374	87,592
		558,655
Electronic Distribution Equipment (0.45%)		
Phillips NV ADR	6,969	278,760
Family Clothing Stores (0.01%)		
Stage Stores, Inc.	500 (a)	9,125
Farm & Garden Machinery (0.12%)		
Deere & Co.	1,800	73,125
Federal & Federally Sponsored Credit (0.45%)		
Student Loan Marketing Association (Non-Voting)	3,000	279,375
Ferroalloy Ores, Exept Vanadium (0.27%)		
Novartis A G Sponsored ADR	2,879 (a)	164,405
Finance Services (0.75%)		
Grupo Financiero Bancomer SA ADR	20,600 (a) (c)	164,862
Nomura Sec. Co. Ltd. ADR	2,000	299,819
		464,681
Fire Marine & Casualty		

Insurance (2.30%)		
Aetna, Inc.	2,900	232,000
Berkshire Hathaway, Inc.	10,000 (a)	341,000
CIGNA Corp.	350	47,819
Loews Corp.	5,400	508,950
St. Paul Cos., Inc.	1,300	76,212
Tokio Marine & Fire Insurance ADR	4,600	214,475
		1,420,456
Footwear, Except Rubber (0.23%)		
Ollivetti Inc. Cos.	396,825 (a)	139,603
General Industrial Machinery (0.66%)		
Amer Group Ltd. ADR	5,500	56,682
S K F AB ADR	15,370	359,274
		415,956
Grain Mill Products (0.35%)		
Grupo Indl Maseca Sade CV ADR	9,636	184,289
Ralston-Ralston Purina Group	400	29,350
		213,639
Groceries & Related Products (0.16%)		
Fleming Cos., Inc.	5,550	95,738
Grocery Stores (0.71%)		
Dominicks Supermarkets, Inc.	2,400 (a)	52,200
Food Lion, Inc., Class B	16,900	171,113
Koninklijke Bijenkorf		
Beheer NV ADR	2,400	86,371
Santa Isabella SA ADR	5,635	127,492
		437,176
Holding Offices (0.59%)		
Jardine Strategic Holdings Ltd.		
ADR	10,000	\$ 72,400
Trizec Hahn Corp.	13,134	288,948
		361,348
Hospitals (0.10%)		
Columbia/HCA Healthcare Corp.	1,500	61,125
Hotels & Motels (1.31%)		
Bristol Hotel Co.	2,300 (a)	73,025
Hilton Hotels Corp.	4,300	112,338
John Q. Hammons Hotels, Inc.	17,400 (a)	147,900
Ladbroke Group ADR	37,000	146,265
Servico, Inc.	11,500 (a)	185,437
Suburban Lodges of America	8,900 (a)	142,400
		807,365
Household Audio & Video		
Equipment (0.27%)		
Sony Corp. ADR	2,500	164,063
Individual & Family Services (0.01%)		
Assisted Living Concepts, Inc.	600 (a)	9,150
Industrial Inorganic Chemicals (0.86%)		
AKZO ADR	4,283	289,103
Eastman Chemical Co.	1,050	58,012
Monsanto Co.	1,600	62,200
Olin Corp.	3,200	120,400
		529,715
Industrial Organic Chemicals (0.10%)		
Nova Corp. ADR	6,700	58,625
Insurance Agents, Brokers & Services (0.09%)		
EXEL Ltd.	1,400	53,025
Investment Offices (0.48%)		
American General Hospitality Corp.	12,400	294,500
Iron & Steel Foundries (0.61%)		
Kawasaki Steel Corp. ADR	7,900	226,647
Kubota Ltds. ADR	850	81,600
Siderar S.A.I.C. Sponsored		
ADR-144A	3,000	69,132
		377,379
Life Insurance (0.23%)		
American General Corp.	1,700	69,487
Lincoln National	1,400	73,500

Lumber & Other Building Materials (0.13%)		142,987
Home Depot, Inc.	1,600	80,200
Management & Public Relations (0.13%)		
Ogden Corp.	4,300	80,625
Meat Products (0.49%)		
Groupe Danone	10,764	299,394
Medical Instruments & Supplies (0.31%)		
Acuson Corp.	1,000 (a)	\$ 24,375
Baxter International, Inc.	1,500	61,500
Becton, Dickinson & Co.	1,700	73,738
U.S. Surgical Corp.	800	31,500
		191,113
Metalworking Machinery (0.30%)		
Makita Corp. ADR	13,000	182,000
Miscellaneous Amusement, Recreation Service (0.11%)		
Family Golf Centers, Inc.	2,200 (a)	66,275
Miscellaneous Apparel & Accessories (0.06%)		
Designer Holdings, Ltd.	2,200 (a)	35,475
Miscellaneous Business Services (0.12%)		
CUC International, Inc.	2,250	53,437
Viad Corp.	1,400	23,100
		76,537
Miscellaneous Chemical Products (0.01%)		
Millenium Chemicals, Inc.	196 (a)	3,479
Miscellaneous Converted Paper Products (0.04%)		
P. T. Inti Indorayon Utama ADR	10,000	24,531
Miscellaneous Electrical Equipment & Supplies (0.34%)		
Motorola, Inc.	400	24,550
TDK Corp. ADS	2,800	184,100
		208,650
Miscellaneous Food & Kindred Products (1.35%)		
Campbell Soup Co.	8,800	706,200
McCormick & Co.	700	16,494
Nestle Reg. ADR	2,000	107,021
		829,715
Miscellaneous Investing (8.83%)		
Avalon Properties	3,400	97,750
Bedford Property Investors	9,800	171,500
Brandywine Realty Trust	18,000	351,000
Burnham Pacific Properties	19,400	291,000
Capstar Hotel Co.	2,400 (a)	47,100
Chateau Properties	6,200	164,300
Duke Realty Investments, Inc.	4,500	173,250
East Group Properties	6,700	183,413
Essex Property Trust	7,500	220,313
Evans Withycombe Residential Healthcare Realty Trust, Inc.	1,400	29,400
HFS, Inc.	300	7,950
Irvine Apartment Community	21,300	1,272,675
Koger Equity, Inc.	9,800	245,000
LTC Properties, Inc.	1,800 (a)	33,750
LTC Properties, Inc.	3,100	57,350
Meridian Industrial Trust	13,500	283,500
Merry Land & Investment Co.	5,100	109,650
Oasis Residential, Inc.	8,400	191,100
Omega Healthcare Investors	5,600	186,200
Paragon Group, Inc.	10,800	191,700
Prentiss Property Trust	10,700	\$ 267,500
ROC Communities	9,200	255,300
Shurgard Storage Center	6,300	186,637
South West Property Trust	7,300	123,187
Taubman Centers	2,300	29,612

Urban Shopping Centers	9,300	269,700
		5,439,837
Miscellaneous Manufacturers (0.15%)		
WMS Industries, Inc.	4,700 (a)	94,000
Miscellaneous Non-Durable Goods (0.46%)		
DESC ADR	2,500	55,000
Mitsubishi Corp. ADR	11,000	227,448
		282,448
Miscellaneous Special Trade Contractors (0.17%)		
Hang Lung Development Co. ADR	9,400	103,297
Motion Picture Production & Services (0.16%)		
Film Roman, Inc.	1,300 (a)	9,913
Viacom, Inc.; Class B	900	31,387
Walt Disney Company	800	55,700
		97,000
Motion Picture Theaters (0.01%)		
AMC Entertainment	200 (a)	2,875
Motor Vehicles & Equipment (1.52%)		
Chrysler Corp.	2,100	69,300
Fiat SPA ADR	4,700	71,675
Ford Motor Co.	1,500	47,813
General Motors Corp.	1,400	78,050
Siderurgica Venezuelana Saica ADR	16,000	60,134
Toyota Motor Corp. ADR	8,600	494,500
Volkswagen AG ADR	1,400	116,280
		937,752
Newspapers (0.16%)		
Gannett Co.	600	44,925
Hollinger International, Inc.	1,800	20,700
New York Times Co.	900	34,200
		99,825
Non-Classifiable Establishments (0.11%)		
Keppel Corp. Ltd. ADR	4,300	67,013
Nonresidential Building Construction (0.03%)		
Emprapas ICA Sociedad Controladora SA ADR	1,170 (a)	17,111
Ophthalmic Goods (0.14%)		
Bausch & Lomb	2,450	85,750
Paper Mills (0.12%)		
Willamette Ind., Inc.	1,100	76,587
Periodicals (0.86%)		
K III Communications	49,200 (a)	528,900
Personal Credit Institutions (0.41%)		
American Express Co.	3,400	192,100
Dean Witter, Discover & Co.	900	59,625
		251,725
Petroleum Refining (1.54%)		
Ashland, Inc.	4,400	\$ 193,050
Atlantic Richfield Co.	1,600	212,000
Exxon Corp.	2,400	235,200
Mobil Corp.	1,600	195,600
Total SA IE Francaise ADR	2,800	112,700
		948,550
Photographic Equipment & Supplies (0.93%)		
Eastman Kodak Co.	1,650	132,412
Fuji Photo Film	8,800	290,400
OCE Van Der Grinten NV ADR	1,400	151,200
		574,012
Plastic Materials & Synthetics (0.18%)		
Hercules, Inc.	800	34,600
Shanghai Petrochemical Co. Ltd. ADR	2,600	76,375
		110,975

Primary Nonferrous Metals (0.11%)		
Phelps Dodge Corp.	1,050	70,875
Radio & Television		
Broadcasting (1.09%)		
Clear Channel Communications	11,200	404,600
Grupo Radio Centro SA ADR	1,970 (a)	13,544
Grupo Televisa SA GDR	6,200 (a)	158,875
Heftel Broadcasting Co.	1,600 (a)	50,400
Infinity Broadcasting	1,400	46,725
		674,144
Railroads (0.18%)		
Nagoya Railroad Co. Ltd.	2,900	111,183
Real Estate Agents & Managers (0.11%)		
Atlantic Gulf Communities Co.	15,900 (a)	68,569
Real Estate Operators & Lessors (2.36%)		
Alexander Haagen Properties	11,200	165,200
Arden Realty Group, Inc.	9,400	260,850
Catellus Dev. Corp.	9,000 (a)	102,375
FAC Realty, Inc.	4,200	27,825
Insignia Financial Group	1,200	27,000
IRT Property Co.	800	9,200
Nationwide Health Properties	10,700	259,475
Pacific Gulf Properties	10,400	202,800
Parkway Properties, Inc.	6,300	163,800
Sekisui House Ltd. ADR	2,300	233,824
		1,452,349
Refrigeration & Service Machinery (0.01%)		
American Standard, Inc.	100 (a)	3,825
Retail Stores, NEC (0.48%)		
CIA Brasileira De Distribuicao GDR	8,625 (a) (c)	153,559
PETSMART, Inc.	6,600	144,375
		297,934
Sanitary Services (0.08%)		
WMX Technologies, Inc.	1,600	52,200
Sawmills & Planning Mills (0.14%)		
Louisiana Pacific Corp.	4,000	84,500
Search & Navigation Equipment (0.18%)		
Loral Space Communications	6,200	113,925
Security & Commodity Services (0.50%)		
Franklin Resources, Inc.	4,500	\$ 307,687
Soap, Cleaners & Toilet Goods (0.62%)		
KAO Corp. ADR	2,200	255,880
Shiseido Co. Ltd. ADR	11,000	126,992
		382,872
Special Industry Machinery (0.05%)		
Applied Materials, Inc.	800 (a)	28,750
Subdividers & Developers (0.10%)		
Singapore Land ADR	11,600	64,267
Sugar & Confectionary Products (0.13%)		
Perlis Plantations ADR	25,000	77,705
Surety Insurance (0.69%)		
ACE Ltd.	4,200	252,525
The PMI Group, Inc.	3,100	171,662
		424,187
Telephone Communication (3.17%)		
Airtouch Communications, Inc.	1,300 (a)	32,825
AT&T Corp.	2,000	87,000
BCE, Inc.	8,590	410,173
Compania Anonima Telefonos De Venezuela ADR	5,740 (a)	161,438
Sprint Corp.	1,600	63,800
Telebras GDR	18	1,377
Telecomunicacoes Brasileiras SA ADR	5,080	388,620

Telefonica de Argentina ADR	13,050	337,669
Telefonica de Espana SA ADS	2,500	173,125
Telefonica Del Peru ADR	10,330	194,978
U.S. West Communications Group	1,700	54,825
Worldcom, Inc.	1,900	49,518
		1,955,348
Tires & Inner Tubes (0.45%)		
Bridgestone ADR	1,100	208,495
Goodyear Tire & Rubber Co.	1,400	71,925
		280,420
Variety Stores (0.12%)		
Woolworth Corp.	3,350 (a)	73,281
Water Transportation of Freight, NEC (0.18%)		
Penninsular & Oriental Steamships ADR	5,400	109,044
		42,475,414
Total Common Stocks		
Preferred Stock (0.39%)		
Cable & Other Pay TV Services (0.09%)		
TCI Pacific	580	52,998
Medical Instruments & Supplies (0.06%)		
Fresenius Medical Care Cap	35 (a)	35,612
Periodicals (0.24%)		
Time Warner; Series M	140 (a) \$	151,900
		240,510
Total Preferred Stocks		
	Principal Amount	Value
Bonds (10.36%)		
Airports, Flying Fields & Services (0.13%)		
Alps 96 1 PT Pass Through Certificates; 12.75%; 6/15/06	\$ 74,943 (c) \$	77,754
Blast Furnace & Basic Steel Products (0.03%)		
Ivaco Senior Notes; 11.50%; 9/15/05	20,000	19,850
Business Credit Institutions (0.53%)		
AT&T Capital Corp. Medium-Term Notes; 5.85%; 1/5/99	330,000	329,472
Cable & Other Pay TV Services (0.80%)		
Cablevision Systems Corp. Senior Subordinated Notes; 9.25%; 11/1/05	35,000	34,650
9.88%; 5/15/06	105,000	107,756
Comcast Corp. Senior Subordinated Notes; 9.13%; 10/15/06	20,000	20,450
Marcus Cable Company Step-Up Senior Discount Notes; 12/15/05	150,000 (b) *	107,625
Netsat Servicios LTDA Senior Notes; 12.75%; 8/5/04	50,000 (c)	52,437
Rogers Cable Systems Ltd. Senior Notes; 10.00%; 3/15/05	100,000	106,750
TCI Communications Inc. Debentures; 7.88%; 2/15/26	75,000	64,875
		494,543
Chemicals & Allied Products (0.10%)		
ISP Holdings Senior Notes; 9.00%; 10/15/03	60,000	60,900
Commercial Banks (0.49%)		
First Nationwide Holdings I; 9.13%; 1/15/03	35,000	35,350
First Nationwide; 10.63%; 10/1/03	25,000 (c)	27,000

Nationsbank Corp. Senior Notes; 5.70%; 2/9/01	250,000	241,725
		304,075
Communications Equipment (0.19%) Globo Comunicacoes Part Note; 10.50%; 12/20/06	40,000 (c)	40,150
Rogers Communications, Inc. Senior Note; 9.13%; 1/15/06	25,000	24,750
Tevecap SA Senior Notes; 12.63%; 11/26/04	50,000 (c)	51,125
		116,025
Communications Services, NEC (0.49%) Dial Call Communications, Inc. Senior Discount Notes, Series B; 12/12/05	\$375,000 (b)	\$ 249,375
IXC Communications, Inc. Note; 12/50%; 10/1/05	50,000	55,000
		304,375
Computer & Office Equipment (0.03%) Quest Diagnostic Senior Subordinated Notes; 10.75%; 12/15/06	20,000	21,000
Crude Petroleum & Natural Gas (0.21%) Flores & Rucks Senior Subordinate Notes; 9.75%; 10/1/06	50,000	52,875
Nuevo Energy Co. Senior Subordinated Notes; 9.50%; 4/15/06	70,000	74,200
		127,075
Electric Services (0.12%) Midland Cogeneration Debentures; 10.33%; 7/23/02	7,204	7,673
Midland Cogent Debentures; 10.33%; 7/23/02	42,670	45,444
Midland Funding II Notes; 11.75%; 7/23/05	20,000	22,400
		75,517
Electronic Components & Accessories (0.17%) Advanced Micro Devices, Inc. Senior Secured Notes; 11.00%; 8/1/03	70,000	75,950
Digital Equipment Debenture Notes; 8.63%; 11/1/12	30,000	29,330
		105,280
Electronic Distribution Equipment (0.41%) Israel Electric Corp. Senior Notes; 7.25%; 12/15/06	250,000 (c)	249,615
Finance Services (0.93%) Lehman Brothers, Inc. Senior Subordinated Notes; 7.25%; 4/15/03	500,000	503,028
TLC Beatrice International Finance Senior Notes; 11.50%; 10/01/05	65,000	69,063
		572,091
Fire, Marine & Casualty Insurance (0.03%) Home Holdings Inc. Senior Notes; 8.63%; 12/15/03	80,000	17,600
Gas Production & Distribution (0.15%) Cleveland Electric Illum Co.; 9.50%; 5/15/05	85,000	91,375
General Government, NEC (0.55%) Republic of Columbia 8.70%; 2/15/16	95,000	94,461
Republic of Columbia Yankee Dollar Bond Note; 7.25%; 2/23/04	250,000	241,629
		336,090

Glass & Glassware, Pressed or Blown (0.17%)		
Owens-Ill. Inc. Debentures; 11.00%; 12/01/03	\$ 95,000	\$ 105,925
Hotels & Motels (0.39%)		
Boyd Gaming Corp. Senior Notes; 9.25%; 10/1/03	50,000	48,750
Courtyard by Marriott Senior Notes; 10.75%; 2/1/08	90,000	94,950
Host Marriott Travel Plaza Senior Notes; 9.50%; 5/15/05	95,000	99,156
		242,856
Metal Cans & Shipping Containers (0.05%)		
U.S. Can Corp. Senior Subordinated Notes; 10.13%; 10/15/06	30,000 (c)	31,500
Metal Mining Services (0.42%)		
PTTEP International, Ltd. Yankee Dollar Notes; 7.63%; 10/1/06	250,000 (c)	256,425
Miscellaneous Amusement, Recreation Service (0.19%)		
Grand Casinos Inc. First Mortgage; 10.13%; 12/1/03	95,000	95,950
Station Casinos, Inc. Senior Subordinated Notes; 9.63%; 6/1/03	20,000	19,800
		115,750
Miscellaneous Converted Paper Products (0.12%)		
SD Warren Co. Senior Subordinated Notes; 12.00%; 12/15/04	70,000	75,600
Miscellaneous Food & Kindred Products (0.05%)		
International Home Foods Senior Subordinated Notes; 10.38%; 11/1/06	30,000 (c)	31,200
Miscellaneous Investing (0.17%)		
HMC Acquisition Properties Senior Notes; 9.00%; 12/15/07	65,000	65,975
Maxxam Group Holdings, Inc. Senior Notes; 12.00%; 8/1/03	40,000 (c)	40,500
		106,475
Miscellaneous Publishing (0.02%)		
Marvel Parent Holding; 4/15/98	100,000 (b)	14,000
Miscellaneous Shopping Goods Stores (0.16%)		
Southland Corp. Senior Subordinated Debentures; 5.00%; 12/15/03	119,000	98,472
Mortgage Bankers & Brokers (0.04%)		
Homeside, Inc. Senior Notes; 11.25%; 5/15/03	20,000	22,300
Oil & Gas Field Services (0.05%)		
Parker Drilling Company Senior Notes; 9.75%; 11/15/06	30,000 (c)	31,575
Paperboard Mills (0.30%)		
Gaylord Container Senior Notes; 11.50%; 5/15/01	\$120,000	\$ 127,650
Gaylord Container Senior Subordinated Debentures; 12.75%; 5/15/05	20,000	22,050
Stone Container Financial Co.; 11.50%; 8/15/06	35,000	35,962
		185,662
Personal Credit Institutions (0.40%)		
GMAC Medium-Term Notes; 6.10%; 12/06/00	250,000	245,925
Radio & Television Broadcasting (0.55%)		
Echostar Satellite Broadcasting Step-Up Senior Discount		

Notes; 3/15/04	190,000 (b) *	145,350
Viacom Subordinated Debentures; 8.00%; 7/7/06	200,000	191,365
		336,715
Retail Stores, NEC (0.09%)		
Cole National Group, Inc. Senior Subordinated Notes; 9.88%; 12/31/06	55,000 (c)	56,650
Sanitary Services (0.18%)		
Norcal Waste Systems Inc. Step-Up Senior Notes; 11/15/05	100,000*	111,000
Soap, Cleaners & Toilet Goods (0.15%)		
Revlon Worldwide Corp. Senior Discount Notes; 3/15/98	105,000 (b)	91,087
Surety Insurance (0.06%)		
Teleport Communications Step-Up Bond; 7/1/07	55,000 (b)	37,675
Telephone Communication (1.24%)		
Brooks Fiber Properties Step-Up Senior Discount Notes; 11/1/06	70,000 (c) (b)	44,625
Comcast Cellular Notes:		
3/5/00	100,000 (b)	72,000
3/5/00	40,000 (b)	28,750
Comcast Corp. Senior Subordinated Debentures; 9.38%; 5/15/05	115,000	119,313
Lenfest Communications Senior Notes; 8.38%; 11/1/05	90,000	86,962
MFS Communications Inc. Step-Up Senior Discount Notes; 1/15/06	190,000 (b)	139,888
Occidente Y Carbide Cellular Step-Up; 3/15/01	130,000 (b) *	76,375
Occidente T Carbide Warrants;	520 (b) *	0
Paging Network, Inc. Senior Subordinated Notes; 10.00%; 10/15/08	60,000 (c)	60,525
10.13%; 8/1/07	20,000	20,475
Philippine Long Distance Telephone Co. Notes; 9.25%; 6/30/06	10,000	10,650
9.25%; 6/30/06	25,000	26,625
Telewest PLC Step-Up Debentures; 10/01/07	\$110,000 (b) \$	76,450
		762,638
Variety Stores (0.20%)		
DR Structured Finance Pass thru Certificates; 7.60%; 8/15/07	134,430	120,514
	Total Bonds	6,382,581
U.S. Government Treasury Notes (14.88%)		
8.00%; 1/15/97	500,000	500,156
6.38%; 5/15/99	2,000,000	2,017,500
6.25%; 5/31/00	3,000,000	3,013,125
6.25%; 4/30/01	2,000,000	2,004,376
7.88%; 11/15/04	1,500,000	1,636,875
	Total U.S. Government Treasury Notes	9,172,032
Government National Mortgage Association (GNMA) Certificates (1.55%)		
	Description of Issue	Principal
	Type Rate Maturity	Amount Value
GNMA I	6.00% 6/15/11	\$991,302 \$ 957,310
	Total Portfolio Investments (96.10%)	59,227,847
Cash and receivables, net of liabilities (3.90%)		\$2,403,291

Total Net Assets (100.00%)

\$61,631,138

- (a) Non-income producing security - No dividend paid during the past twelve months.
- (b) Non-income producing security - zero-and zero-step coupon bonds.
- (c) Restricted Security - See Note 4 to the financial statements.
- * Variable Rate

PRINCIPAL BALANCED FUND, INC.

	Shares Held	Value
Common Stocks (56.09%)		
Advertising (0.26%)		
Interpublic Group of Cos., Inc.	5,100	\$ 242,250
Bakery Products (0.87%)		
Sara Lee Corp.	21,700	808,325
Beverages (0.79%)		
Pepsico, Inc.	20,100	587,925
Universal Foods Corp.	4,300	151,575
		739,500
Combination Utility Services (0.55%)		
Cinergy Corp.	15,400	513,975
Commercial Banks (6.13%)		
Banc One Corp.	22,013	\$ 946,559
Bank of Boston Corp.	13,900	893,075
Corestates Financial Corp.	22,500	1,167,188
First of America Bank Corp.	7,600	456,950
Fleet Financial Group, Inc.	11,600	578,550
KeyCorp.	16,800	848,400
Marshall & Ilsley Corp.	6,000	207,750
Nationsbank Corp.	6,200	606,050
		5,704,522
Commercial Printing (0.63%)		
R. R. Donnelley & Sons Co.	18,700	586,712
Communications Equipment (1.00%)		
Allen Group, Inc.	4,200	93,450
DSC Communications Corp.	15,000 (a)	268,125
General Instrument Corp.	26,100 (a)	564,413
		925,988
Computer & Office Equipment (1.79%)		
Hewlett-Packard Co.	9,700	487,425
International Business Machines Corp.	7,800	1,177,800
		1,665,225
Consumer Products (0.36%)		
Philip Morris Cos., Inc.	3,000	337,875
Crude Petroleum & Natural Gas (1.18%)		
Texaco, Inc.	11,200	1,099,000
Dairy Products (0.31%)		
Dean Foods Co.	9,000	290,250
Drug Stores & Proprietary Stores (0.61%)		
Rite Aid Corp.	14,200	564,450
Drugs (6.22%)		
Abbott Labs	17,000	862,750
American Home Products Corp.	11,500	674,188
Bristol-Myers Squibb Co.	5,000	543,750
Merck & Co., Inc.	12,400	982,700
Pharmacia & Upjohn, Inc.	27,000	1,069,875
Schering-Plough Corp.	14,300	925,925
Warner-Lambert Co.	9,800	735,000
		5,794,188
Electric Services (2.40%)		
Dominion Resources, Inc.	13,600	523,600

FPL Group, Inc.	9,300	427,800
Houston Industries, Inc.	38,100	862,012
Potomac Electric Power Co.	16,400	422,300
		2,235,712
Electrical Industrial Apparatus (0.57%)		
Emerson Electric Co.	5,500	532,125
Electronic Distribution Equipment (1.03%)		
General Electric Co.	9,700	959,088
Fats & Oils (1.24%)		
Archer Daniels Midland Co.	52,695	1,159,290
General Industrial Machinery (0.61%)		
BW/IP Holdings, Inc.; Class A	6,400	\$ 105,600
Pall Corp.	18,200	464,100
		569,700
Grain Mill Products (0.66%)		
Ralston-Ralston Purina Group	8,300	609,012
Greeting Cards (0.67%)		
American Greetings Corp.	22,100	627,088
Grocery Stores (2.52%)		
Albertson's, Inc.	16,800	598,500
American Stores Co.	16,000	654,000
Sysco Corp.	33,500	1,092,937
		2,345,437
Household Furniture (1.59%)		
Masco Corp.	41,100	1,479,600
Industrial Inorganic Chemicals (0.66%)		
Dow Chemical Co.	5,300	415,388
Eastman Chemical Co.	3,550	196,137
		611,525
Jewelry, Silverware & Plated Ware (0.22%)		
Jostens, Inc.	9,700	204,913
Management & Public Relations (1.39%)		
ACNielsen Corp.	6,966 (a)	105,361
Cognizant Corp.	20,900	689,700
Dun & Bradstreet Corp.	20,900	496,375
		1,291,436
Meat Products (1.28%)		
ConAgra, Inc.	4,141	206,015
Tyson Foods, Inc.	28,900	989,825
		1,195,840
Medical Instruments & Supplies (0.67%)		
St. Jude Medical, Inc.	14,750 (a)	628,718
Medical Service & Health Insurance (1.18%)		
AON Corp.	8,750	543,593
Foundation Health Corp.	15,800 (a)	501,650
Physicians Corp. of America	5,000 (a)	50,000
		1,095,243
Metal Forgings & Stampings (0.60%)		
Newell Co.	17,600	554,400
Metalworking Machinery (0.06%)		
Giddings & Lewis	4,600	59,225
Miscellaneous Business Services (0.24%)		
Safety-Kleen Corp.	13,600	222,700
Miscellaneous Converted Paper Products (1.10%)		
Minnesota Mining & Mfg. Co.	12,400	1,027,650
Miscellaneous Electrical Equipment & Supplies (0.78%)		
Motorola, Inc.	11,800	724,225

Miscellaneous Fabricated Metal Products (0.18%)			
Keystone International, Inc.	8,500	\$	171,063
Miscellaneous Plastics Products, NEC (0.20%)			
Rubbermaid, Inc.	8,300		188,825
Miscellaneous Shopping Goods Stores (1.27%)			
Toys 'R' Us, Inc.	39,400 (a)		1,182,000
Motor Vehicles, Parts & Supplies (0.98%)			
Grainger (W. W.), Inc.	11,400		914,850
Paper Mills (1.08%)			
Kimberly Clark Corp.	10,600		1,009,650
Petroleum Refining (2.87%)			
Atlantic Richfield Co.	10,900		1,444,250
Exxon Corp.	12,500		1,225,000
			2,669,250
Plastic Materials & Synthetics (0.10%)			
Wellman, Inc.	5,600		95,900
Sanitary Services (2.50%)			
Browning-Ferris Industries, Inc.	43,600		1,144,500
WMX Technologies, Inc.	36,400		1,187,550
			2,332,050
Security Brokers & Dealers (0.34%)			
Edwards (A.G.), Inc.	9,500		319,437
Soap, Cleaners & Toilet Goods (2.04%)			
Avon Products	19,900		1,136,787
Colgate-Palmolive Co.	8,300		765,675
			1,902,462
Telephone Communication (2.50%)			
AT&T Corp.	23,400		1,017,900
MCI Communications Corp.	40,100		1,310,769
			2,328,669
Variety Stores (1.86%)			
Dayton-Hudson Corp.	25,500		1,000,875
Wal-Mart Stores, Inc.	31,800		727,425
			1,728,300
Total Common Stocks			52,247,643
Preferred Stocks (1.39%)			
Motor Vehicles & Equipment (1.39%)			
Federal-Mogul Corp.			
Series D Convertible	4,300 (b)		260,150
Ford Motor Co.			
Series A Convertible	10,000		1,037,500
Total Preferred Stocks			1,297,650
Bonds (1.64%)			
Blast Furnace & Basic Steel Products (0.22%)			
Quanex Corp. Convertible Subordinated Debentures; 6.88%; 6/30/07	\$200,000	\$	204,000
Electric Lighting & Wiring Equipment (0.24%)			
Cooper Industries, Inc.			
Convertible Subordinated Debentures; 7.05%; 1/1/15	208,000		222,560
Electric Industrial Apparatus (0.31%)			
Liebert Co. Convertible Subordinated Debentures; 8.00%; 11/15/10	80,000		289,100
Engines & Turbines (0.21%)			

Outboard Marine Corp. Convertible Subordinated Debentures; 7.00%; 7/1/02	200,000	195,250
Lumber & Other Building Materials (0.16%) Hechinger Co. Convertible Subordinated Debentures; 5.50%; 4/1/12	425,000	148,219
Petroleum Refining (0.33%) Pennzoil Co. Senior Exchangeable Debentures; 6.50%; 1/15/03	200,000	308,500
Trucking & Courier Services, Ex., Air (0.17%) Builders Transport, Inc. Convertible Subordinated Debentures; 6.50%; 5/1/11	306,000	162,945
Total Bonds		1,530,574
U.S. Government Treasury Notes & Bonds (37.02%)		
5.13%; 2/28/98	2,500,000	2,476,563
5.13%; 11/30/98	3,000,000	2,957,814
6.38%; 1/15/00	1,900,000	1,916,625
5.50%; 4/15/00	3,500,000	3,440,937
6.13%; 9/30/00	3,500,000	3,497,813
6.25%; 4/30/01	3,000,000	3,006,564
6.38%; 8/15/02	2,000,000	2,013,126
6.25%; 2/15/03	3,000,000	2,997,189
5.75%; 8/15/03	4,800,000	4,656,000
7.25%; 8/15/04	1,500,000	1,579,219
7.50%; 2/15/05	800,000	855,750
5.63%; 2/15/06	2,000,000	1,892,500
7.25%; 5/15/16	1,000,000	1,055,938
7.50%; 11/15/16	1,000,000	1,082,188
7.25%; 8/15/22	1,000,000	1,057,813
Total U. S. Government Treasury Notes & Bonds		34,486,039
Commercial Paper (3.91%)		
Business Credit Institutions (2.94%) General Electric Capital Corp. ; 6.65%; 1/2/97	\$2,740,000	\$2,740,000
Personal Credit Institutions (0.97%) Ford Motor Credit Co. ; 5.91%; 1/2/97	905,000	905,000
Total Commercial Paper		3,645,000
Total Portfolio Investments (100.05%)		93,206,906
Liabilities, net of cash and receivables (-0.05%)		(49,237)
Total Net Assets (100.00%)		\$93,157,669

- (a) Non-income producing security - No dividend paid during the past twelve months.
- (b) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL BOND FUND, INC.

	Principal Amount	Value
Bonds (95.83%)		
Air Transportation, Scheduled (1.59%) Federal Express Corp., Pass-Through Cert. ; 7.96%; 3/28/17	\$500,000	\$ 514,735

7.58%; 7/2/19	500,000	491,800
		1,006,535
Aircraft & Parts (0.52%)		
Textron, Inc. Medium-Term Notes, Series C; 9.55%; 3/19/01	300,000	331,469
Auto & Home Supply Stores (0.94%)		
Pep Boys-Manny, Moe & Jack Notes; 7.00%; 6/1/05	600,000	597,691
Bakery Products (1.47%)		
Nabisco, Inc. Notes; 7.05%; 7/15/07	950,000	930,984
Beverages (2.71%)		
Joseph E. Seagram & Sons Guaranteed Debentures; 8.88%; 9/15/11	1,500,000	1,714,734
Broadwoven Fabric Mills, Cotton (2.32%)		
Burlington Industries, Inc. Notes; 7.25%; 9/15/05	1,500,000	1,472,342
Cable & Other Pay TV Services (1.55%)		
TCI Communications, Inc. Senior Notes; 8.00%; 8/1/05	1,000,000	982,799
Combination Utility Services (0.43%)		
Public Service Electric & Gas Medium-Term Notes; 8.16%; 5/26/09	\$250,000	\$ 270,577
Consumer Products (1.25%)		
Philip Morris Cos. Notes; 6.80%; 12/1/03	500,000	492,748
RJR Nabisco Capital Corp. Senior Notes; 8.75%; 4/15/04	300,000	302,625 795,373
Copper Ores (0.48%)		
Asarco, Inc. Notes; 7.38%; 2/1/03	300,000	306,900
Crude Petroleum & Natural Gas (1.26%)		
Occidental Petroleum Corp. Medium-Term Notes; 9.73%; 6/15/01	250,000	278,929
Union Oil of California Medium-Term Notes; 7.77%; 4/19/05	500,000	522,791
		801,720
Deep Sea Foreign Transportation of Freight (1.54%)		
American President Cos., Ltd. Senior Notes; 7.13%; 11/15/03	1,000,000	978,094
Department Stores (4.07%)		
Dillard Investment Co. Notes; 9.25%; 5/1/97	200,000	202,202
Harcourt General, Inc. Subordinated Notes; 9.50%; 3/15/00	350,000	376,948
J. C. Penney Co., Inc. Medium- Term Notes, Series A; 6.88%; 10/15/15	1,500,000	1,414,743
Sears Roebuck Co. Medium-Term Notes; 9.05%; 2/6/12	500,000	586,503
		2,580,396
Drug Stores & Proprietary Stores (2.17%)		
Rite Aid Corp. Senior Debentures; 6.88%; 8/15/13	1,500,000	1,373,653
Eating & Drinking Places (2.44%)		
Marriott International, Inc. Notes; 6.75%; 12/15/03	200,000	196,846
Senior Notes; 7.88%; 4/15/05	1,300,000	1,350,384
		1,547,230
Electric Services (2.16%)		
Cleveland Electric Illuminating Co. First Mortgage Bonds;		

8.75%; 11/15/05	400,000	409,000
Southern California Edison Co. Notes; 6.38%; 1/15/06	1,000,000	957,500
		1,366,500
Engines & Turbines (1.53%) Brunswick Corp. Debentures; 7.38%; 9/1/23	1,000,000	972,673
Fabricated Rubber Products, NEC (0.44%) M. A. Hanna Co. Senior Notes; 9.38%; 9/15/03	250,000	279,712
Farm & Garden Machinery (2.26%) Case Corp. Notes; 7.25%; 1/15/16	\$1,500,000	\$1,431,972
Gas Production & Distribution (2.52%) Enron Corp. Notes; 7.13%; 5/15/07	750,000	754,409
Tennessee Gas Pipeline Co. Notes; 9.00%; 1/15/97	400,000	400,319
Transco Energy Co. Notes; 9.38%; 8/15/01	400,000	440,197
		1,594,925
General Government, NEC (1.67%) Ontario Hydro Debentures; 7.45%; 3/31/13	500,000	516,525
Province of Saskatchewan, Canada Global Notes; 8.00%; 2/1/13	500,000	538,930
		1,055,455
Gold & Silver Ores (1.17%) Placer Dome, Inc. Notes; 7.13%; 6/15/07	750,000	741,332
Grain Mill Products (1.60%) Ralston Purina Co. Debentures; 7.75%; 10/1/15	1,000,000	1,012,928
Groceries & Related Products (2.27%) Supervalu, Inc. Medium-Term Notes, Series B; 6.49%; 12/12/05	1,500,000	1,436,113
Highway & Street Construction (2.91%) Foster Wheeler Corp. Notes; 6.75%; 11/15/05	1,900,000	1,842,021
Hospitals (0.88%) Columbia/HCA Healthcare Corp. Medium-Term Notes; 8.70%; 2/10/10	500,000	559,390
Hotels & Motels (2.43%) Hilton Hotels Corp. Notes; 7.70%; 7/15/02	1,500,000	1,539,246
Household Appliances (0.88%) Maytag Corp. Medium-Term Notes; 8.62%; 11/15/07	500,000	556,271
Household Furniture (0.77%) Masco Corp. Debentures; 7.13%; 8/15/13	500,000	486,540
Industrial Inorganic Chemicals (3.57%) FMC Corp. Senior Notes; 6.38%; 9/1/03	200,000	191,316
7.75%; 7/1/11	1,500,000	1,541,657
Grace (W.R.) & Co. Guaranteed Notes; 8.00%; 8/15/04	500,000	527,870
		2,260,843
Lumber & Construction Materials (2.61%) Crane Co. Notes; 8.50%; 3/15/04	1,524,000	1,655,833
Machinery, Equipment & Supplies (1.15%) AAR Corp. Notes; 7.25%; 10/15/03	\$750,000	\$ 729,422
Metalworking Machinery (0.31%) Black & Decker Corp. Notes;		

7.00%; 2/1/06	200,000	198,156
Millwork, Plywood & Structural Members (1.75%)		
Georgia-Pacific Corp.		
Debentures; 9.50%; 12/1/11	100,000	118,281
Senior Debentures; 7.70%; 6/15/15	1,000,000	990,371
		1,108,652
Miscellaneous Chemical Products (0.63%)		
Ferro Corp. Senior Debentures; 7.63%; 5/1/13	400,000	399,922
Miscellaneous Investing (2.76%)		
Washington Real Estate Investment Trust Senior Notes; 7.25%; 8/13/06	1,000,000	985,787
Weingarten Realty Investors Medium-Term Notes; 7.29%; 5/23/05	750,000	762,774
		1,748,561
Miscellaneous Metal Ores (1.84%)		
Amax, Inc. Notes; 9.88%; 6/13/01	100,000	111,490
Cyprus Amax Minerals Notes; 7.38%; 5/15/07	650,000	655,273
Cyprus Minerals Co. Notes; 10.13%; 4/1/02	350,000	397,742
		1,164,505
Motion Picture Production & Services (0.57%)		
Columbia Pictures Entertainment, Inc. Senior Subordinated Notes; 9.88%; 2/1/98	350,000	363,499
Motor Vehicles & Equipment (1.31%)		
TRW, Inc. Medium-Term Notes; 9.25%; 12/30/11	700,000	827,859
Newspapers (2.54%)		
News America Holdings, Inc. Guaranteed Senior Notes; 8.50%; 2/15/05	1,500,000	1,609,261
Operative Builders (2.44%)		
Pulte Corp. Senior Notes; 8.38%; 8/15/04	1,000,000	1,054,329
7.30%; 10/24/05	500,000	492,016
		1,546,345
Paper Mills (5.30%)		
Bowater, Inc. Debentures; 9.38%; 12/15/21	200,000	238,208
Champion International Corp. Notes; 9.88%; 6/1/00	250,000	274,675
7.10%; 9/1/05	875,000	872,241
Chesapeake Corp. Notes; 7.20%; 3/15/05	1,400,000	1,403,112
Potlatch Corp. Medium-Term Notes; 8.75%; 1/14/22	\$500,000	\$ 572,901
		3,361,137
Personal Credit Institutions (1.62%)		
General Motors Acceptance Corp. Medium-Term Notes; 8.25%; 2/24/04	500,000	539,421
Notes; 6.63%; 10/15/05	500,000	485,609
		1,025,030
Petroleum Refining (4.43%)		
Ashland Oil, Inc. Medium-Term Notes; 7.71%; 5/11/07	500,000	523,198
7.73%; 7/15/13	250,000	257,824
Series F; 8.54%; 1/13/05	250,000	274,043
Pennzoil Co. Debentures; 10.13%; 11/15/09	325,000	380,621
Phillips Petroleum Co. Notes; 9.38%; 2/15/11	500,000	601,111
Sun Co., Inc. Debentures; 9.00%; 11/1/24	500,000	573,617
Notes; 7.13%; 3/15/04	200,000	199,148
		2,809,562

Plastic Materials & Synthetics (3.06%)		
Geon Company Notes;		
6.88%; 12/15/05	2,000,000	1,939,110
Primary Nonferrous Metals (1.06%)		
Reynolds Metals Co.		
Medium-Term Notes;		
8.34%; 5/22/07	500,000	544,565
7.65%; 2/4/08	125,000	129,958
		674,523
Pulp Mills (0.35%)		
International Paper Co. Medium-Term		
Notes; 9.70%; 8/15/00	200,000	220,139
Railroads (1.51%)		
Union Pacific Corp. Notes;		
6.40%; 2/1/06	1,000,000	954,162
Refrigeration & Service		
Machinery (0.55%)		
Westinghouse Electric Corp.		
Debentures; 8.63%; 8/1/12	350,000	351,264
Rental of Railroad Cars (1.73%)		
Gatx Capital Corp. Medium-Term		
Notes, Series C; 6.86%; 10/13/05	1,000,000	984,838
Signal Capital Corp. Equipment Trust		
Cert.; 9.95%; 2/1/06	109,000	114,360
		1,099,198
Sanitary Services (1.72%)		
Laidlaw, Inc. Senior Notes;		
7.88%; 4/15/05	1,045,000	1,092,578
Sawmills & Planning Mills (1.26%)		
MacMillan Bloedel Delaware		
Guaranteed Notes; 8.50%; 1/15/04	750,000	798,000
Telephone Communication (2.38%)		
Sprint Corp. Notes; 8.13%; 7/15/02	500,000	531,471
U.S. West Capital Funding, Inc.		
Medium-Term Notes;		
6.83%; 11/15/07	1,000,000	978,829
		1,510,300
Variety Stores (1.15%)		
Dayton-Hudson Corp. Debentures;		
9.63%; 2/1/08	\$150,000	\$ 176,937
Dayton-Hudson Corp. Sinking Fund		
Debentures; 9.50%; 10/15/16	55,000	57,476
Shopko Stores, Inc. Senior Notes;		
9.00%; 11/15/04	500,000	496,463
		730,876
	Total Bonds	60,744,312
Commercial Paper (2.98%)		
Business Credit Institutions (2.98%)		
General Electric Capital;		
6.65%; 1/2/97	1,890,000	1,890,000
	Total Portfolio Investments (98.84%)	62,634,312
Cash and receivables, net of liabilities (1.19%)		752,249
	Total Net Assets (100.00%)	\$63,386,561

PRINCIPAL CAPITAL ACCUMULATION
FUND, INC.

Shares Held	Value
----------------	-------

Common Stocks (98.79%)

Beverages (2.95%)			
Anheuser Busch Cos., Inc.	100,000	\$ 4,000,000	
Pepsico, Inc.	49,000	1,433,250	
Universal Foods Corp.	17,200	606,300	
			6,039,550
Combination Utility Services (1.73%)			
Cinergy Corp.	58,200	1,942,425	
Montana Power Co.	75,000	1,603,125	
			3,545,550
Commercial Banks (10.69%)			
Banc One Corp.	123,940	5,329,420	
Bank of Boston Corp.	38,300	2,460,775	
Corestates Financial Corp.	104,000	5,395,000	
First of America Bank Corp.	28,700	1,725,588	
KeyCorp	103,000	5,201,500	
Nationsbank Corp.	18,400	1,798,600	
			21,910,883
Commercial Printing (2.56%)			
R. R. Donnelley & Sons Co.	167,000	5,239,625	
Communications Equipment (1.61%)			
Allen Group, Inc.	16,000 (a)	356,000	
DSC Communications Corp.	52,800 (a)	943,800	
General Instrument Corp.	92,800 (a)	2,006,800	
			3,306,600
Computer & Office Equipment (2.37%)			
Hewlett-Packard Co.	33,400	1,678,350	
International Business Machines Corp.	21,000	3,171,000	
			4,849,350
Crude Petroleum & Natural Gas (1.89%)			
Texaco, Inc.	39,400	\$ 3,866,125	
Dairy Products (0.67%)			
Dean Foods Co.	42,500	1,370,625	
Drug Stores & Proprietary Stores (1.12%)			
Rite Aid Corp.	58,000	2,305,500	
Drugs (9.02%)			
Abbott Labs	66,000	3,349,500	
American Home Products Corp.	45,000	2,638,125	
Bristol-Myers Squibb Co.	18,000	1,957,500	
Merck & Co., Inc.	37,000	2,932,250	
Pharmacia & Upjohn, Inc.	137,000	5,428,625	
Warner-Lambert Co.	29,200	2,190,000	
			18,496,000
Electric Services (4.81%)			
Dominion Resources, Inc.	44,400	1,709,400	
FPL Group, Inc.	38,500	1,771,000	
Houston Industries, Inc.	231,000	5,226,375	
Potomac Electric Power Co.	45,000	1,158,750	
			9,865,525
Electrical Industrial Apparatus (1.28%)			
Emerson Electric Co.	27,090	2,620,958	
Electronic Distribution Equipment (1.40%)			
General Electric Co.	29,000	2,867,375	
Farm & Garden Machinery (2.24%)			
Tenneco, Inc.	101,600	4,584,700	
Fats & Oils (1.99%)			
Archer Daniels Midland Co.	185,010	4,070,220	
Gas Production & Distribution (0.23%)			
El Paso Natural Gas	9,448	477,124	
General Industrial Machinery (0.56%)			
BW/IP Holdings, Inc., Class A	23,000	379,500	
Pall Corp.	30,100	767,550	
			1,147,050
Grain Mill Products (1.02%)			
Ralston-Ralston Purina Group	28,600	2,098,525	

Greeting Cards (2.48%)			
American Greetings Corp.	179,000		5,079,125
Grocery Stores (3.23%)			
Albertson's, Inc.	40,600		1,446,375
American Stores Co.	60,000		2,452,500
Sysco Corp.	83,400		2,720,925
			6,619,800
Household Furniture (2.60%)			
Masco Corp.	148,200		5,335,200
Industrial Inorganic Chemicals (1.24%)			
Dow Chemical Co.	22,000	\$	1,724,250
Eastman Chemical Co.	14,900		823,225
			2,547,475
Industrial Organic Chemicals (0.70%)			
Ethyl Corp.	150,000		1,443,750
Jewelry, Silverware & Plated Ware (0.33%)			
Jostens, Inc.	31,700		669,662
Life Insurance (2.55%)			
American General Corp.	128,000		5,232,000
Management & Public Relations (1.35%)			
ACNielsen Corp.	14,966 (a)		226,361
Cognizant Corp.	44,900		1,481,700
Dun & Bradstreet Corp.	44,900		1,066,375
			2,774,436
Meat Products (1.47%)			
Tyson Foods, Inc.	88,000		3,014,000
Medical Instruments & Supplies (1.10%)			
St. Jude Medical, Inc.	53,100 (a)		2,263,388
Medical Service & Health Insurance (1.63%)			
AON Corp.	31,050		1,928,981
Foundation Health Corp.	37,400 (a)		1,187,450
Physicians Corp. of America	22,900 (a)		229,000
			3,345,431
Metal Forgings & Stampings (0.98%)			
Newell Co.	64,000		2,016,000
Metalworking Machinery (0.14%)			
Giddings & Lewis	23,000		296,125
Miscellaneous Business Services (0.35%)			
Safety-Kleen Corp.	43,500		712,312
Miscellaneous Converted Paper Products (1.27%)			
Minnesota Mining & Mfg. Co.	31,400		2,602,275
Miscellaneous Electrical Equipment & Supplies (0.94%)			
Motorola, Inc.	31,400		1,927,175
Miscellaneous Fabricated Metal Products (0.27%)			
Keystone International, Inc.	27,300		549,413
Miscellaneous Shopping Goods Stores (1.59%)			
Toys 'R' Us, Inc.	108,700 (a)		3,261,000
Motor Vehicles, Parts & Supplies (1.42%)			
Grainger (W. W.), Inc.	36,400		2,921,100
Newspapers (2.48%)			
Dow Jones & Co., Inc.	150,000	\$	5,081,250
Paper Mills (1.72%)			
Kimberly Clark Corp.	37,000		3,524,250

Shaw Industries, Inc.	99,300	1,166,775
Chemicals & Allied Products (0.46%)		
Sigma-Aldrich Corp.	10,000	624,375
Commercial Banks (6.55%)		
Boatmen's Bancshares, Inc.	6,100	393,450
First Commerce Corp.	15,600	606,450
First Federal Capital Corp.	40,665	955,627
Independent Bank Corp. Michigan	26,460	893,025
Mercantile Bancorp., Inc.	20,960	1,076,820
Merchants Bancorp., Inc.	21,500	666,500
National City Corp.	20,100	901,988
North Fork Bancorp., Inc.	33,700	1,200,562
Peoples Heritage Financial Group, Inc.	33,300	932,400
Princeton National Bancorp., Inc.	36,000	666,000
Summit Bancorp.	15,900	695,625
		8,988,447
Commercial Printing (0.37%)		
Merrill Corp.	22,300	512,900
Computer & Data Processing Services (7.71%)		
American Management Systems, Inc.	84,500 (a)	2,070,250
Bitstream	102,000 (a)	663,000
Cerner Corp.	116,200 (a)	1,801,100
HBO & Co.	31,500	1,870,312
Microsoft Corp.	29,600 (a)	2,445,700
National Processing, Inc.	21,300 (a)	340,800
Sunquest Information Systems, Inc.	97,300 (a)	1,386,525
		10,577,687
Computer & Office Equipment (3.09%)		
EMC Corp.	81,700 (a)	2,706,312
Optika Imaging Systems	75,000 (a)	376,172
Seagate Technology	4,000 (a)	158,000
Systemsoft Corporation	67,000 (a)	996,625
		4,237,109
Construction & Related Machinery (2.26%)		
Energy Ventures, Inc.	61,000 (a)	3,103,375
Crude Petroleum & Natural Gas (1.52%)		
Devon Energy Corp.	60,000	2,085,000
Dairy Products (0.39%)		
Dreyer's Grand Ice Cream, Inc.	18,200	527,800
Drugs (2.36%)		
Alliance Pharmaceutical Corp.	30,000 (a)	\$ 408,750
Forest Laboratories, Inc.	17,400 (a)	569,850
Genzyme Corp. - General Division	7,182	156,208
Genzyme Corp. - Tissue Repair	255 (a)	1,817
Merck & Co., Inc.	10,000	792,500
Pharmacia & Upjohn, Inc.	32,400	1,283,850
Seragen, Inc.	20,000 (a)	20,000
		3,232,975
Electronic Components & Accessories (7.18%)		
Intel Corp.	37,900	4,962,531
Linear Technology Corp.	46,800	2,053,350
Solelectron Corp.	53,100 (a)	2,834,213
		9,850,094
Engineering & Architectural Services (1.14%)		
Paychex, Inc.	30,400	1,563,700
Finance Services (1.31%)		
First Financial Corp.	73,250	1,794,625
Fire, Marine, & Casualty Insurance (2.19%)		
Avemco Corp.	35,000	546,875
Berkley W.R. Corp.	48,500	2,461,375
		3,008,250
Footwear, Except Rubber (0.78%)		
Nine West Group, Inc.	22,900 (a)	1,061,988

General Industrial Machinery (5.00%)		
Flow International Corp.	101,500 (a)	926,187
Kaydon Corp.	45,600	2,148,900
Pentair, Inc.	54,600	1,760,850
Roper Industries, Inc.	51,500	2,014,938
		6,850,875
Grocery Stores (0.88%)		
Casey's General Stores, Inc.	64,500	1,209,375
Hardware Stores (0.91%)		
Central Tractor Farm & Country, Inc.	90,500 (a)	1,244,375
Holding Offices (0.46%)		
ISB Financial Corp.	35,400	637,200
Hose, Belting, Gaskets & Packing (0.97%)		
Mark IV Industries	58,875	1,332,047
Hospitals (1.91%)		
Humana, Inc.	62,300 (a)	1,191,488
Universal Health Services, Inc.;		
Class B	50,000 (a)	1,431,250
		2,622,738
Insurance Agents, Brokers & Services (1.33%)		
Equifax, Inc.	59,400	1,819,125
Investment Offices (1.21%)		
Invesco PLC ADS	31,300	\$ 1,388,938
Invesco FDG LLC Sponsored ADR	6,260	272,310
		1,661,248
Iron & Steel Foundries (0.39%)		
Atchison Casting Corp.	30,000 (a)	540,000
Laundry, Cleaning & Garment Services (1.02%)		
G & K Services, Inc.; Class A	37,225	1,405,244
Management & Public Relations (0.68%)		
Complete Management, Inc.	72,000	927,000
Measuring & Controlling Devices (1.68%)		
ISCO, Inc.	22,513	202,612
Millipore Corp.	37,100	1,535,013
Photon Dynamics	73,600 (a)	561,200
		2,298,825
Meat Products (0.88%)		
Michael Foods, Inc.	95,200	1,213,800
Medical Instruments & Supplies (4.65%)		
Boston Scientific Corp.	35,200 (a)	2,112,000
Nellcor Puritan Bennett	84,000 (a)	1,837,500
Steris Corp.	55,700 (a)	2,422,950
		6,372,450
Medical Service & Health Insurance (4.65%)		
Alternative Living Services	93,700 (a)	1,358,650
Foundation Health Corp.	40,500 (a)	1,285,875
Health System International, Inc.	52,200 (a)	1,291,950
Orthofix International NV	77,600 (a)	640,200
Patient Info Systems	59,000 (a)	545,750
United Healthcare Corp.	27,900	1,255,500
		6,377,925
Metal Services, NEC (1.88%)		
BMC Industries, Inc.	81,900	2,579,850
Miscellaneous Chemical Products (3.67%)		
Cytec Industries	48,200 (a)	1,958,125
H. B. Fuller Co.	20,000	940,000
Loctite Corp.	35,100	2,136,712
		5,034,837
Office Furniture (1.28%)		
Chromcraft Revington, Inc.	36,200 (a)	1,004,550
Kimball International, Inc.; Class B	18,200	753,025

		1,757,575	
Office & Clinics of Medical Doctors (0.09%)			
FHP International Corp.	3,400 (a)	126,225	
Oil & Gas Field Services (1.40%)			
Diamond Offshore Drilling	33,700 (a)	1,920,900	
Operative Builders (1.32%)			
D. R. Horton, Inc.	131,200	1,426,800	
Pulte Corp.	12,621	388,096	
		1,814,896	
Paints & Allied Products (0.89%)			
RPM, Inc.	71,700	1,218,900	
Plastic Materials & Synthetics (0.91%)			
A. Schulman, Inc.	51,000	\$ 1,249,500	
Plumbing, Heating, Air-Conditioning (1.71%)			
Apogee Enterprises, Inc.	57,000	2,265,750	
Metalclad Corp.	45,600 (a)	82,650	
		2,348,400	
Refrigeration & Service Machinery (0.60%)			
Tecumseh Products Co.; Class A	14,400	826,200	
Sanitary Services (1.03%)			
Browning-Ferris Industries, Inc.	46,600	1,223,250	
USA Waste Services, Inc.	5,847 (a)	186,373	
		1,409,623	
Savings Institutions (1.08%)			
North Side Savings Bank	15,000	817,500	
Sterling Financial Corp.	46,900 (a)	662,463	
		1,479,963	
Screw Machine Products, Bolts, Etc. (1.00%)			
TriMas Corp.	57,500	1,372,812	
Security Brokers & Dealers (0.66%)			
Jefferies Group, Inc.	22,400	904,400	
Telephone Communication (0.83%)			
McLeod, Inc.	44,500 (a)	1,134,750	
Toys & Sporting Goods (1.05%)			
Mattel, Inc.	51,700	1,434,675	
Trucking & Courier Services, Ex. Air (0.36%)			
J. B. Hunt Transport Services, Inc.	35,500	497,000	
	Total Common Stocks	117,312,246	
Preferred Stock (0.44%)			
Offices & Clinics of Medical Doctors (0.44%)			
FHP International Corp. Series A Convertible	20,000 (a)	610,000	
	Principal Amount	Value	
Bonds (1.55%)			
Computer & Data Processing Services (0.25%)			
Sierra On Line Convertible Subordinated Debentures; 6.50%; 4/1/01	\$110,000 (b)	\$ 345,125	
Industrial Inorganic Chemicals (0.35%)			
Ciba-Geigy Corp. Exchangeable Subordinated Debentures; 6.25%; 3/15/16	150,000 (b)	150,000	
ICN Pharmaceuticals, Inc. Convertible			

Subordinated Debentures; 8.50%; 11/15/99	\$300,000	\$ 325,500
		475,500
Management & Public Relations (0.73%)		
Complete Management, Inc. Convertible Debentures; 8.00%; 12/15/03	1,000,000	1,005,000
Nursing & Personal Care Facilities (0.14%)		
Greenery Rehabilitation Group, Inc. Convertible Senior Subordinated Notes; 8.75%; 4/1/15	250,000	192,187
Sanitary Services (0.08%)		
Enclean, Inc. Convertible Subordinated Debentures; 7.50%; 8/1/01	100,000	102,339
Total Bonds		2,120,151
Commercial Paper (12.28%)		
Business Credit Institutions (4.27%)		
American Express Credit Corp.;		
5.50%; 1/10/97	2,850,000	2,846,517
General Electric Capital Corp.;		
5.78%; 1/7/97	3,015,000	3,012,579
		5,859,096
Personal Credit Institutions (2.97%)		
Beneficial Corp.;		
5.80%; 1/8/97	1,460,000	1,458,589
Household Finance Corp.;		
5.62%; 1/6/97	2,610,000	2,608,370
		4,066,959
Security Brokers & Dealers (5.04%)		
Merrill Lynch & Co.;		
5.85%; 1/3/97	2,830,000	2,829,540
5.95%; 1/9/97	1,250,000	1,248,554
Smith Barney, Inc.;		
5.60%; 1/2/97	2,840,000	2,840,000
		6,918,094
Total Commercial Paper		16,844,149
Total Portfolio Investments (99.80%)		136,886,546
Cash and Receivables, net of liabilities (0.20%)		274,335
Total Net Assets (100.00%)		\$137,160,881

(a) Non-income producing security - No dividend paid during the past twelve months.

(b) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL GOVERNMENT SECURITIES
FUND, INC.

Description of Issue			Principal	
Type	Rate	Maturity	Amount	Value
Government National Mortgage Association (GNMA) Certificates (32.28%)				
GNMA I	6.50%	5/15/26	\$1,000,000	\$ 955,380
GNMA I	7.00	1/15/24	844,300	830,107
GNMA I	8.00	10/15/16-6/15/17	1,916,985	1,985,086
GNMA I	8.50	2/15/17-5/15/21	1,862,038	1,962,849
GNMA II	6.00	6/20/24-9/20/26	19,468,917	17,972,068
GNMA II	6.50	12/20/25-2/20/26	3,958,038	3,770,587
Total GNMA Certificates				27,476,077

Federal National Mortgage Association (FNMA)
Certificates (18.45%)

FNMA	5.50	5/1/24	1,177,323	1,051,491
FNMA	6.00	11/1/23-3/1/26	4,062,985	3,779,118
FNMA	6.50	11/1/23-6/1/26	6,613,120	6,323,071
FNMA	7.00	TBA*	1,000,000	978,180
FNMA	7.00	8/1/23	786,901	772,926
FNMA	7.50	4/1/22	1,051,299	1,058,395
FNMA	8.00	6/1/17-11/1/21	793,649	816,254
FNMA GL	6.50	8/15/25	963,731	920,642

Total FNMA Certificates 15,700,077

Federal Home Loan Mortgage Corporation (FHLMC) Certificates (16.69%)

FHLMC	5.50	2/1/24-3/1/24	1,511,637	1,378,673
FHLMC	6.00	12/1/23-1/1/26	2,819,464	2,627,584
FHLMC	6.50	4/1/24-5/1/26	5,298,220	5,078,155
FHLMC	7.00	9/1/23-1/1/24	2,565,534	2,530,318
FHLMC	7.50	2/1/22-6/1/24	1,499,723	1,509,795
FHLMC	8.00	11/1/21	752,170	772,531
FHLMC GL	7.50	3/1/23	301,178	302,910

Total FHLMC Certificates 14,199,966

Principal
Amount Value

Student Loan Marketing Association (SLMA)
Certificates (16.19%)

Student Loan Marketing Association

Debentures;

7.30%; 8/1/12	\$10,000,000	\$10,316,899
8.47%; 12/1/08	1,000,000	1,136,995
9.15%; 12/1/04	1,200,000	1,381,893
Notes; 6.13%; 12/1/05	560,000	537,816
Notes; 9.25%; 6/1/04	350,000	403,353

Total SLMA Certificates 13,776,956

Private Export Funding Corporation (PEFCO)
Certificates (15.60%)

Private Export Funding Corp.

Secured Notes;

6.62%; 10/1/05	\$2,000,000	\$1,985,080
9.45%; 12/31/99	4,500,000	4,894,200
Series SS, Senior Secured Notes;		
5.50%; 3/15/01	3,325,000	3,225,849
5.80%; 2/1/04	2,200,000	2,140,292
7.03%; 10/31/03	1,000,000	1,027,240

Total PEFCO Certificates 13,272,661

Federal Agency Short-Term Obligations (1.06%)

Federal Home Loan Mortgage Corp.;

1/2/97	900,000	900,000
--------	---------	---------

Total Portfolio Investments (100.27%) 85,325,737

Liabilities, net of cash and receivables (-0.27%) (225,879)

Total Net Assets (100.00%) \$85,099,858

* Securities purchased on a to-be-announced basis.

PRINCIPAL GROWTH FUND, INC.

Shares

	Held	Value
Common Stocks (91.96%)		
Advertising (1.20%)		
Interpublic Group of Cos., Inc.	25,300	\$1,201,750
Beverages (1.70%)		
Coca-Cola Co.	8,800	463,100
Pepsico, Inc.	42,100	1,231,425
		1,694,525
Blast Furnace & Basic Steel Products (0.68%)		
Lukens, Inc.	33,600	676,200
Carpets & Rugs (0.64%)		
Shaw Industries, Inc.	54,800	643,900
Cash Grains (1.92%)		
Pioneer Hi-Bred International	27,400	1,918,000
Commercial Banks (6.21%)		
Banc One Corp.	16,500	709,500
Bank of Boston Corp.	11,000	706,750
Barnett Banks Inc.	10,000	411,250
Boatmen's Bancshares, Inc.	18,700	1,206,150
CoreStates Financial Corp.	12,300	638,063
First of America Bank Corp.	11,700	703,462
Firststar Corp.	15,000	787,500
Firstmerit Corp.	14,600	518,300
Princeton National Bancorp., Inc.	27,300	505,050
		6,186,025
Communications Equipment (3.99%)		
General Instrument Corp.	75,800 (a)	\$1,639,175
Northern Telecom Ltd.	18,700	1,157,063
Octel Communications Corp.	67,200 (a)	1,176,000
		3,972,238
Computer & Data Processing Services (3.01%)		
GTECH Holdings Corp.	47,800 (a)	1,529,600
Microsoft Corp.	17,800 (a)	1,470,725
		3,000,325
Computer & Office Equipment (6.12%)		
Automatic Data Processing, Inc.	20,000	857,500
Bay Networks	45,600 (a)	951,900
Ceridian Corp.	37,400 (a)	1,514,700
Digital Equipment Corp.	30,800 (a)	1,120,350
Hewlett-Packard Co.	27,500	1,381,875
Pitney Bowes, Inc.	5,000	272,500
		6,098,825
Department Stores (0.60%)		
May Department Stores	12,800	598,400
Drugs (7.52%)		
Alliance Pharmaceutical Corp.	10,000 (a)	136,250
Bristol-Myers Squibb Co.	10,000	1,087,500
Genzyme Corp. - General Division	9,500 (a)	206,625
Johnson & Johnson	20,000	995,000
Lilly (Eli) & Co.	20,000	1,460,000
Merck & Co., Inc.	14,600	1,157,050
Pharmacia & Upjohn, Inc.	27,500	1,089,687
Smithkline Beecham PLC ADR	20,000	1,360,000
		7,492,112
Eating & Drinking Places (0.32%)		
McDonald's Corp.	7,000	316,750
Electrical Goods (0.73%)		
Avnet, Inc.	12,500	728,125
Electronic Components & Accessories (3.94%)		
Intel Corp.	17,300	2,265,219
Linear Technology Corp.	37,800	1,658,475
		3,923,694
Electronic Distribution Equipment (0.50%)		
General Electric Co.	5,000	494,375

Federal & Federally Sponsored Credit (0.41%)		
Federal National Mortgage Association	11,000	409,750
Footwear, Except Rubber (1.70%)		
Stride Rite Corp.	169,300	1,693,000
General Industrial Machinery (2.85%)		
Flow International Corp.	42,100 (a)	384,163
Ingersoll-Rand Co.	20,400	907,800
Tyco International Ltd.	29,200	1,543,950
		2,835,913
Grain Mill Products (1.39%)		
Ralcorp Holdings, Inc.	15,000 (a)	316,875
Ralston-Ralston Purina Group	14,600	1,071,275
		1,388,150
Grocery Stores (0.40%)		
Casey's General Stores, Inc.	21,200	\$ 397,500
Hose, Belting, Gaskets & Packing (1.33%)		
Mark IV Industries	58,500	1,323,562
Hospitals (2.75%)		
Columbia/HCA Healthcare Corp.	24,900	1,014,675
Humana, Inc.	45,500 (a)	870,188
Universal Health Services, Inc. ; Class B	30,000 (a)	858,750
		2,743,613
Household Furniture (1.26%)		
Masco Corp.	34,900	1,256,400
Investment Offices (1.12%)		
Invesco FDG LLC Sponsored ADR	4,200 (a)	182,700
Invesco PLC ADS	21,000	931,875
		1,114,575
Knitting Mills (0.30%)		
Russell Corp.	10,000	297,500
Lumber & Other Building Materials (1.38%)		
Home Depot, Inc.	27,400	1,373,425
Management & Public Relations (2.37%)		
ACNielsen Corp.	1,666 (a)	25,198
Cognizant Corp.	5,000	165,000
Dun & Bradstreet Corp.	5,000	118,750
Medaphis Corp.	183,000 (a)	2,047,313
		2,356,261
Medical Instruments & Supplies (4.89%)		
Becton, Dickinson & Co.	20,000	867,500
Boston Scientific Corp.	41,100 (a)	2,466,000
Nellcor Puritan Bennett	70,200 (a)	1,535,625
		4,869,125
Medical Service & Health Insurance (3.43%)		
AON Corp.	11,700	726,862
Foundation Health Corp.	31,600 (a)	1,003,300
Health System International, Inc.	21,000 (a)	519,750
United Healthcare Corp.	15,000	675,000
Value Health, Inc.	25,000 (a)	487,500
		3,412,412
Millwork, Plywood & Structural Members (1.01%)		
Georgia-Pacific Corp.	14,000	1,008,000
Miscellaneous Chemical Products (0.61%)		
Loctite Corp.	10,000	608,750
Miscellaneous Converted Paper Products (0.54%)		
Minnesota Mining & Mfg. Co.	6,500	538,687
Miscellaneous Electrical Equipment &		

Supplies (1.68%)		
Motorola, Inc.	27,300	1,675,537
Miscellaneous Fabricated Metal Products (0.95%)		
Parker-Hannifin Corp.	24,300	\$ 941,625
Miscellaneous Plastics Products, NEC (0.23%)		
Rubbermaid, Inc.	10,000	227,500
Miscellaneous Shopping Goods Stores (0.45%)		
Toys 'R' Us, Inc.	15,000 (a)	450,000
Motor Vehicles & Equipment (3.35%)		
Chrysler Corp.	60,200	1,986,600
Dana Corp.	41,300	1,347,413
		3,334,013
Offices & Clinics of Medical Doctors (0.98%)		
FHP International Corp.	26,200 (a)	972,675
Office Furniture (0.42%)		
Chromcraft Revington, Inc.	15,100 (a)	419,025
Operative Builders (0.60%)		
Pulte Corp.	19,300	593,475
Paints & Allied Products (0.43%)		
RPM, Inc.	25,000	425,000
Petroleum Refining (2.23%)		
Atlantic Richfield Co.	5,800	768,500
Exxon Corp.	14,800	1,450,400
		2,218,900
Photographic Equipment & Supplies (0.01%)		
Imation Corp.	380 (a)	10,688
Plastic Materials & Synthetics (0.83%)		
A. Schulman, Inc.	33,600	823,200
Preserved Fruits & Vegetables (0.86%)		
CPC International, Inc.	11,100	860,250
Radio, Television & Computer Stores (0.22%)		
Tandy Corp.	5,000	220,000
Radio & Television Broadcasting (0.91%)		
Sinclair Broadcasting Group	35,000 (a)	910,000
Refrigeration & Service Machinery (0.97%)		
Tecumseh Products Co.; Class A	16,800	963,900
Rubber & Plastics Footwear (1.20%)		
Nike, Inc.	20,000	1,195,000
Sanitary Services (1.26%)		
Browning-Ferris Industries, Inc.	29,300	769,125
WMX Technologies, Inc.	15,000	489,375
		1,258,500
Security Brokers & Dealers (0.97%)		
Salomon, Inc.	20,400	\$ 961,350
Shoe Stores (0.06%)		
Payless Shoesource Inc.	1,600 (a)	60,000
Soap, Cleaners & Toilet Goods (3.11%)		
Colgate-Palmolive Co.	11,700	1,079,325
Ecolab, Inc.	46,400	1,745,800
International Flavors & Fragrances, Inc.	6,000	270,000
		3,095,125
Toys & Sporting Goods (1.00%)		
Mattel, Inc.	35,950	997,612
Variety Stores (0.34%)		
Wal-Mart Stores, Inc.	15,000	343,125

Women's & Children's Undergarments (2.08%)		
Warnaco Group; Class A	69,800	2,067,825
Total Common Stock		91,596,192
Preferred Stock (0.37%)		
Offices & Clinics of Medical Doctors (0.37%)		
FHP International Corp.; Series A Convertible	12,182	371,551
	Principal Amount	Value
Commercial Paper (7.00%)		
Business Credit Institutions (1.90%)		
American Express Credit Corp.; 5.80%; 1/7/97	\$1,900,000	\$1,898,469
Personal Credit Institutions (3.34%)		
Beneficial Corp.; 5.95%; 1/3/97	1,255,000	1,254,793
Ford Motor Credit Co.; 5.91%; 1/2/97	2,070,000	2,070,000
		3,324,793
Security Brokers & Dealers (1.76%)		
Merrill Lynch & Co., Inc. 6.20%; 1/6/97	1,755,000	1,753,791
Total Commercial Paper		6,977,053
Total Portfolio Investments (99.33%)		98,944,796
Cash and receivables, net of liabilities (0.67%)		667,114
Total Net Assets (100.00%)		\$99,611,910

(a) Non-income producing security - No dividend paid during the past twelve months.

PRINCIPAL HIGH YIELD FUND, INC.

	Principal Amount	Value
Bonds (90.48%)		
Aircraft & Parts (2.03%)		
Rohr Industries, Inc. Subordinated Debentures; 9.25%; 3/1/17	\$300,000	\$ 279,000
Blast Furnace & Basic Steel Products (3.24%)		
Ivaco Senior Notes; 11.50%; 9/15/05	150,000	148,875
Weirton Steel Corp. Senior Notes; 10.75%; 6/1/05	300,000	297,000
		445,875
Broadwoven Fabric Mills, Cotton (2.21%)		
J.P. Stevens & Co. Inc. Sinking Fund Debentures; 9.00%; 3/1/17	300,000	303,750
Cable & Other Pay TV Services (3.72%)		
Jones Intercable, Inc. Senior Notes; 9.63%; 3/15/02	300,000	315,000

TCI Communications, Inc. Debentures; 8.75%; 8/1/15	200,000	196,656
		511,656
Cogeneration - Small Power Producer (3.50%)		
AES Corp. Senior Subordinated Notes; 10.25%; 7/15/06	300,000	322,500
California Energy Co., Inc. Ltd. Resource Senior Secured Notes; 9.88%; 6/30/03	150,000	158,250
		480,750
Computer & Data Processing Services (2.41%)		
Tenet Healthcare Corp. Senior Subordinated Notes; 10.13%; 3/1/05	300,000	331,500
Consumer Products (2.92%)		
RJR Nabisco, Inc. Senior Notes; 8.75%; 8/15/05	400,000	401,641
Crude Petroleum & Natural Gas (4.22%)		
Chesapeake Energy Corp. Senior Notes; 9.13%; 4/15/06	150,000	155,625
Nuevo Energy Co. Senior Subordinated Notes; 9.50%; 4/15/06	400,000	424,000
		579,625
Electric Services (1.15%)		
El Paso Electric Co. First Mortgage Bonds, Series D; 8.90%; 2/1/06	150,000	158,250
Electrical Industrial Apparatus (1.51%)		
Motors & Gears, Inc., Series A Senior Notes; 10.75%; 11/15/06	200,000 (a)	207,000
Electronic Components & Accessories (2.37%)		
Advanced Micro Devices, Inc.; 11.00%; 8/1/03	\$300,000	\$ 325,500
Engines & Turbines (2.03%)		
Outboard Marine Corp. Debentures; 9.13%; 4/15/17	300,000	279,000
Footwear, Except Rubber (0.73%)		
Brown Group, Inc. Senior Notes; 9.50%; 10/15/06	100,000	100,750
Forest Products (2.04%)		
Doman Industries, Ltd. Senior Notes; 8.75%; 3/15/04	300,000	279,750
Fuel Dealers (2.23%)		
Petroleum Heat & Power Co., Inc. Subordinated Notes; 10.13%; 4/1/03	300,000	306,000
General Government, NEC (1.04%)		
Republic of Argentina Global Bonds; 8.38%; 12/20/03	150,000	142,500
Groceries & Related Products (2.07%)		
Rykoff-Sexton, Inc. Senior Subordinated Notes; 8.88%; 11/1/03	300,000	285,000
Grocery Stores (3.51%)		
Dominick's Finer Foods, Inc. Senior Subordinated Notes; 10.88%; 5/1/05	150,000	166,500
Ralph's Grocery Co. Senior Subordinated Notes; 11.00%; 6/15/05	300,000	315,750
		482,250
Hotels & Motels (2.17%)		
John Q. Hammons Hotels, L.P. & Finance Corp. First Mortgage		

Notes; 8.88%; 2/15/04	300,000	297,750
Industrial Inorganic Chemicals (1.51%) PT Tri Polyta Indonesia TBK; 11.38%; 12/1/03	200,000	208,000
Knitting Mills (2.36%) Tultex Corp. Senior Notes; 10.63%; 3/15/05	300,000	324,750
Miscellaneous Amusement, Recreation Service (1.15%) Rio Hotel & Casino, Inc. Senior Subordinated Notes; 10.63%; 7/15/05	150,000	157,500
Miscellaneous Plastics Products, NEC (2.17%) Congoleum Corp. Senior Notes; 9.00%; 2/1/01	300,000	298,500
Motor Vehicles & Equipment (2.58%) Blue Bird Body Company Senior Subordinated Notes; 10.75%; 11/15/06	\$50,000	\$ 52,500
Lear Seating Corp. Subordinated Notes; 8.25%; 2/1/02	300,000	302,250
		354,750
Nonferrous Foundries (Casting) (1.19%) Howmet Corp. Senior Subordinated Notes; 10.00%; 12/1/03	150,000	163,500
Nursing & Personal Care Facilities (2.14%) Mariner Health Group, Inc. Senior Subordinated Notes; 9.50%; 4/1/06	300,000	294,000
Oil & Gas Field Services (0.77%) Parker Drilling Company Senior Notes; 9.75%; 11/15/06	100,000 (a)	105,250
Petroleum Refining (2.23%) Crown Central Petroleum Corp. Senior Notes; 10.88%; 2/1/05	300,000	306,750
Primary Nonferrous Metals (0.38%) Euramax International PLC Senior Subordinated Notes; 11.25%; 10/1/06	50,000 (a)	51,625
Pulp Mills (2.64%) Magnetek, Inc. Senior Subordinated Debentures; 10.75%; 11/15/98	350,000	363,125
Radio, Television & Computer Stores (2.24%) Compusa, Inc. Senior Subordinated Notes; 9.50%; 6/15/00	300,000	307,500
Radio & Television Broadcasting (3.24%) American Radio Systems Senior Subordinated Notes; 9.00%; 2/1/06	300,000	295,500
Sullivan Broadcasting Inc. Senior Subordinated Notes; 10.25%; 12/15/05	150,000	150,375
		445,875
Retail Stores, NEC (1.50%) Cole National Group, Inc. Senior Subordinated Notes; 9.88%; 12/31/06	200,000 (a)	206,000
School Buses (1.51%) Lamar Advertising Company Senior Subordinated Notes; 9.63%; 12/1/06	200,000	207,000
Soap, Cleaners & Toilet Goods (2.32%) Coty, Inc. Senior Subordinated Notes; 10.25%; 5/1/05	300,000	318,750

Telephone Communication (10.79%)		
360 Communications Co.		
Senior Notes; 7.50%; 3/1/06	\$150,000	\$ 148,813
Paging Network, Inc. Senior		
Debentures; 8.88%; 2/1/06	300,000	286,125
Rogers Cablesystems Ltd. Senior		
Secured Second Priority Notes;		
9.63%; 8/1/02	250,000	261,250
Rogers Cantel Inc. Senior Secured		
Debentures; 9.75%; 6/1/16	300,000	315,000
Telecom Argentina Stet-France		
Telecom SA Senior Notes;		
12.00%; 11/15/02	150,000	168,375
Vanguard Cellular Systems, Inc.		
Senior Debentures; 9.38%; 4/15/06	300,000	303,000
		1,482,563
Textile Finishing, Except Wool (2.23%)		
Dominion Textile (USA) Inc.		
Guaranteed Senior Notes;		
9.25%; 4/1/06	300,000	306,000
Water Supply (2.43%)		
California Energy Casecan Water &		
Energy Co., Inc. Senior Secured		
Bonds Series B; 11.95%; 11/15/10	300,000	333,750
Total Bonds		12,432,735
Commercial Paper (7.28%)		
Federal & Federally Sponsored		
Credit (7.28%)		
FHLMC Commercial Paper;		
5.40%; 1/2/97	1,000,000	1,000,000
Total Portfolio Investments (97.76%)		13,432,735
Cash and receivables, net of liabilities (2.24%)		307,608
Total Net Assets (100.00%)		\$13,740,343

(a) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL MONEY MARKET FUND, INC.

	Principal Amount	Value
Commercial Paper (84.65%)		
Asset Backed Securities (8.89%)		
Corporate Asset Funding Co.;		
5.55%; 1/28/97	\$500,000	\$ 497,996
5.55%; 1/29/97	275,000	273,855
Retailer Funding Corp. Notes;		
5.65%; 1/23/97	500,000	498,352
5.60%; 1/30/97	750,000	746,733
Ciesco L.P.;		
5.50%; 1/16/97	850,000	848,182
5.65%; 1/22/97	500,000	498,431
5.60%; 1/31/97	750,000	746,617
		4,110,116
Business Credit Institutions (7.74%)		
AON Corp.;		
5.31%; 1/17/97	\$750,000	\$ 748,340
5.30%; 2/7/97	600,000	596,820
CIT Group Holdings, Inc.;		
5.31%; 2/28/97	400,000	396,637
5.28%; 6/2/97	750,000	733,390
General Electric Capital Corp.;		
5.29%; 1/24/97	500,000	498,384
International Lease Finance Corp.;		
5.55%; 1/17/97	605,000	603,601
		3,577,172
Computer & Office Equipment (3.83%)		
Xerox Credit Corp.;		

5.38%; 1/24/97	180,000	179,409
5.65%; 1/22/97	475,000	473,509
5.32%; 2/4/97	125,000	124,390
5.50%; 2/5/97	1,000,000	994,806
		1,772,114
Department Stores (1.49%)		
Sears Roebuck Acceptance Corp.;		
5.31%; 3/11/97	350,000	346,489
5.39%; 5/19/97	350,000	342,821
		689,310
Drugs (0.79%)		
Abbott Laboratories;		
5.95%; 1/9/97	365,000	364,578
Electric Services (5.75%)		
AES Shady Point, Inc.;		
5.42%; 1/10/97	500,000	499,398
5.42%; 1/13/97	150,000	149,751
Commed Fuel Co., Inc.;		
LOC Canadian Imperial Bank of Commerce;		
5.31%; 2/26/97	125,000	123,986
5.32%; 2/25/97	400,000	396,749
5.31%; 2/25/97	400,000	396,814
LOC Credit Suisse; 5/37%; 2/11/97	750,000	745,525
Florida Power Corp.;		
5.55%; 1/28/97	350,000	348,597
		2,660,820
Finance Services (4.62%)		
Mitsubishi International Corp.;		
5.34%; 1/27/97	700,000	697,404
5.40%; 2/10/97	500,000	497,075
5.32%; 3/3/97	325,000	322,118
5.35%; 3/3/97	375,000	371,656
5.43%; 3/17/97	250,000	247,210
		2,135,463
Foreign Banks, Branches & Agencies (2.97%)		
Barclays U.S. Funding;		
5.73%; 1/3/97	625,000	624,901
5.50%; 1/21/97	750,000	747,823
		1,372,724
Forest Products (2.15%)		
Weyerhaeuser Co.;		
5.50%; 2/6/97	1,000,000	994,653
Gas Production & Distribution (0.99%)		
Washington Gas Light Co.;		
5.65%; 2/7/97	460,000	457,401
Investment Offices (3.99%)		
Morgan Stanley Group, Inc.;		
5.43%; 1/7/97	\$500,000	\$ 499,623
5.43%; 1/15/97	600,000	598,824
5.37%; 2/12/97	750,000	745,413
		1,843,860
Miscellaneous Investing (1.62%)		
MLTC Funding, Inc.;		
LOC Citibank, N.A.;		
5.32%; 1/21/97	400,000	398,877
5.33%; 1/24/97	350,000	348,860
		747,737
Mortgage Bankers & Brokers (0.56%)		
Countrywide Home Loan, Inc.;		
5.46%; 1/15/97	260,000	259,487
Motor Vehicles & Equipment (4.73%)		
Echlin, Inc.;		
5.40%; 1/6/97	250,000	249,850
5.34%; 1/16/97	350,000	349,273
5.38%; 1/16/97	300,000	299,372
5.42%; 1/29/97	400,000	398,374
5.36%; 3/14/97	500,000	494,715
5.41%; 3/18/97	400,000	395,492
		2,187,076
Personal Credit Institutions (7.77%)		

Comoloco Inc.;		
5.40%; 2/10/97	500,000	497,075
5.32%; 2/27/97	500,000	495,862
5.50%; 5/23/97	250,000	244,615
5.38%; 7/24/97	500,000	484,831
Ford Motor Credit Co.;		
5.34%; 1/30/97	250,000	248,962
General Motors Acceptance Corp.;		
5.35%; 1/17/97	150,000	149,666
5.45%; 1/24/97	150,000	149,501
5.60%; 3/3/97	125,000	123,833
5.67%; 3/7/97	400,000	395,968
5.70%; 3/10/97	200,000	197,878
5.68%; 3/14/97	250,000	247,199
Norwest Financial, Inc.;		
5.30%; 2/18/97	360,000	357,509
		3,592,899
Real Estate Operators & Lessors (3.02%)		
Towson Town Center, Inc.; LOC		
Bank of Tokyo-Mitsubishi, Ltd.;		
5.60%; 1/16/97	400,000	399,128
5.40%; 1/17/97	200,000	199,550
5.40%; 1/17/97	300,000	299,325
5.55%; 2/19/97	500,000	496,300
		1,394,303
Security Brokers & Dealers (14.42%)		
Bear Stearns Cos.;		
5.50%; 1/31/97	700,000	696,899
Goldman Sachs Group, L.P.;		
5.45%; 1/8/97	575,000	574,478
5.35%; 2/14/97	825,000	819,728
5.37%; 2/14/97	400,000	397,434
5.32%; 3/21/97	375,000	370,677
Security Brokers & Dealers (Con't)		
Merrill Lynch & Co., Inc.;		
5.45%; 1/9/97	\$500,000	\$ 499,470
5.34%; 1/13/97	150,000	149,755
5.33%; 1/22/97	225,000	224,334
5.33%; 1/23/97	500,000	498,445
5.33%; 1/23/97	200,000	199,378
5.35%; 2/13/97	575,000	571,411
Smith Barney Inc.;		
5.42%; 1/2/97	700,000	700,000
5.40%; 1/3/97	500,000	499,925
5.45%; 1/3/97	300,000	299,955
5.55%; 1/3/97	170,000	169,974
		6,671,863
Soap, Cleaners & Toilet Goods (0.49%)		
Procter & Gamble Co.;		
5.55%; 1/7/97	225,000	224,827
Subdividers & Developers (4.41%)		
Hartz 667 Commercial Paper Corp.;		
LOC Bank of Tokyo-Mitsubishi, Ltd.;		
5.42%; 1/14/97	1,000,000	998,193
5.67%; 2/3/97	750,000	746,220
5.40%; 2/3/97	300,000	298,560
		2,042,973
Tires & Inner Tubes (4.42%)		
Bridgestone/Firestone;		
LOC Sumitomo Bank Ltd.;		
5.55%; 1/6/97	750,000	749,538
5.50%; 1/8/97	400,000	399,633
6.00%; 1/9/97	400,000	399,533
5.37%; 1/13/97	500,000	499,180
		2,047,884
		Total Commercial Paper
		39,147,310
Bank Notes (4.00%)		
Commercial Banks (4.00%)		
LaSalle National Bank;		
5.56%; 3/6/97	300,000	300,000
5.47%; 3/15/97	300,000	300,000
5.77%; 4/25/97	350,000	350,000
5.72%; 4/30/97	400,000	400,000
6.20%; 8/21/97	500,000	500,000

	Total Bank Notes	1,850,000
Bonds (9.61%)		
Business Credit Institutions (2.16%)		
John Deere Capital Corp.		
Medium-Term Notes, Series C;		
5.95%; 6/30/97	1,000,000	999,444
Electric Services (1.09%)		
Southern California Edison Co. Ref.		
Mortgage; 6.13%; 7/15/97	500,000	501,335
Personal Credit Institutions (6.36%)		
American General Finance Corp.;		
7.70%; 11/15/97	\$500,000	\$ 508,455
Associates Corp. of North America		
Senior Notes;		
8.63%; 6/15/97	1,000,000	1,012,035
6.75%; 7/15/97	500,000	502,280
Ford Motor Credit Co.;		
5.63%; 3/3/97	415,000	415,074
Household Finance Corp. Notes;		
6.25%; 10/15/97	500,000	501,899
		2,939,743
	Total Bonds	4,440,522
U.S. Government Treasury Bill (1.41%)		
Treasury Bill (1.41%)		
U.S. Government Treasury Bill;		
5.09%; 3/6/97	660,000	654,077
	Total Portfolio Investments (99.67%)	46,091,909
Cash and receivables, net of liabilities (0.33%)		152,340
	Total Net Assets (100.00%)	\$46,244,249

PRINCIPAL WORLD FUND, INC.

	Shares Held	Value
Common Stocks (94.61%)		
Aircraft & Parts (0.03%)		
Cemex SA	6,936	\$ 24,891
Beverages (1.21%)		
Lion Nathan	362,000	867,047
Blast Furnace & Basic Steel Products (1.27%)		
Voest-Alpine Stahl	25,700 (b)	913,290
Cement, Hydraulic (0.06%)		
Apasco SA	6,320	43,354
Central Reserve Depositories (5.23%)		
Banco Totta & Acores	23,000	433,185
Barclays PLC	83,048	1,421,911
Ergo Bank	3,800	192,611
Union Bank of Norway	12,800	400,916
Wing Hang Bank	286,000	1,297,816
		3,746,439
Combination Utility Services (2.51%)		
ABB AG	905	1,122,218
Iberdrola 1 SA	47,600	673,334
		1,795,552
Commercial Banks (7.62%)		
ABN-AMRO Holdings NV	12,235	795,042

Bank of Ireland	116,449	1,063,155
Fokus Bank	119,000 (b)	\$ 818,135
Grupo Financiero Bancomer; Series B	235,000 (a)	94,036
National Australia Bank Ltd.	89,885	1,056,606
Siam City Bank	555,000	519,500
Svenska Handelsbanken AB Free	40,500	1,115,110
		5,461,584
Communications Services, NEC (1.03%)		
KPN Royal PTT Nederland	19,389	738,688
Computer & Office Equipment (0.12%)		
Canon, Inc.	4,000	88,222
Concrete, Gypsum & Plaster Products (0.02%)		
Cementos de Mexico SA	3,200	12,439
Construction & Related Machinery (0.78%)		
Powerscreen International PLC	58,100	561,760
Consumer Products (1.90%)		
Imasco Ltd.	55,700	1,365,422
Crude Petroleum & Natural Gas (0.62%)		
Hardy Oil & Gas	86,200	443,280
Deep Sea Foreign Transportation of Freight (0.50%)		
Van Ommeren NV	7,900	356,239
Department Stores (0.75%)		
Vendex International	12,500	534,041
Drugs (4.05%)		
Elan Corp. PLC ADR	23,400 (a)	778,050
Galenica Holdings AG	480	170,877
Roussel-Uclaf	2,970	872,364
Teva Pharmaceutical ADR	21,500	1,080,375
		2,901,666
Electric Light & Wiring Equipment (0.33%)		
Clipsal Industries Holdings	25,000	91,000
Otra NV	8,300	142,513
		233,513
Electric Services (1.12%)		
Korea Electric Power Corp.	8,100	235,671
Korea Mobil Telecommunications Corp.	290	156,404
Northern Ireland Electric	63,400	413,372
		805,447
Electronic Components & Accessories (2.71%)		
Amtek Engineering	391,250	777,567
Elec & Eltek International	268,000	1,018,400
Murata Mfg.	1,000	33,170
Varitronix	63,000	114,027
		1,943,164
Electronic Distribution Equipment (3.42%)		
Amper SA	38,000	869,114
Phillips Electronics	28,900	\$1,169,542
Techtronic Industries Co.	2,800	416,290
		2,454,946
Engines & Turbines (2.38%)		
Mabuchi Motor	1,400	70,320
PT United Tractors	372,000	779,428
Scapa Group PLC	204,000	855,308
		1,705,056
Farm & Garden Machinery (1.31%)		
New Holland NV	45,000 (a)	939,375
Finance Services (1.34%)		
MBF Capital Berhad	592,000	961,075

Foreign Banks, Branches & Agencies (0.05%)		
Shinhan Bank	2,740 (a)	37,268
Forest Products (0.17%)		
Metsa-Serla	16,000	119,765
Functions Closely Related to Banking (0.87%)		
Liechtenstein Global Trust AG	1,225	625,856
Gas Production & Distribution (1.62%)		
Hafslund ASA	5,467	37,415
OMV AG	9,950	1,120,800
		1,158,215
Highway & Street Construction (0.38%)		
BAU Holdings AG	3,030	151,227
Edrasis Psallidas	14,664	124,820
		276,047
Holding Offices (1.21%)		
First Pacific Co. Ltd.	666,382	865,824
Household Appliances (1.00%)		
Fisher & Paykel	182,086	714,012
Household Audio & Video Equipment (0.88%)		
SKF 'B' Free	26,800	633,888
Industrial Inorganic Chemicals (2.12%)		
Bayer AG	20,100	814,507
Kemira OY	56,000 (a) (b)	704,707
		1,519,214
Investment Offices (1.41%)		
Invesco Funding	37,800 (a)	167,863
Invesco PLC	189,000	839,316
		1,007,179
Meat Products (7.06%)		
AFFCO Holdings	1,147,265	502,562
Danisco AS	22,000	1,335,163
Davomas Abadi	780,000	701,587
Orkla B Ordinary Shares	21,300	1,350,977
Unilever NV	6,630	1,171,350
		5,061,639
Medical Instruments & Supplies (0.12%)		
Nycomed	5,467	83,905
Miscellaneous Chemical Products (3.43%)		
Hoechst AG	22,500	\$1,040,971
Novartis AG	1,238	1,414,204
		2,455,175
Miscellaneous Durable Goods (1.02%)		
Hagemeyer NV	9,175	732,520
Miscellaneous Equipment Rental & Leasing (1.36%)		
Insituto Mobiliiane Italian	114,000	974,679
Miscellaneous Food & Kindred Products (0.57%)		
Burns, Philp & Co., Ltd.	230,631	410,322
Miscellaneous Furniture & Fixtures (0.08%)		
Pt Surya Toto	29,000	57,693
Miscellaneous Manufacturers (0.57%)		
Carter Holt Harvey Ltd.	181,000	410,504
Miscellaneous Non-Durable Goods (1.97%)		
Grand Metropolitan PLC	179,500	1,409,949
Miscellaneous Plastics Products, NEC (0.62%)		
Royal Plastics Group	24,100 (b)	445,725

Miscellaneous Textile Goods (0.72%)		
Espirit Asia	1,158,000	512,754
Miscellaneous Transportation Equipment (0.54%)		
Autoliv AB	8,900	389,732
Miscellaneous Transportation Services (0.23%)		
Koninklijke Pakhoed NV	5,281	164,865
Miscellaneous Wood Products (0.25%)		
Enso OY	22,300	179,019
Motor Vehicles & Equipment (1.74%)		
E.C.I.A. Equipment & Composants	4,600	709,634
Hyundai Motor Co. Ltd. GDR	25,000 (b)	173,750
Volvo AB	16,450	362,583
		1,245,967
Motor Vehicles, Parts & Supplies (1.06%)		
Dahl International AB	36,000 (a)	756,588
Newspapers (1.57%)		
Marcoiberica Distribucion de Edicicoues	58,500	618,393
Publishing & Broadcasting Ltd.	104,000	505,527
		1,123,920
Oil & Gas Field Services (1.55%)		
Repsol Petroleo SA	28,960	1,108,751
Personal Credit Institutions (0.28%)		
Manhattan Card Co.	402,000	\$ 203,988
Plastic Materials & Synthetics (1.21%)		
Astra AB	18,000	867,308
Primary Nonferrous Metals (0.46%)		
British Steel PLC	121,300	333,167
Pulp Mills (1.65%)		
Lassila & Tikanoja Ltd. OY	10,700	677,890
UPM-Kymmene OY	24,140	505,425
		1,183,315
Railroad Equipment (0.23%)		
Vae AG	1,470	166,670
Security Brokers & Dealers (1.27%)		
Peregrine Investment Holdings	526,000	901,035
Peregrine Investment - Warrants	38,800 (a)	12,415
		913,450
Security & Commodity Services (1.62%)		
Corporacion Bancaria de Espania SA	26,000	1,161,330
Ship & Boat Building & Repairing (0.21%)		
Unitor Ships Service	11,930	153,203
Soap, Cleaners, & Toilet Goods (1.29%)		
Reckitt & Colman PLC	74,350	921,183
Special Industry Machinery (1.21%)		
Bobst SA	205	276,342
IHC Caland NV	7,700	439,367
Sulzer AG	290	154,641
		870,350
Sugar & Confectionary Products (3.23%)		
Nestle	1,125	1,203,992
Tate & Lyle	137,000	1,111,284
		2,315,276
Telephone Communication (6.69%)		
Cable & Wireless PLC	64,000	531,735
Investec Consultadoria Internacional	8,600 (a)	265,894
Nokia Corp.; Class A ADR	23,800	1,371,475
Tele Danmark B	8,500	468,307

Telecom Italia-DI	448,200	872,523
Telefonica de Espana SA	49,700	1,151,993
Telefonos de Mexico SA ADR	4,050	133,650
		4,795,577
Water Supply (0.26%)		
Wessex Water PLC	28,596	184,005
Water Transportation of Freight, NEC (0.52%)		
ICB Shipping AB 'B' Free	32,000	374,925
Total Common Stocks		67,821,212
Bonds (1.07%)		
Fire, Marine & Casualty Insurance (1.07%)		
Alfa SA Convertible Subordinated Debentures; 8.00%; 9/15/00	\$700,000 (b)	\$ 766,500
Commercial Paper (4.54%)		
Business Credit Institutions (2.93%)		
General Electric Capital Corp.;		
6.65%; 1/2/97	2,100,000	2,100,000
Personal Credit Institutions (1.61%)		
Ford Motor Credit Co.;		
5.91%; 1/2/97	1,155,000	1,155,000
Total Commercial Paper		3,255,000
Total Portfolio Investments (100.22%)		71,842,712
Liabilities, net of cash and receivables (-0.22%)		(160,697)
Total Net Assets (100.00%)		\$71,682,015

- (a) Non-Income producing security - No dividend paid during the period.
(b) Restricted security - See Note 4 to the financial statements.

Principal World Fund, Inc. Investments by Country

Country	Total Market Value	Percentage of Total Market Value
Australia	\$ 1,972,456	2.75%
Austria	2,351,987	3.27
Canada	1,811,148	2.52
Denmark	1,803,470	2.51
Finland	3,558,281	4.95
France	1,581,998	2.20
Germany	1,855,478	2.58
Greece	317,431	0.45
Hong Kong	4,324,148	6.02
Indonesia	1,538,708	2.14
Israel	1,080,375	1.50
Italy	1,847,203	2.57
Japan	191,712	0.27
Korea	603,094	0.84
Malaysia	961,075	1.34
Mexico	1,074,869	1.50
Netherlands	7,183,542	10.00
New Zealand	2,494,126	3.47
Norway	2,844,551	3.96
Portugal	699,079	0.97
Singapore	1,886,967	2.63
Spain	5,582,915	7.77
Sweden	4,500,134	6.26
Switzerland	4,968,129	6.92
Thailand	519,500	0.72
United Kingdom	11,035,336	15.36
United States	3,255,000	4.53

See accompanying notes.

<TABLE>
<CAPTION>
FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

	Income from Investment Operations			Less Distributions		
	Net Asset Value at Beginning of Period	Net Invest- ment Income	Net Realized and Unrealized Gain (Loss) on Investments	Total from Investment Operations	Dividends from Net Investment Income	Distributions from Capital Gains
PRINCIPAL AGGRESSIVE GROWTH FUND INC.						
Year Ended December 31,						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1996	\$12.94	\$.11	\$3.38	\$3.49	\$ (.11)	\$ (1.80)
1995	10.11	.13	4.31	4.44	(.13)	(1.48)
Period Ended December 31, 1994 (d)	9.92	.05	.24	.29	(.05)	(.05)
PRINCIPAL ASSET ALLOCATION FUND, INC.						
Year Ended December 31,						
1996	11.11	.36	1.06	1.42	(.36)	(.69)
1995	9.79	.40	1.62	2.02	(.40)	(.30)
Period Ended December 31, 1994 (d)	9.98	.23	(.18)	.05	(.23)	--
PRINCIPAL BALANCED FUND, INC.						
Year Ended December 31,						
1996	13.97	.40	1.41	1.81	(.40)	(.94)
1995	11.95	.45	2.44	2.89	(.45)	(.42)
1994	12.77	.37	(.64)	(.27)	(.37)	(.18)
1993	12.58	.42	.95	1.37	(.42)	(.76)
Six Months Ended December 31, 1992 (a)	12.93	.23	.75	.98	(.47)	(.86)
Year Ended June 30, 1992	11.33	.47	1.61	2.08	(.48)	--
PRINCIPAL BOND FUND, INC.						
Year Ended December 31,						
1996	11.73	.68	(.40)	.28	(.68)	--
1995	10.12	.62	1.62	2.24	(.63)	--
1994	11.16	.72	(1.04)	(.32)	(.72)	--
1993	10.77	.88	.38	1.26	(.87)	--
Six Months Ended December 31, 1992 (a)	11.08	.45	.13	.58	(.89)	--
Year Ended June 30, 1992	10.64	.91	.46	1.37	(.93)	--
PRINCIPAL CAPITAL ACCUMULATION FUND, INC.						
Year Ended December 31,						
1996	27.80	.57	5.82	6.39	(.58)	(3.77)
1995	23.44	.60	6.69	7.29	(.60)	(2.33)
1994	24.61	.62	(.49)	.13	(.61)	(.69)
1993	25.19	.61	1.32	1.93	(.60)	(1.91)
Six Months Ended December 31, 1992 (a)	26.03	.31	1.84	2.15	(.64)	(2.35)
Year Ended June 30, 1992	23.35	.65	2.70	3.35	(.67)	--
PRINCIPAL EMERGING GROWTH FUND, INC.						
Year Ended December 31,						
1996	25.33	.22	5.07	5.29	(.22)	(.66)
1995	19.97	.22	5.57	5.79	(.22)	(.21)
1994	20.79	.14	.03	.17	(.14)	(.85)
1993	18.91	.17	3.47	3.64	(.17)	(1.59)
Six Months Ended December 31, 1992 (a)	15.97	.10	3.09	3.19	(.21)	(.04)
Year Ended June 30, 1992	13.93	.21	2.04	2.25	(.21)	--

</TABLE>

<TABLE>
<CAPTION>
FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

	Excess Distributions from Capital Gains		Total Distributions	Net Asset Value at End of Period	Total Return	Net Assets at End of Period (in thousands)	Ratio of Expenses to Average Net Assets
PRINCIPAL AGGRESSIVE GROWTH FUND INC.							
Year Ended December 31,							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1996	\$ --	\$ (1.91)	\$14.52	28.05%	\$90,106	.85%	
1995	--	(1.61)	12.94	44.19%	33,643	.90%	
Period Ended December 31, 1994 (d)	--	(.10)	10.11	2.59% (c)	13,770	1.03% (b)	
PRINCIPAL ASSET ALLOCATION FUND, INC.							
Year Ended December 31,							
1996	--	(1.05)	11.48	12.92%	61,631	.87%	
1995	--	(.70)	11.11	20.66%	41,074	.89%	
Period Ended December 31, 1994 (d)	(.01)	(.24)	9.79	.52% (c)	28,041	.95% (b)	
PRINCIPAL BALANCED FUND, INC.							
Year Ended December 31,							
1996	--	(1.34)	14.44	13.13%	93,158	.63%	
1995	--	(.87)	13.97	24.58%	45,403	.66%	
1994	--	(.55)	11.95	(2.09)%	25,043	.69%	
1993	--	(1.18)	12.77	11.06%	21,399	.69%	
Six Months Ended December 31, 1992 (a)	--	(1.33)	12.58	8.00% (c)	18,842	.73% (b)	
Year Ended June 30, 1992	--	(.48)	12.93	18.78%	17,344	.72%	
PRINCIPAL BOND FUND, INC.							
Year Ended December 31,							
1996	--	(.68)	11.33	2.36%	63,387	.53%	
1995	--	(.63)	11.73	22.17%	35,878	.56%	
1994	--	(.72)	10.12	(2.90)%	17,108	.58%	
1993	--	(.87)	11.16	11.67%	14,387	.59%	
Six Months Ended December 31, 1992 (a)	--	(.89)	10.77	5.33% (c)	12,790	.62% (b)	
Year Ended June 30, 1992	--	(.93)	11.08	13.57%	12,024	.62%	
PRINCIPAL CAPITAL ACCUMULATION FUND, INC.							
Year Ended December 31,							
1996	--	(4.35)	29.84	23.50%	205,019	.49%	
1995	--	(2.93)	27.80	31.91%	135,640	.51%	
1994	--	(1.30)	23.44	.49%	120,572	.51%	
1993	--	(2.51)	24.61	7.79%	128,515	.51%	
Six Months Ended December 31, 1992 (a)	--	(2.99)	25.19	8.81% (c)	105,355	.55% (b)	
Year Ended June 30, 1992	--	(.67)	26.03	14.53%	94,596	.54%	
PRINCIPAL EMERGING GROWTH FUND, INC.							
Year Ended December 31,							
1996	--	(.88)	29.74	21.11%	137,161	.66%	
1995	--	(.43)	25.33	29.01%	58,520	.70%	
1994	--	(.99)	19.97	.78%	23,912	.74%	
1993	--	(1.76)	20.79	19.28%	12,188	.78%	
Six Months Ended December 31, 1992 (a)	--	(.25)	18.91	20.12% (c)	9,693	.81% (b)	
Year Ended June 30, 1992	--	(.21)	15.97	16.19%	7,829	.82%	

</TABLE>

<TABLE>
<CAPTION>
FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate	Average Commission Rate
PRINCIPAL AGGRESSIVE GROWTH FUND INC.			
<S> Year Ended December 31,	<C>	<C>	<C>
1996	1.05%	166.9%	\$.0541
1995	1.34%	172.9%	N/A
Period Ended December 31, 1994 (d)	1.06% (b)	105.6% (b)	N/A

PRINCIPAL ASSET ALLOCATION FUND, INC.			
Year Ended December 31,			
1996	3.45%	108.2%	.0497
1995	4.07%	47.1%	N/A
Period Ended December 31, 1994 (d)	4.27% (b)	60.7% (b)	N/A

PRINCIPAL BALANCED FUND, INC.			
Year Ended December 31,			
1996	3.45%	22.6%	.0417
1995	4.12%	25.7%	N/A
1994	3.42%	31.5%	N/A
1993	3.30%	15.8%	N/A
Six Months Ended December 31, 1992 (a)	3.71% (b)	38.4% (b)	N/A
Year Ended June 30, 1992	3.80%	26.6%	N/A

PRINCIPAL BOND FUND, INC.			
Year Ended December 31,			
1996	7.00%	1.7%	N/A
1995	7.28%	5.9%	N/A
1994	7.86%	18.2%	N/A
1993	7.57%	14.0%	N/A
Six Months Ended December 31, 1992 (a)	8.10% (b)	6.7% (b)	N/A
Year Ended June 30, 1992	8.47%	6.1%	N/A

PRINCIPAL CAPITAL ACCUMULATION FUND, INC.			
Year Ended December 31,			
1996	2.06%	48.5%	.0426
1995	2.25%	49.2%	N/A
1994	2.36%	44.5%	N/A
1993	2.49%	25.8%	N/A
Six Months Ended December 31, 1992 (a)	2.56% (b)	39.7% (b)	N/A
Year Ended June 30, 1992	2.65%	34.8%	N/A

PRINCIPAL EMERGING GROWTH FUND, INC.			
Year Ended December 31,			
1996	1.07%	8.8%	.0379
1995	1.23%	13.1%	N/A
1994	1.15%	12.0%	N/A
1993	.89%	22.4%	N/A
Six Months Ended December 31, 1992 (a)	1.24% (b)	8.6% (b)	N/A
Year Ended June 30, 1992	1.33%	10.1%	N/A

<FN>
See accompanying notes.

</FN>
</TABLE>

<TABLE>
<CAPTION>

FINANCIAL HIGHLIGHTS (Continued)

Selected data for a share of Capital Stock outstanding throughout each period:

Income from Investment Operations	Less Distributions

Net Realized and	

	Net Asset Value at Beginning of Period	Net Invest- ment Income	Unrealized Gain (Loss) on Investments	Total from Investment Operations	Dividends from Net Investment Income	Distributions from Capital Gains
PRINCIPAL GOVERNMENT SECURITIES FUND, INC.						
Year Ended December 31,						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1996	\$10.55	\$.59	\$ (.24)	\$.35	\$ (.59)	\$ --
1995	9.38	.60	1.18	1.78	(.61)	--
1994	10.61	.76	(1.24)	(.48)	(.75)	--
1993	10.28	.71	.33	1.04	(.71)	--
Six Months Ended December 31, 1992(a)	10.93	.40	.04	.44	(.78)	--
Year Ended June 30, 1992	10.24	.80	.71	1.51	(.81)	--

PRINCIPAL GROWTH FUND, INC.

Year Ended December 31,						
1996	12.43	.16	1.39	1.55	(.16)	(.03)
1995	10.10	.17	2.42	2.59	(.17)	--
Period Ended December 31, 1994(e)	9.60	.07	.51	.58	(.08)	--

PRINCIPAL HIGH YIELD FUND, INC.

Year Ended December 31,						
1996	8.39	.80	.30	1.10	(.77)	--
1995	7.91	.76	.51	1.27	(.77)	(.02)
1994	8.62	.77	(.72)	.05	(.76)	--
1993	8.38	.80	.23	1.03	(.79)	--
Six Months Ended December 31, 1992(a)	8.93	.45	(.10)	.35	(.90)	--
Year Ended June 30, 1992	8.28	.92	.66	1.58	(.93)	--

PRINCIPAL MONEY MARKET FUND, INC.

Year Ended December 31,						
1996	1.000	.049	--	.049	(.049)	--
1995	1.000	.054	--	.054	(.054)	--
1994	1.000	.037	--	.037	(.037)	--
1993	1.000	.027	--	.027	(.027)	--
Six Months Ended December 31, 1992(a)	1.000	.016	--	.016	(.016)	--
Year Ended June 30, 1992	1.000	.046	--	.046	(.046)	--

PRINCIPAL WORLD FUND, INC.

Year Ended December 31,						
1996	10.72	.22	2.46	2.68	(.22)	(.16)
1995	9.56	.19	1.16	1.35	(.18)	--
Period Ended December 31, 1994(e)	9.94	.03	(.33)	(.30)	(.05)	(.02)

</TABLE>

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

	Excess Distributions from Capital Gains	Total Distributions	Net Asset Value at End of Period	Total Return
PRINCIPAL GOVERNMENT SECURITIES FUND, INC.				
Year Ended December 31,				
<S>	<C>	<C>	<C>	<C>
1996	\$ --	\$ (.59)	\$10.31	3.35%
1995	--	(.61)	10.55	19.07%
1994	--	(.75)	9.38	(4.53)%
1993	--	(.71)	10.61	10.07%
Six Months Ended December 31, 1992(a)	(.31)	(1.09)	10.28	4.10% (c)
Year Ended June 30, 1992	(.01)	(.82)	10.93	15.34%

PRINCIPAL GROWTH FUND, INC.

Year Ended December 31,

1996	--	(.19)	13.79	12.51%
1995	(.09)	(.26)	12.43	25.62%
Period Ended December 31, 1994 (e)	--	(.08)	10.10	5.42% (c)

PRINCIPAL HIGH YIELD FUND, INC.

Year Ended December 31,				
1996	--	(.77)	8.72	13.13%
1995	--	(.79)	8.39	16.08%
1994	--	(.76)	7.91	.62%
1993	--	(.79)	8.62	12.31%
Six Months Ended December 31, 1992 (a)	--	(.90)	8.38	4.06% (c)
Year Ended June 30, 1992	--	(.93)	8.93	20.70%

PRINCIPAL MONEY MARKET FUND, INC.

Year Ended December 31,				
1996	--	(.049)	1.000	5.07%
1995	--	(.054)	1.000	5.59%
1994	--	(.037)	1.000	3.76%
1993	--	(.027)	1.000	2.69%
Six Months Ended December 31, 1992 (a)	--	(.016)	1.000	1.54% (c)
Year Ended June 30, 1992	--	(.046)	1.000	4.64%

PRINCIPAL WORLD FUND, INC.

Year Ended December 31,				
1996	--	(.38)	13.02	25.09%
1995	(.01)	(.19)	10.72	14.17%
Period Ended December 31, 1994 (e)	(.01)	(.08)	9.56	(3.37) % (c)

</TABLE>

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

Ratios/Supplemental Data

	Net Assets at End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate	Average Commission Rate
PRINCIPAL GOVERNMENT SECURITIES FUND, INC.					
Year Ended December 31,					
<S> <C>	<C>	<C>	<C>	<C>	<C>
1996	\$85,100	.52%	6.46%	8.4%	N/A
1995	50,079	.55%	6.73%	9.8%	N/A
1994	36,121	.56%	7.05%	23.2%	N/A
1993	36,659	.55%	7.07%	20.4%	N/A
Six Months Ended December 31, 1992 (a)	31,760	.59% (b)	7.35% (b)	34.5% (b)	N/A
Year Ended June 30, 1992	33,022	.58%	7.84%	38.9%	N/A

PRINCIPAL GROWTH FUND, INC.

Year Ended December 31,					
1996	99,612	.52%	1.61%	2.0%	\$.0401
1995	42,708	.58%	2.08%	6.9%	N/A
Period Ended December 31, 1994 (e)	13,086	.75% (b)	2.39% (b)	0.9% (b)	N/A

PRINCIPAL HIGH YIELD FUND, INC.

Year Ended December 31,					
1996	13,740	.70%	9.21%	32.0%	N/A
1995	11,830	.73%	9.09%	35.1%	N/A
1994	9,697	.73%	9.02%	30.6%	N/A
1993	9,576	.74%	8.80%	28.7%	N/A
Six Months Ended December 31, 1992 (a)	8,924	.77% (b)	10.33% (b)	20.6% (b)	N/A
Year Ended June 30, 1992	8,556	.77%	11.00%	31.3%	N/A

PRINCIPAL MONEY MARKET FUND, INC.

Year Ended December 31,					
1996	46,244	.56%	5.00%	N/A	N/A
1995	32,670	.58%	5.32%	N/A	N/A

1994	29,372	.60%	3.81%	N/A	N/A
1993	22,753	.60%	2.64%	N/A	N/A
Six Months Ended December 31, 1992(a)	27,680	.59%(b)	3.10%(b)	N/A	N/A
Year Ended June 30, 1992	25,194	.57%	4.54%	N/A	N/A

PRINCIPAL WORLD FUND, INC.

Year Ended December 31,					
1996	71,682	.90%	2.28%	12.5%	.0120
1995	30,566	.95%	2.26%	15.6%	N/A
Period Ended December 31, 1994(e)	13,746	1.24%(b)	1.31%(b)	14.4%(b)	N/A

<FN>

See accompanying notes.

</FN>

</TABLE>

Notes to Financial Highlights

- (a) Effective July 1, 1992 the fund changed its fiscal year end from June 30 to December 31.
- (b) Computed on an annualized basis.
- (c) Total return amounts have not been annualized.
- (d) Period from June 1, 1994, date shares first offered to public, through December 31, 1994. Net investment income, aggregating \$.01 per share for Principal Aggressive Growth Fund, Inc. and \$.01 per share for Principal Asset Allocation Fund, Inc. for the period from the initial purchase of shares on May 23, 1994 through May 31, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, Principal Aggressive Growth Fund, Inc. and Principal Asset Allocation Fund, Inc. incurred unrealized losses on investments of \$.09 and \$.03 per share, respectively, during the initial interim period. This represented activities of each fund prior to the initial public offering of fund shares.
- (e) Period from May 1, 1994, date shares first offered to public, through December 31, 1994. Net investment income, aggregating \$.01 per share for Principal Growth Fund, Inc. and \$.04 per share for Principal World Fund, Inc. for the period from the initial purchase of shares on March 23, 1994 through April 30, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, Principal Growth Fund, Inc. and Principal World Fund, Inc. incurred unrealized losses on investments of \$.41 and \$.10 per share, respectively, during the initial interim period. This represented activities of each fund prior to the initial public offering of fund shares.

REPORT OF INDEPENDENT AUDITORS

The Boards of Directors and Shareholders
Principal Aggressive Growth Fund, Inc.
Principal Asset Allocation Fund, Inc.
Principal Balanced Fund, Inc.
Principal Bond Fund, Inc.
Principal Capital Accumulation Fund, Inc.
Principal Emerging Growth Fund, Inc.
Principal Government Securities Fund, Inc.
Principal Growth Fund, Inc.
Principal High Yield Fund, Inc.
Principal Money Market Fund, Inc.
Principal World Fund, Inc.

We have audited the accompanying statements of assets and liabilities of Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc., and Principal World Fund, Inc., including the schedules of investments, as of December 31, 1996, and the related statements of operations for the year then ended, the statements of changes in net assets for the period of two years then ended and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a

test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1996, by correspondence with the custodians and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc., and Principal World Fund, Inc. at December 31, 1996, and the results of their operations for the year then ended, the changes in their net assets for the period of two years then ended and the financial highlights for each of the periods indicated therein, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Des Moines, Iowa
January 17, 1997

To Principal Mutual Life Insurance Company Customers

Equity and fixed income markets showed continued strength in 1997. A robust economy and few, if any, inflationary worries have resulted in large stock gains and stable bond prices so far this year.

However, investors should recognize that this extraordinary stock market rise cannot be expected to continue indefinitely. To prepare for this potential decline, you are reminded of the three, time-tested tools used by most successful investors. These tools include: maintaining a long-term focus, investing regularly and consistently and diversifying among asset classes.

As you may already know, the Principal Mutual Funds act as underlying investment options with several different Principal Mutual Life Insurance Company variable annuity and variable life products. See your contract prospectus for a description of the Funds.

Recently, you were sent a proxy mailing for the Principal Mutual Funds. The Board of Directors of the Funds has reviewed several issues and asked that they be placed on a ballot for your consideration. The issues were explained in greater detail in the proxy statement. Fund directors are recommending a "yes" vote. Every vote is important. So, please complete and return your proxy card(s) promptly.

We thank you for helping us to enjoy another successful year and look forward to serving your future investment and insurance needs. We hope that you find the information contained within this Semiannual Report both useful and informative.

CONTENTS

	Page
Financial Statements and Financial Highlights	
Statements of Assets and Liabilities.....	2
Statements of Operations	4
Statements of Changes in Net Assets.....	6
Notes to Financial Statements.....	10
Schedules of Investments	
Principal Aggressive Growth Fund, Inc.....	18
Principal Asset Allocation Fund, Inc.....	19
Principal Balanced Fund, Inc.....	25
Principal Bond Fund, Inc.....	27
Principal Capital Accumulation Fund, Inc.....	29
Principal Emerging Growth Fund, Inc.....	31
Principal Government Securities Fund, Inc.....	33
Principal Growth Fund, Inc.....	34
Principal High Yield Fund, Inc.....	36
Principal Money Market Fund, Inc.....	38
Principal World Fund, Inc.....	40
Financial Highlights.....	44

<TABLE>
<CAPTION>
June 30, 1997

STATEMENTS OF ASSETS AND LIABILITIES

(unaudited)

	Principal Aggressive Growth Fund, Inc.	Principal Asset Allocation Fund, Inc.	Principal Balanced Fund, Inc.	Principal Bond Fund, Inc.
<S>	<C>	<C>	<C>	<C>
Investment in securities -- at cost.....	\$ 89,799,677	\$59,014,380	\$100,020,999	\$69,466,629
Assets				
Investment in securities -- at value (Note 4).....	\$103,974,021	\$65,779,589	\$112,427,518	\$70,370,487
Cash	6,964,282	5,823,943	2,000	2,001
Receivables:				
Dividends and interest.....	115,103	372,000	829,247	1,490,973
Investment securities sold.....	597,008	471,029	--	--
Capital Stock sold.....	164,471	28,015	86,186	5,560
Total Assets	111,814,885	72,474,576	113,344,951	71,869,021
Liabilities				
Accrued expenses.....	77,634	49,148	56,873	30,068

Payables:				
Investment securities purchased.....	1,222,825	533,356	--	--
Capital Stock reacquired.....	1,000,000	--	--	27,188
Total Liabilities	2,300,459	582,504	56,873	57,256
Net Assets Applicable to Outstanding Shares.....	\$109,514,426	\$71,892,072	\$113,288,078	\$71,811,765
Capital Stock (par value: \$.01 a share)				
Shares authorized.....	100,000,000	100,000,000	100,000,000	100,000,000
Shares issued and outstanding.....	6,844,217	5,719,959	7,152,926	6,151,944
Net Asset Value Per Share.....	\$16.00	\$12.57	\$15.84	\$11.67
Net Assets Consist of:				
Capital Stock.....	\$ 68,442	\$ 57,200	\$ 71,529	\$ 61,519
Additional paid-in capital.....	88,827,082	60,975,705	94,771,465	68,693,109
Accumulated undistributed net investment income.....	157,768	934,669	1,613,211	2,365,568
Accumulated undistributed net realized gain (loss) from:				
Investment transactions	6,286,790	3,159,289	4,425,354	(212,289)
Foreign currency transactions.....	--	--	--	--
Net unrealized appreciation of investments.....	14,174,344	6,765,209	12,406,519	903,858
Net unrealized depreciation on translation of assets and liabilities in foreign currencies..	--	--	--	--
Total Net Assets	\$109,514,426	\$71,892,072	\$113,288,078	\$71,811,765

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

June 30, 1997

STATEMENTS OF ASSETS AND LIABILITIES

(unaudited)

	Principal Capital Accumulation Fund, Inc.	Principal Emerging Growth Fund, Inc.	Principal Government Securities Fund, Inc.	Principal Growth Fund, Inc.
<S>	<C>	<C>	<C>	<C>
Investment in securities -- at cost.....	\$192,527,762	\$135,533,823	\$82,856,423	\$103,267,836
Assets				
Investment in securities -- at value (Note 4).....	\$244,616,393	\$179,886,922	\$83,504,953	\$132,164,273
Cash	4,028,777	27,656	1,501,455	16,347
Receivables:				
Dividends and interest.....	334,449	104,876	789,671	125,799
Investment securities sold.....	--	--	--	--
Capital Stock sold.....	192,417	145,474	6,296	6,105
Total Assets	249,172,036	180,164,928	85,802,375	132,312,524
Liabilities				
Accrued expenses.....	94,931	92,039	36,526	53,097
Payables:				
Investment securities purchased.....	--	--	990,938	--
Capital Stock reacquired.....	--	1,075	118,803	705
Total Liabilities	94,931	93,114	1,146,267	53,802
Net Assets Applicable to Outstanding Shares.....	\$249,077,105	\$180,071,814	\$84,656,108	\$132,258,722
Capital Stock (par value: \$.01 a share)				
Shares authorized.....	100,000,000	100,000,000	100,000,000	100,000,000
Shares issued and outstanding.....	7,571,281	5,403,552	7,955,503	8,324,965
Net Asset Value Per Share.....	\$32.90	\$33.32	\$10.64	\$15.89
Net Assets Consist of:				
Capital Stock.....	\$ 75,713	\$ 54,036	\$ 79,555	\$ 83,250
Additional paid-in capital.....	186,288,379	133,043,110	81,660,821	102,864,422
Accumulated undistributed net investment income.....	2,493,934	815,094	2,638,842	772,279
Accumulated undistributed net realized gain (loss) from:				
Investment transactions	8,130,448	1,806,475	(371,640)	(357,666)

Foreign currency transactions.....	--	--	--	--
Net unrealized appreciation of investments.....	52,088,631	44,353,099	648,530	28,896,437
Net unrealized depreciation on translation of assets and liabilities in foreign currencies..	--	--	--	--
Total Net Assets	\$249,077,105	\$180,071,814	\$84,656,108	\$132,258,722

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
June 30, 1997

STATEMENTS OF ASSETS AND LIABILITIES

(unaudited)

	Principal High Yield Fund, Inc.	Principal Money Market Fund, Inc.	Principal World Fund, Inc.
<S>	<C>	<C>	<C>
Investment in securities -- at cost.....	\$13,247,496	\$43,925,599	\$ 85,443,453
Assets			
Investment in securities -- at value (Note 4).....	\$13,680,640	\$43,925,599	\$109,302,144
Cash	371,699	43,815	38,039
Receivables:			
Dividends and interest.....	315,748	202,639	355,006
Investment securities sold.....	560,496	--	210,122
Capital Stock sold.....	2,229	72,432	116,004
Total Assets	14,930,812	44,244,485	110,021,315
Liabilities			
Accrued expenses.....	7,129	21,866	64,828
Payables:			
Investment securities purchased.....	398,354	519,596	2,861,257
Capital Stock reacquired.....	--	15,396	--
Total Liabilities	405,483	556,858	2,926,085
Net Assets Applicable to Outstanding Shares.....	\$14,525,329	\$43,687,627	\$107,095,230
Capital Stock (par value: \$.01 a share)			
Shares authorized.....	100,000,000	500,000,000	100,000,000
Shares issued and outstanding.....	1,582,754	43,687,627	7,055,323
Net Asset Value Per Share.....	\$9.18	\$1.000	\$15.18
Net Assets Consist of:			
Capital Stock.....	\$ 15,828	\$ 436,876	\$ 70,553
Additional paid-in capital.....	14,311,269	43,250,751	81,010,614
Accumulated undistributed net investment income.....	601,181	--	1,265,045
Accumulated undistributed net realized gain (loss) from:			
Investment transactions	(836,093)	--	911,252
Foreign currency transactions.....	--	--	(19,233)
Net unrealized appreciation of investments.....	433,144	--	23,858,691
Net unrealized depreciation on translation of assets and liabilities in foreign currencies..	--	--	(1,692)
Total Net Assets	\$14,525,329	\$43,687,627	\$107,095,230

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
Six Months Ended June 30, 1997

STATEMENTS OF OPERATIONS

(unaudited)

	Principal Aggressive Growth Fund, Inc.	Principal Asset Allocation Fund, Inc.	Principal Balanced Fund, Inc.	Principal Bond Fund, Inc.
--	---	--	-------------------------------------	---------------------------------

Net Investment Income				
Income:				
<S>	<C>	<C>	<C>	<C>
Dividends.....	\$ 477,219	\$ 533,881	\$ 628,227	\$ --
Less: Withholding tax on foreign dividends.....	--	--	--	--
Interest.....	87,889	666,444	1,269,706	2,501,727
Total Income	565,108	1,200,325	1,897,933	2,501,727
Expenses:				
Management and investment advisory fees (Note 3).....	395,273	258,634	298,358	164,684
Custodian fees.....	9,609	20,571	3,725	2,488
Directors' fees.....	3,885	3,860	3,837	3,883
Other.....	3,366	1,085	2,446	1,575
Total Expenses	412,133	284,250	308,366	172,630
Net Investment Income	152,975	916,075	1,589,567	2,329,097
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency				
Net realized gain (loss) from:				
Investment transactions.....	6,286,602	3,159,705	4,425,625	59,264
Foreign currency transactions.....	--	--	--	--
Net increase (decrease) in unrealized appreciation/depreciation on:				
Investments.....	6,376,545	3,173,555	3,620,209	(277,295)
Translation of assets and liabilities in foreign currencies.....	--	--	--	--
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency	12,663,147	6,333,260	8,045,834	(218,031)
Net Increase in Net Assets Resulting from Operations	\$12,816,122	\$7,249,335	\$9,635,401	\$2,111,066

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

Six Months Ended June 30, 1997

STATEMENTS OF OPERATIONS

(unaudited)

	Principal Capital Accumulation Fund, Inc.	Principal Emerging Growth Fund, Inc.	Principal Government Securities Fund, Inc.	Principal Growth Fund, Inc.
Net Investment Income				
Income:				
<S>	<C>	<C>	<C>	<C>
Dividends.....	\$ 2,782,821	\$ 532,462	\$ --	\$ 635,179
Less: Withholding tax on foreign dividends.....	--	--	--	--
Interest.....	202,287	761,317	2,853,198	415,311
Total Income	2,985,108	1,293,779	2,853,198	1,050,490
Expenses:				
Management and investment advisory fees (Note 3).....	515,926	481,083	203,761	276,767
Custodian fees.....	2,946	3,526	3,734	3,045
Directors' fees.....	3,897	3,885	3,932	3,914
Other.....	3,724	3,209	2,533	2,421
Total Expenses	526,493	491,703	213,960	286,147
Net Investment Income	2,458,615	802,076	2,639,238	764,343
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency				
Net realized gain (loss) from:				
Investment transactions.....	8,130,616	1,806,428	245,732	(360,049)
Foreign currency transactions.....	--	--	--	--
Net increase (decrease) in unrealized appreciation/depreciation on:				
Investments.....	19,817,802	16,523,182	(213,709)	16,063,973
Translation of assets and liabilities in foreign currencies.....	--	--	--	--

Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency	27,948,418	18,329,610	32,023	15,703,924
---	------------	------------	--------	------------

Net Increase in Net Assets Resulting from Operations	\$30,407,033	\$19,131,686	\$2,671,261	\$16,468,267
--	--------------	--------------	-------------	--------------

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

Six Months Ended June 30, 1997

STATEMENTS OF OPERATIONS

(unaudited)

	Principal High Yield Fund, Inc.	Principal Money Market Fund, Inc.	Principal World Fund, Inc.
Net Investment Income			
Income:			
<S>	<C>	<C>	<C>
Dividends.....	\$ --	\$ --	\$ 1,594,412
Less: Withholding tax on foreign dividends.....	--	--	191,675
Interest.....	649,103	1,215,820	195,648
Total Income	649,103	1,215,820	1,598,385
Expenses:			
Management and investment advisory fees (Note 3).....	41,720	108,424	317,653
Custodian fees.....	1,714	5,141	33,805
Directors' fees.....	3,874	3,755	3,869
Other.....	684	1,372	2,017
Total Expenses	47,992	118,692	357,344
Net Investment Income	601,111	1,097,128	1,241,041

Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency

Net realized gain (loss) from:

Investment transactions.....	159,291	--	927,800
Foreign currency transactions.....	--	--	(19,233)

Net increase (decrease) in unrealized appreciation/depreciation on:

Investments	(27,143)	--	12,096,898
Translation of assets and liabilities in foreign currencies.....	--	--	(2,666)

Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency	132,148	--	13,002,799
---	---------	----	------------

Net Increase in Net Assets Resulting from Operations	\$733,259	\$1,097,128	\$14,243,840
--	-----------	-------------	--------------

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

STATEMENTS OF CHANGES IN NET ASSETS

(unaudited)

	Principal Aggressive Growth Fund, Inc.		Principal Asset Allocation Fund, Inc.	
	Six Months Ended June 30, 1997	Year Ended December 31, 1996	Six Months Ended June 30, 1997	Year Ended December 31, 1996
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 152,975	\$ 647,024	\$ 916,075	\$ 1,836,334
Net realized gain from investment transactions.....	6,286,602	10,016,661	3,159,705	4,149,766
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and liabilities in foreign currencies...	6,376,545	5,099,753	3,173,555	715,006

Net Increase in Net Assets Resulting from Operations	12,816,122	15,763,438	7,249,335	6,701,106
Dividends and Distributions to Shareholders				
From net investment income.....	--	(642,821)	--	(1,837,566)
From net realized gain on investments and foreign currency transactions.....	(2,899,788)	(8,672,973)	(1,126,442)	(3,447,188)
	(2,899,788)	(9,315,794)	(1,126,442)	(5,284,754)
Capital Share Transactions (Note 5)				
Shares sold.....	24,352,887	54,678,368	5,815,893	20,370,526
Shares issued in reinvestment of dividends and distributions.....	2,359,966	7,733,190	554,955	2,730,827
Shares redeemed.....	(17,220,310)	(12,396,594)	(2,232,807)	(3,960,605)
Net Increase in Net Assets from Capital Share Transactions	9,492,543	50,014,964	4,138,041	19,140,748
Total Increase	19,408,877	56,462,608	10,260,934	20,557,100
Net Assets				
Beginning of period.....	90,105,549	33,642,941	61,631,138	41,074,038
End of period (including undistributed net investment income as set forth below).....	\$109,514,426	\$90,105,549	\$71,892,072	\$61,631,138
Undistributed Net Investment Income.....	\$ 157,768	\$ 4,793	\$ 934,669	\$ 18,594

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

STATEMENTS OF CHANGES IN NET ASSETS

(unaudited)

	Principal Balanced Fund, Inc.		Principal Bond Fund, Inc.	
	Six Months Ended June 30, 1997	Year Ended December 31, 1996	Six Months Ended June 30, 1997	Year Ended December 31, 1996
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 1,589,567	\$ 2,416,667	\$ 2,329,097	\$ 3,648,701
Net realized gain from investment transactions.....	4,425,625	4,291,386	59,264	24,994
Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies...	3,620,209	3,030,866	(277,295)	(1,454,206)
Net Increase in Net Assets Resulting from Operations	9,635,401	9,738,919	2,111,066	2,219,489
Dividends and Distributions to Shareholders				
From net investment income.....	--	(2,404,163)	--	(3,612,230)
From net realized gain on investments and foreign currency transactions.....	(43,109)	(5,078,241)	--	--
	(43,109)	(7,482,404)	--	(3,612,230)
Capital Share Transactions (Note 5)				
Shares sold.....	19,199,044	51,227,505	8,781,926	38,212,107
Shares issued in reinvestment of dividends and distributions.....	37,483	6,103,434	--	2,979,214
Shares redeemed.....	(8,698,410)	(11,883,111)	(2,467,788)	(12,289,678)
Net Increase in Net Assets from Capital Share Transactions	10,538,117	45,497,828	6,314,138	28,901,643
Total Increase	20,130,409	47,754,343	8,425,204	27,508,902
Net Assets				
Beginning of period.....	93,157,669	45,403,326	63,386,561	35,877,659
End of period (including undistributed net investment income as set forth below).....	\$113,288,078	\$93,157,669	\$71,811,765	\$63,386,561
Undistributed Net Investment Income.....	\$ 1,613,211	\$ 23,644	\$ 2,365,568	\$ 36,471

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

STATEMENTS OF CHANGES IN NET ASSETS

(unaudited)

	Principal Capital Accumulation Fund, Inc.	
	Six Months Ended June 30, 1997	Year Ended December 31, 1996
Operations		
<S>	<C>	<C>
Net investment income.....	\$ 2,458,615	\$ 3,517,895
Net realized gain from investment transactions.....	8,130,616	26,628,772
Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies...	19,817,802	6,846,493
Net Increase in Net Assets Resulting from Operations	30,407,033	36,993,160
Dividends and Distributions to Shareholders		
From net investment income.....	--	(3,541,996)
From net realized gain on investments and foreign currency transactions.....	(7,389,172)	(22,300,640)
	(7,389,172)	(25,842,636)
Capital Share Transactions (Note 5)		
Shares sold.....	33,967,608	81,833,141
Shares issued in reinvestment of dividends and distributions.....	7,344,259	25,659,961
Shares redeemed.....	(20,271,151)	(49,264,748)
Net Increase in Net Assets from Capital Share Transactions	21,040,716	58,228,324
Total Increase	44,058,577	69,378,848
Net Assets		
Beginning of period.....	205,018,528	135,639,680
End of period (including undistributed net investment income as set forth below).....	\$249,077,105	\$205,018,528
Undistributed Net Investment Income.....	\$ 2,493,934	\$ 35,319

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

(unaudited)

	Principal Emerging Growth Fund, Inc.		Principal Government Securities Fund, Inc.	
	Six Months Ended June 30, 1997	Year Ended December 31, 1996	Six Months Ended June 30, 1997	Year Ended December 31, 1996
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 802,076	\$ 1,008,977	\$ 2,639,238	\$ 4,677,723
Net realized gain (loss) from investment transactions.....	1,806,428	1,954,051	245,732	98,466
Net realized (loss) from foreign currency transactions.....	--	--	--	--
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and liabilities in foreign currencies.....	16,523,182	15,461,368	(213,709)	(1,337,219)

Net Increase in Net Assets Resulting from Operations	19,131,686	18,424,396	2,671,261	3,438,970
Dividends and Distributions to Shareholders				
From net investment income.....	--	(1,000,544)	(46,141)	(4,644,240)
From net realized gain on investments and foreign currency transactions.....	(455,301)	(2,245,806)	--	--
	(455,301)	(3,246,350)	(46,141)	(4,644,240)
Capital Share Transactions (Note 5)				
Shares sold.....	27,055,917	78,710,392	5,357,708	47,002,706
Shares issued in reinvestment of dividends and distributions.....	451,711	3,177,572	45,610	4,589,974
Shares redeemed.....	(3,273,080)	(18,425,569)	(8,471,688)	(15,367,021)
Net Increase (Decrease) in Net Assets from Capital Shares Transactions	24,234,548	63,462,395	(3,068,870)	36,225,659
Total Increase (Decrease)	42,910,933	78,640,441	(443,750)	35,020,389
Net Assets				
Beginning of period.....	137,160,881	58,520,440	85,099,858	50,079,469
End of period (including undistributed net investment income as set forth below).....	\$180,071,814	\$137,160,881	\$84,656,108	\$85,099,858
Undistributed Net Investment Income.....	\$ 815,094	\$ 13,018	\$ 2,638,842	\$ 45,745

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

(unaudited)

	Principal Growth Fund, Inc.		Principal High Yield Fund, Inc.	
	Six Months Ended June 30, 1997	Year Ended December 31, 1996	Six Months Ended June 30, 1997	Year Ended December 31, 1996
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 764,343	\$ 1,156,675	\$ 601,111	\$ 1,153,201
Net realized gain (loss) from investment transactions.....	(360,049)	242,899	159,291	210,672
Net realized (loss) from foreign currency transactions.....	--	--	--	--
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and liabilities in foreign currencies.....	16,063,973	7,550,339	(27,143)	218,620
Net Increase in Net Assets Resulting from Operations	16,468,267	8,949,913	733,259	1,582,493
Dividends and Distributions to Shareholders				
From net investment income.....	--	(1,148,740)	(11,379)	(1,116,648)
From net realized gain on investments and foreign currency transactions.....	--	(240,516)	--	--
	--	(1,389,256)	(11,379)	(1,116,648)
Capital Share Transactions (Note 5)				
Shares sold.....	17,289,857	55,634,083	290,077	437,560
Shares issued in reinvestment of dividends and distributions.....	--	1,373,493	11,379	1,116,648
Shares redeemed.....	(1,111,312)	(7,663,844)	(238,350)	(109,643)
Net Increase (Decrease) in Net Assets from Capital Shares Transactions	16,178,545	49,343,732	63,106	1,444,565
Total Increase (Decrease)	32,646,812	56,904,389	784,986	1,910,410
Net Assets				
Beginning of period.....	99,611,910	42,707,521	13,740,343	11,829,933
End of period (including undistributed net investment income as set forth below).....	\$132,258,722	\$99,611,910	\$14,525,329	\$13,740,343

Undistributed Net Investment Income..... \$ 772,279 \$ 7,936 \$ 601,181 \$ 11,449

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

(unaudited)

	Principal Money Market Fund, Inc.		Principal World Fund, Inc.	
	Six Months Ended June 30, 1997	Year Ended December 31, 1996	Six Months Ended June 30, 1997	Year Ended December 31, 1996
Operations				
<S>	<C>	<C>	<C>	<C>
Net investment income.....	\$ 1,097,128	\$ 2,089,089	\$ 1,241,041	\$ 1,145,766
Net realized gain (loss) from investment transactions.....	--	--	927,800	875,641
Net realized (loss) from foreign currency transactions.....	--	--	(19,233)	(9,568)
Net increase (decrease) in unrealized appreciation/depreciation on investments and translation of assets and liabilities in foreign currencies.....	--	--	12,094,232	9,715,294
Net Increase in Net Assets Resulting from Operations	1,097,128	2,089,089	14,243,840	11,727,133
Dividends and Distributions to Shareholders				
From net investment income.....	(1,097,128)	(2,089,089)	--	(1,149,902)
From net realized gain on investments and foreign currency transactions.....	--	--	(253,439)	(750,235)
	(1,097,128)	(2,089,089)	(253,439)	(1,900,137)
Capital Share Transactions (Note 5)				
Shares sold.....	35,998,262	119,544,896	22,050,225	38,889,383
Shares issued in reinvestment of dividends and distributions.....	1,073,081	1,914,643	249,699	1,849,921
Shares redeemed.....	(39,627,965)	(107,885,209)	(877,110)	(9,449,905)
Net Increase (Decrease) in Net Assets from Capital Shares Transactions	(2,556,622)	13,574,330	21,422,814	31,289,399
Total Increase (Decrease)	(2,556,622)	13,574,330	35,413,215	41,116,395
Net Assets				
Beginning of period.....	46,244,249	32,669,919	71,682,015	30,565,620
End of period (including undistributed net investment income as set forth below).....	\$43,687,627	\$ 46,244,249	\$107,095,230	\$71,682,015
Undistributed Net Investment Income.....	\$ --	\$ --	\$ 1,265,045	\$ 24,004

See accompanying notes.

</TABLE>

June 30, 1997

NOTES TO FINANCIAL STATEMENTS

(unaudited)

- Principal Aggressive Growth Fund, Inc.
- Principal Asset Allocation Fund, Inc.
- Principal Balanced Fund, Inc.
- Principal Bond Fund, Inc.
- Principal Capital Accumulation Fund, Inc.
- Principal Emerging Growth Fund, Inc.
- Principal Government Securities Fund, Inc.
- Principal Growth Fund, Inc.
- Principal High Yield Fund, Inc.
- Principal Money Market Fund, Inc.
- Principal World Fund, Inc.

Note 1 -- Significant Accounting Policies

Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal

Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc. and Principal World Fund, Inc. (the "Funds") are registered under the Investment Company Act of 1940, as amended, as open-end diversified management investment companies and operate in the mutual fund industry.

Principal Money Market Fund, Inc. values its securities at amortized cost, which approximates market. Under the amortized cost method, a security is valued by applying a constant amortization to maturity of the difference between the principal amount due at maturity and the cost of the security to the fund.

The other funds value securities for which market quotations are readily available at market value, which is determined using the last reported sale price or, if no sales are reported, as is regularly the case for some securities traded over-the-counter, the last reported bid price. When reliable market quotations are not considered to be readily available, which may be the case, for example, with respect to certain debt securities and preferred stocks, the investments are valued by using market quotations, prices provided by market makers or estimates of market values obtained from yield data and other factors relating to instruments or securities with similar characteristics in accordance with procedures established in good faith by each fund's Board of Directors. Securities with remaining maturities of 60 days or less are valued at amortized cost, which approximates market.

With respect to Principal World Fund, Inc., the value of foreign securities in foreign currency amounts are expressed in U.S. Dollars at the closing daily rate of exchange. Shares listed on the Korean Stock Exchange (KSE) which are traded by foreign investors in foreign over-the-counter transactions generally are valued at prices the Manager believes would be obtained if such shares were sold, provided that the Board determines that such valuations are accurate; otherwise such KSE shares will be valued using the procedures for listed securities. The identified cost of the portfolio holdings is translated at approximate rates prevailing when acquired. Income and expense amounts are translated at approximate rates prevailing when received or paid, with daily accruals of such amounts reported at approximate rates prevailing on valuation date.

Since the carrying amount of the foreign securities in the Principal World Fund, Inc. is determined based on the exchange rate and market values at the close of the period, it is not practicable to isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities during the period.

The Funds may, pursuant to an exemptive order issued by the Securities and Exchange Commission, transfer uninvested funds into a joint trading account. The order permits the Funds' cash balances to be deposited into a single joint account along with the cash of other registered investment companies managed by Prncor Management Corporation. These balances may be invested in one or more short-term instruments.

The Funds record investment transactions generally one day after the trade date. The identified cost basis has been used in determining the net realized gain or loss from investment transactions and unrealized appreciation or depreciation of investments. The Funds record dividend income on the ex-dividend date, except dividend income from foreign securities whereby the ex-dividend date has passed; such dividends are recorded as soon as the Funds are informed of the ex-dividend date. Interest income is recognized on an accrual basis.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amount of dividends and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in the exchange rate.

With respect to Principal Money Market Fund, Inc., all net investment income and any realized gains and losses from investment transactions are declared as dividends daily to shareholders of record as of that day. Dividends and distributions to shareholders of the other funds are recorded on the ex-dividend date.

Dividends and distributions to shareholders from net investment income and net realized gain from investments and foreign currency transactions are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. Permanent book and tax basis differences are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Reclassifications made for the year ended December 31, 1996 were not material.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 -- Federal Income Taxes

No provision for federal income taxes is considered necessary because each fund is qualified as a "regulated investment company" under the Internal Revenue Code and intends to distribute each year substantially all of its net investment income and realized capital gains to shareholders. The cost of investments for federal income tax reporting purposes is approximately the same as that for financial reporting purposes.

Note 3 -- Management Agreement and Transactions With Affiliates

The Funds have agreed to pay investment advisory and management fees to Princor Management Corporation (wholly owned by Princor Financial Services Corporation, a subsidiary of Principal Mutual Life Insurance Company) (the "Manager") computed at an annual percentage rate of each fund's average daily net assets. The annual rate used in this calculation for the Funds is as follows:

Net Assets Value of Funds
(in millions)

Funds	First \$100	Next \$100	Next \$100	Next \$100	Over \$400
Principal Aggressive Growth Fund, Inc.	.80%	.75%	.70%	.65%	.60%
Principal Asset Allocation Fund, Inc.	.80	.75	.70	.65	.60
Principal Balanced Fund, Inc.	.60	.55	.50	.45	.40
Principal Bond Fund, Inc.	.50	.45	.40	.35	.30
Principal Capital Accumulation Fund, Inc.	.50	.45	.40	.35	.30
Principal Emerging Growth Fund, Inc.	.65	.60	.55	.50	.45
Principal Government Securities Fund, Inc.	.50	.45	.40	.35	.30
Principal Growth Fund, Inc.	.50	.45	.40	.35	.30
Principal High Yield Fund, Inc.	.60	.55	.50	.45	.40
Principal Money Market Fund, Inc.	.50	.45	.40	.35	.30
Principal World Fund, Inc.	.75	.70	.65	.60	.55

Brokerage commissions were paid to affiliates by certain of the funds, as follows:

	Six Months Ended June 30, 1997	Year Ended December 31, 1996
Principal Asset Allocation Fund, Inc.	\$ 2,012	\$ --
Principal Balanced Fund, Inc.	14,616	1,300
Principal Capital Accumulation Fund, Inc.	4,560	10,262
Principal Growth Fund, Inc.	1,898	438
Principal World Fund, Inc.	8,398	3,176

All of the shares of the Funds are owned by Principal Mutual Life Insurance Company and/or one or more Separate Accounts sponsored by Principal Mutual Life Insurance Company.

Note 4 -- Investment Transactions

For the six months ended June 30, 1997, the cost of investment securities purchased and proceeds from investment securities sold (not including short-term investments and U.S. government securities) by the Funds were as follows:

	Purchases	Sales
Principal Aggressive Growth Fund, Inc.	\$90,894,886	\$85,821,723
Principal Asset Allocation Fund, Inc.	33,098,234	37,559,662
Principal Balanced Fund, Inc.	19,594,921	16,144,132
Principal Bond Fund, Inc.	10,388,135	2,182,527
Principal Capital Accumulation Fund, Inc.	41,825,563	31,309,453
Principal Emerging Growth Fund, Inc.	25,935,701	7,082,328
Principal Government Securities Fund, Inc.	1,956,652	2,554,067
Principal Growth Fund, Inc.	5,649,927	3,673,560
Principal High Yield Fund, Inc.	3,966,041	3,000,007

At June 30, 1997, net unrealized appreciation of investments held by the Funds was composed of the following:

	Gross Unrealized		Net Unrealized Appreciation of Investments
	Appreciation	(Depreciation)	
<S>	<C>	<C>	<C>
Principal Aggressive Growth Fund, Inc.	\$15,781,478	\$(1,607,134)	\$14,174,344
Principal Asset Allocation Fund, Inc.	8,199,042	(1,433,833)	6,765,209
Principal Balanced Fund, Inc.	13,835,948	(1,429,429)	12,406,519
Principal Bond Fund, Inc.	1,587,697	(683,839)	903,858
Principal Capital Accumulation Fund, Inc.	54,758,067	(2,669,436)	52,088,631
Principal Emerging Growth Fund, Inc.	50,022,271	(5,669,172)	44,353,099
Principal Government Securities Fund, Inc.	1,354,369	(705,839)	648,530
Principal Growth Fund, Inc.	32,442,033	(3,545,596)	28,896,437
Principal High Yield Fund, Inc.	496,413	(63,269)	433,144
Principal World Fund, Inc.	25,286,948	(1,428,257)	23,858,691

</TABLE>

The Funds may trade U.S. Government securities on a "to-be-announced" (TBA) basis. In a TBA transaction, the fund commits to purchase or sell securities for which all specific information is not known at the time of the trade. Securities purchased on a TBA basis are not settled until they are delivered to the fund, normally 15 to 30 days later. These transactions are subject to market fluctuations and their current value is determined in the same manner as for other portfolio securities. As of June 30, 1997, Principal Government Securities Fund, Inc. had TBA commitments involving securities with a face amount of \$1,000,000, cost of \$990,938 and market value of \$1,002,720. The Fund has set aside investment securities and other assets in excess of the commitments to serve as collateral.

At June 30, 1997, Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Emerging Growth Fund, Inc., Principal High Yield Fund, Inc. and Principal World Fund, Inc. held the following securities which were purchased in a private placement transaction and may require registration in order to effect a sale in the ordinary course of business.

<TABLE>

<CAPTION>

Fund	Security Description	Date of Acquisition	Cost	Value at June 30, 1997	Value as a Percentage of Net Assets
<S>	<C>	<C>	<C>	<C>	<C>
Principal Asset Allocation Fund, Inc.	Florida Residential Property & Casualty; Notes	5/5/97	\$249,620	\$ 250,618	.35%
	Fomento Economico Mexicano	5/31/96	71,402	140,125	.19
		2/19/97	29,700	47,095	.07
		2/21/97	24,025	36,867	.05
		3/13/97	24,766	34,488	.05
	Grupo Financiero Bancomer SA, ADR	5/30/96	63,875	61,887	.09
		5/31/96	10,333	10,041	.01
		4/25/97	23,503	33,454	.05
		4/29/97	25,200	34,757	.05
		5/6/97	12,272	15,931	.02
	Israel Electric Corp.; Senior Notes	12/11/96	249,525	247,301	.34
	Lojas Arapua SA GDR;	2/7/97	11,125	8,291	.01
		2/14/97	16,088	10,943	.02
		2/26/97	73,954	50,405	.07
	PTTEP International, Ltd.; Yankee Dollar Notes	11/8/96	259,810	254,176	.35
	Wellsford Real Properties, Inc.	6/2/97	162,501	173,547	.24
		6/18/97	1,115	1,100	.00
				1,411,026	1.96
Principal Balanced Fund, Inc.	Federal-Mogul Corp.; Series D Convertible	10/15/92	248,325	417,100	.37
Principal Bond Fund, Inc.	John Hancock Mutual Life Insurance Co.; Surplus Notes	1/8/97	958,440	952,495	1.33

Principal Emerging Growth Fund, Inc.	Ciba-Geigy Corp.; Exchangeable Subordinated Debentures	3/20/91	150,000	150,187	.08
	Sierra On Line; Convertible Subordinated Debentures	8/17/94	100,375	368,638	.20
				518,825	.28

</TABLE>

<TABLE>
<CAPTION>

Fund	Security Description	Date of Acquisition	Cost	Value at June 30, 1997	Value as a Percentage of Net Assets
<S> Principal High Yield Fund, Inc.	<C> Fage Dairy Industry S.A.; Senior Notes	<C> 2/6/97	<C> \$294,000	<C> \$ 291,000	<C> 2.00%
	Fairchild Semiconductor; Senior Subordinated Notes	3/6/97	125,000	132,500	.91
	Indah Kiat Finance Mauritius Lt; Guaranteed Senior Notes	6/26/97	198,694	198,454	1.37
	Navistar Financial; Senior Subordinated Notes	5/22/97	25,000	25,719	.18
	Ocean Energy, Inc.; Senior Subordinated Notes	6/26/97	199,660	199,250	1.37
	Outdoor Systems; Senior Subordinated Notes	6/25/97	196,000	194,250	1.34
	Pen-Tab Industries; Senior Subordinated Notes	1/30/97	50,000	50,875	.35
	Quality Food Centers; Senior Subordinated Notes	3/13/97	200,000	198,500	1.37
	Specialty Retailers, Inc.; Senior Notes	6/12/97	50,000	50,375	.35
	Sun Media Corp.; Senior Subordinated Notes	2/13/97	50,000	50,500	.35
				1,391,423	9.59
Principal World Fund, Inc.	Alfa SA; Convertible Subordinated Debentures	9/25/95 11/20/96	398,000 329,254	581,000 435,750	.54 .41
	Fokus Bank	6/25/96	347,410	542,018	.51
	Hyundai Motor Co. Ltd. GDR	9/3/96	307,688	243,750	.23
	Kemira OY	12/9/96 12/10/96 12/11/96	314,077 131,955 241,385	245,271 99,995 183,010	.23 .09 .17
		2/26/97 4/10/97	322,301 294,742	264,138 264,138	.25 .25
	Royal Group Technologies Ltd.	6/25/96 7/2/96	272,357 91,512	485,445 160,921	.45 .15
	Voest-Alpine Stahl	10/30/95 3/27/96 6/25/96 6/27/96	280,007 146,558 256,094 145,930	416,817 203,878 348,858 194,817	.39 .19 .33 .18
				4,669,806	4.37

</TABLE>

The Funds' investments are with various issuers in various industries. The Schedules of Investments contained herein summarize concentrations of credit risk by issuer and industry.

Note 5 -- Capital Share Transactions

Transactions in Capital Stock by fund were as follows:

<TABLE>
<CAPTION>

Principal Aggressive Growth Fund, Inc.	Principal Asset Allocation Fund, Inc.	Principal Balanced Fund, Inc.
--	---------------------------------------	-------------------------------

Six Months Ended June 30, 1997:			
<S>	<C>	<C>	<C>
Shares sold.....	1,617,616	491,624	1,281,540
Shares issued in reinvestment of dividends and distributions.....	160,542	48,173	2,562
Shares redeemed.....	(1,138,622)	(189,208)	(583,332)
Net Increase	639,536	350,589	700,770

Year Ended December 31, 1996:			
Shares sold.....	3,918,263	1,770,239	3,602,550
Shares issued in reinvestment of dividends and distributions.....	547,658	239,060	424,022
Shares redeemed.....	(860,656)	(337,801)	(825,489)
Net Increase	3,605,265	1,671,498	3,201,083

</TABLE>
<TABLE>
<CAPTION>

Principal Bond Fund, Inc. Principal Capital Accumulation Fund, Inc. Principal Emerging Growth Fund, Inc.

Six Months Ended June 30, 1997:			
<S>	<C>	<C>	<C>
Shares sold.....	772,077	1,113,522	883,025
Shares issued in reinvestment of dividends and distributions.....	--	250,401	14,928
Shares redeemed.....	(216,734)	(662,278)	(106,190)
Net Increase	555,343	701,645	791,763

Year Ended December 31, 1996:			
Shares sold.....	3,340,011	2,763,121	2,884,710
Shares issued in reinvestment of dividends and distributions.....	262,934	868,606	110,728
Shares redeemed.....	(1,065,373)	(1,641,040)	(693,851)
Net Increase	2,537,572	1,990,687	2,301,587

</TABLE>
<TABLE>
<CAPTION>

Securities Fund, Inc. Principal Government Fund, Inc. Principal Growth Yield Fund, Inc. Principal High Yield Fund, Inc.

Six Months Ended June 30, 1997:			
<S>	<C>	<C>	<C>
Shares sold.....	516,773	1,178,487	32,348
Shares issued in reinvestment of dividends and distributions.....	4,394	--	1,287
Shares redeemed.....	(821,126)	(75,864)	(26,304)
Net Increase (Decrease)	(299,959)	1,102,623	7,331

Year Ended December 31, 1996:			
Shares sold.....	4,520,032	4,289,963	50,390
Shares issued in reinvestment of dividends and distributions.....	445,172	99,697	128,056
Shares redeemed.....	(1,457,956)	(604,413)	(12,523)
Net Increase	3,507,248	3,785,247	165,923

</TABLE>
<TABLE>
<CAPTION>

Market Fund, Inc. Principal Money Fund, Inc. Principal World Fund, Inc.

Six Months Ended June 30, 1997:			
<S>	<C>	<C>	
Shares sold.....	35,998,262	1,596,085	
Shares issued in reinvestment of dividends and distributions.....	1,073,081	18,817	
Shares redeemed.....	(39,627,965)	(63,573)	

Net Increase (Decrease) (2,556,622) 1,551,329

Year Ended December 31, 1996:

Shares sold.....	119,544,896	3,308,501
Shares issued in reinvestment of dividends and distributions.....	1,914,643	144,196
Shares redeemed.....	(107,885,209)	(800,955)

Net Increase 13,574,330 2,651,742

</TABLE>

Note 6 -- Line of Credit

The Funds have an unsecured line of credit with a bank which allows each fund to borrow up to \$500,000. Borrowings are made solely to facilitate the handling of unusual and/or unanticipated short-term cash requirements. Interest is charged to each fund, based on its borrowings, at a rate equal to the bank's Fed Funds Unsecured Rate plus 100 basis points. Additionally, a commitment fee is charged at the annual rate of .25% on the line of credit. At June 30, 1997, the Funds had no outstanding borrowings under the line of credit.

SCHEDULES OF INVESTMENTS

PRINCIPAL AGGRESSIVE GROWTH FUND, INC.

	Shares Held	Value
Common Stocks (94.94%)		
Advertising (0.31%)		
Snyder Communications, Inc.	12,800 (a)	\$ 344,800
Aerospace Industries (0.95%)		
Thiokol Corp.	14,800	1,036,000
Air Transportation, Scheduled (2.16%)		
AMR Corp.	13,600 (a)	1,258,000
US Air Group, Inc.	31,600 (a)	1,106,000
		2,364,000
Aircraft & Parts (11.49%)		
Allied Signal, Inc.	24,700	2,074,800
Boeing Co.	26,800	1,422,075
Gulfstream Aerospace Corp.	15,300 (a)	451,350
McDonnell Douglas Corp.	25,000	1,712,500
Textron, Inc.	27,000	1,792,125
United Technologies Corp.	62,000	5,146,000
		12,598,850
Auto & Home Supply Stores (0.52%)		
O'Reilly Automotive, Inc.	14,700 (a)	565,950
Bakery Products (0.27%)		
Einstein/Noah Bagel Corp.	25,100 (a)	299,631
Beverages (1.98%)		
Coca-Cola Enterprises	94,100	2,164,300
Cogeneration - Small Power Producer (0.44%)		
AES Corp.	6,800 (a)	481,100
Commercial Banks (6.79%)		
Bankamerica Corp.	26,600	1,717,363
Chase Manhattan Corp.	11,512	1,117,383
Citicorp	10,800	1,302,075
Wells Fargo & Co.	12,233	3,296,793
		7,433,614
Communications Services, NEC (0.15%)		
Globalstar Telecommunication Ltd.	5,400 (a)	165,375
Computer & Data Processing (5.34%)		
America Online Inc.	9,100 (a)	506,187
Aris Corp.	3,800 (a)	83,125
GTECH Holdings Corp.	80,600 (a)	2,599,350
Microsoft Corp.	13,000 (a)	1,642,875
Oracle Systems Corp.	12,800 (a)	644,800
Sterling Commerce, Inc.	11,400 (a)	374,775
		5,851,112
Computer & Office Equipment (3.98%)		
Compaq Computer Corp.	7,200 (a)	714,600

Dell Computer Corp.	4,600 (a)	540,213
International Business Machines Corp.	20,600	1,857,863
International Game Technology	55,300	981,575
Seagate Technology	7,400 (a)	260,387
		4,354,638
Consumer Products (6.75%)		
Philip Morris Cos., Inc.	166,500	7,388,438
Crude Petroleum & Natural Gas (0.34%)		
British Petroleum Co. PLC	5,000	374,375
Eating & Drinking Places (2.42%)		
Cracker Barrel Old Country Store, Inc.	59,100	1,566,150
McDonald's Corp.	22,400	1,082,200
		2,648,350
Electronic Components & Accessories (1.56%)		
Intel Corp.	5,500	779,969
Linear Technology Corp.	9,600	496,800
Texas Instruments	5,100	428,719
		1,705,488
Federal & Federally Sponsored Credit (1.06%)		
Student Loan Marketing Association	9,100	1,155,700
Fire, Marine, & Casualty Insurance (9.27%)		
Aetna, Inc.	19,600	2,006,550
Berkshire Hathaway, Inc.	74 (a)	3,492,800
Cigna Corp.	1,050	186,375
CNA Financial Corp.	8,600 (a)	906,762
Loews Corp.	21,900	2,192,738
Progressive Corp.	6,900	600,300
USF&G Corp.	32,200	772,800
		10,158,325
Grocery Stores (0.22%)		
Dominicks Supermarkets, Inc.	9,100 (a)	242,287
Hospitals (0.49%)		
Columbia/HCA Healthcare Corp.	13,700	538,581
Household Audio & Video Equipment (0.53%)		
Time Warner Inc.	12,000	579,000
Industrial Inorganic Chemicals (0.56%)		
Monsanto Co.	14,300	615,794
Life Insurance (0.41%)		
Equitable of Iowa Cos.	8,100	453,600
Lumber & Other Building Materials (2.34%)		
Home Depot, Inc.	37,100	2,557,581
Medical Instruments & Supplies (1.14%)		
Becton, Dickinson & Co.	24,600	1,245,375
Miscellaneous Business Services (0.76%)		
Viad Corp.	43,100	829,675
Miscellaneous Electrical Equipment & Supplies (0.61%)		
Motorola, Inc.	8,800	668,800
Miscellaneous Furniture & Fixtures (0.78%)		
Hillenbrand Industries	17,900	850,250
Miscellaneous Food & Kindred Products (1.15%)		
Campbell Soup Co.	25,100	1,255,000
Miscellaneous Investing (8.57%)		
HFS, Inc.	161,900 (a)	9,390,200
Miscellaneous Manufacturers (0.27%)		
WMS Industries, Inc.	11,900 (a)	298,244

Motor Vehicles & Equipment (1.54%)		
Ford Motor Co.	13,300	502,075
ITT Industries Inc.	46,100	1,187,075
		1,689,150
Newspapers (0.50%)		
Gannett Co.	5,600	553,000
Oil & Gas Field Services (1.22%)		
Diamond Offshore Drilling	10,100 (a)	789,062
Schlumberger Ltd.	4,400	550,000
		1,339,062
Periodicals (2.16%)		
K-III Communications Corp.	197,300 (a)	2,367,600
Personal Credit Institutions (1.47%)		
American Express Co.	21,600	1,609,200
Petroleum Refining (0.62%)		
Amoco Corp.	7,800	678,113
Photographic Equipment & Supplies (0.68%)		
Xerox Corp.	9,400	741,425
Plastic Materials & Synthetics (0.55%)		
DuPont	9,500	597,313
Radio & Television Broadcasting (2.57%)		
Clear Channel Communications	35,200 (a)	2,164,800
Heftel Broadcasting Co.	11,800 (a)	651,950
		2,816,750
Savings Institutions (0.67%)		
Ahmanson & Co.	11,400	490,200
Ocwen Financial Corp.	7,400 (a)	241,425
		731,625
Search & Navigation Equipment (0.84%)		
Litton Industries Inc.	19,100 (a)	922,769
Security & Commodity Services (0.93%)		
Franklin Resources, Inc.	14,000	1,015,875
Security Brokers & Dealers (1.66%)		
Charles Schwab Corp.	17,100	695,756
Merrill Lynch & Co., Inc.	18,800	1,120,950
		1,816,706
Special Industry Machinery (0.63%)		
Applied Materials, Inc.	9,800 (a)	693,962
Surety Insurance (4.36%)		
Ace Ltd.	25,600	1,891,200
CMAC Investment Corp.	48,700	2,325,425
MGIC Investment Corp.	11,600	556,075
		4,772,700
Telephone Communication (0.62%)		
Iridium World Communications	7,500 (a)	135,938
Worldcom, Inc.	16,800 (a)	537,600
		673,538
Variety Stores (0.31%)		
Woolworth Corp.	14,200 (a)	340,800
Total Portfolio Investments (94.94%)		103,974,021
Cash and receivables, net of liabilities (5.06%)		5,540,405
Total Net Assets (100.00%)		\$109,514,426

(a) Non-income producing security - No dividend paid during the past twelve months.

PRINCIPAL ASSET ALLOCATION FUND, INC.

	Shares Held	Value
Common Stocks (67.23%)		

Aerospace Industries (0.23%)		
Thiokol Corp.	2,400	\$ 168,000
Air Transportation, Scheduled (1.31%)		
AMR Corp.	3,500(a)	323,750
British Airways PLC ADR	1,400	160,912
Cathay Pacific Airways ADR	8,500	88,046
KLM Royal Dutch Airlines	7,380	227,858
US Air Group, Inc.	4,000(a)	140,000
		940,566
Aircraft & Parts (3.10%)		
Allied Signal, Inc.	3,200	268,800
Boeing Co.	3,800	201,638
Gulfstream Aerospace Corp.	2,200(a)	64,900
McDonnell Douglas Corp.	3,700	253,450
Rockwell International Corp.	2,600	153,400
Textron, Inc.	5,000	331,875
United Technologies Corp.	11,500	954,500
		2,228,563
Auto & Home Supply Stores (0.05%)		
O'Reilly Automotive, Inc.	900(a)	34,650
Automotive Rentals, No Drivers (0.10%)		
Ryder Systems, Inc.	2,200	72,600
Bakery Products (0.06%)		
Einstein/Noah Bagel Corp.	3,700(a)	44,169
Beverages (2.24%)		
Bass PLC ADR	5,000	123,125
CIA Cervecerias Unidas ADR	3,380	74,149
CIA Cervejaria Brahma ADR	13,710	209,934
Coca-Cola Enterprises	25,200	579,600
Coca-Cola FEMSA SA ADR	1,170	60,401
Embotelladora Andina ADR B	900	18,788
Fomento Economico Mexicano	43,485(b)	258,575
Kirin Brewery	2,300	239,200
Panamerican Beverages	909	29,883
Quilmes Industrial Quins SA ADR	1,707	19,844
		1,613,499
Blast Furnace & Basic Steel Products (0.24%)		
Australian National Industries	8,960	43,495
British Steel PLC ADS	3,500	88,375
Hylsamex Sponsored GDR	730	22,539
Tubos de Acero de Mexico ADR	1,289(a)	23,766
		178,175
Books (0.09%)		
McGraw-Hill Companies, Inc.	1,100	64,694
Bus Terminal & Service Facilities (0.06%)		
Brasileiros SA GDR	1,230(a)	45,664
Cash Grains (0.01%)		
Delta & Pine Land Co.	200	7,125
Cement, Hydraulic (0.16%)		
Cementos de Mexico ADR	11,940	114,922
Chemicals & Allied Products (1.19%)		
Asahi Chemical Industry Co. ADR	4,100	245,434
Bayer AG Sponsored ADR	10,735	412,881
Mitsubishi Chemical Corp.	6,100	199,370
		857,685
Clay, Ceramic & Refractory Minerals (0.07%)		
English China Clays ADR	5,300	54,644
Colleges and Universities (0.02%)		
DeVRY, Inc.	500(a)	13,500
Combination Utility Services (0.40%)		
CIA Energetica de Minas Cemig ADR	3,615	182,000
NIPSCO Industries, Inc.	2,550	105,347
		287,347
Commercial Banks (5.40%)		
ABN-AMRO Holdings NV ADR	30,024	560,845

Allied Irish Banks ADR	2,900	135,394
Banco Central ADR	6,500	118,625
Banco Galicia Y Buenos	1,250	32,969
Banco Wiese Ltd. ADR	4,505	29,282
BankAmerica Corp.	4,500	290,531
BankBoston Corp.	1,200	86,475
Banker's Trust	1,350	117,450
Barclays PLC ADS	5,571	441,502
Brierly Investments Ltd. ADR	5,550	108,328
Chase Manhattan	1,840	178,595
Citicorp	2,300	277,294
Commerzbank AG ADR	3,600	102,058
Credicorp Ltd.	370	8,140
First of America Bank Corp.	2,700	123,525
HSBC Holdings ADR	600	180,450
Mellon Bank Corp.	2,400	108,300
National Westminster ADR	1,900	154,138
PNC Financial Corp.	2,100	87,412
Texas Regional Bancshares	100	4,200
Wells Fargo & Co.	2,200	592,900
Westpac Banking ADR	4,900	146,694
		3,885,107
Commercial Printing (0.34%)		
DAI Nippon Printing Co.	1,100	248,973
Communications Equipment (0.81%)		
ADC Telecommunications, Inc.	1,000 (a)	33,375
Advanced Fibre Communication	700 (a)	42,263
Alcatel Alsthom ADR	4,700	118,675
Glenayre Technologies, Inc.	700 (a)	11,462
Hanson PLC ADR	368	9,200
Harris Corp.	1,450	121,800
Matsushita Electrical ADR	800	163,600
Octel Communications Corp.	700 (a)	16,406
Premisys Communication, Inc.	500 (a)	7,875
Tekelec, Inc.	300 (a)	10,612
Tellabs, Inc.	900 (a)	50,288
		585,556
Communications Services (0.02%)		
Globalstar Telecommunication Ltd.	600 (a)	18,375
Computer & Data Processing Services (1.31%)		
Acxiom Corp.	700 (a)	14,350
America Online, Inc.	100 (a)	5,562
Aris Corp.	600 (a)	13,125
Autodesk, Inc.	300	11,494
Avant Corp.	500 (a)	16,156
BA Merchant Services, Inc.	400 (a)	7,625
Baan Company	100 (a)	6,887
Bisys Group, Inc.	1100 (a)	45,925
Citrix Systems, Inc.	300 (a)	13,163
Compuware Corp.	500 (a)	23,875
Electronic Arts	400 (a)	13,450
GTECH Holdings Corp.	15,600 (a)	503,100
Incyte Pharmaceuticals, Inc.	100 (a)	6,700
LHS Group	100 (a)	4,381
Ontrack Data International	300 (a)	6,900
Peoplesoft, Inc.	600 (a)	31,650
Sterling Commerce, Inc.	2,100 (a)	69,038
Sungard Data Systems, Inc.	800 (a)	37,200
Symantec Corp.	700 (a)	13,650
Transaction Systems Architect, Inc.	600 (a)	20,700
USCS International, Inc.	1,700 (a)	55,675
Vantive Corp.	800 (a)	22,600
		943,206
Computer & Office Equipment (0.76%)		
Ascend Communications	1,300 (a)	51,188
Hitachi Ltd. ADR	2,900	327,700
International Game Technology	9,400	166,850
		545,738
Concrete, Gypsum & Plaster Products (0.22%)		
Cementos de Mexico SA ADR	8,800	76,334
Italcementi Fabrice SPA ADR	13,000	80,986
		157,320
Concrete Work (0.13%)		
Pioneer International Ltd. ADR	25,000	95,890

Construction & Related Machinery (0.51%)		
Camco International	100	5,475
EVI, Inc.	400 (a)	16,800
Kajima Corp. ADR	2,900	170,051
Komatsu Ltd. ADR	5,500	178,799
		371,125
Consumer Products (1.99%)		
Philip Morris Cos., Inc.	26,350	1,169,281
RJR Nabisco Holdings Corp.	7,900	260,700
		1,429,981
Credit Reporting & Collection (0.02%)		
First USA Paymentech Inc.	500 (a)	14,469
Crude Petroleum & Natural Gas (0.57%)		
Broken Hill Proprietary Ltd. ADR	2,200	65,450
Forcenergy Inc.	300 (a)	9,112
Newfield Exploration Co.	100 (a)	2,000
Occidental Petroleum Corp.	1,800	45,113
Ocean Energy, Inc.	200 (a)	9,250
Petrofina SA ADR	2,900	109,910
Societe Generale ADR	3,600	80,450
USX-Marathon Group, Inc.	3,200	92,400
		413,685
Department Stores (0.35%)		
Marui Corp. ADR	2,800	104,238
Penney (J.C.) Co.	2,900	151,344
		255,582
Drug Stores & Proprietary Stores (0.01%)		
Omnicare, Inc.	200	6,275
Drugs (1.19%)		
Agouron Pharmaceuticals, Inc.	100 (a)	8,087
Arqule, Inc.	500 (a)	8,687
Aviron	400 (a)	4,900
Dura Pharmaceuticals, Inc.	300 (a)	11,962
Elan Corp. PLC ADR	400 (a)	18,100
Genzyme Corp. - General Division	1,000 (a)	27,750
Human Genome Sciences, Inc.	100 (a)	3,325
Inhale Therapeutic Systems	300 (a)	7,425
Jones Medical Industries, Inc.	300	14,250
Medicis Pharmaceutical Corp.	300 (a)	14,963
Novartis AG Sponsored ADR	2,879	230,462
Novo Nordisk ADR	3,200	175,600
Nycomed	13,172	189,348
Sangstat Medical Corp.	800 (a)	18,500
Smithkline Beecham PLC ADR	1,100	100,788
Vertex Pharmaceuticals	200 (a)	7,650
Zonagen, Inc.	500 (a)	10,937
		852,734
Drugs, Proprietarys & Sundries (0.16%)		
Amway Japan Ltd. ADS	6,833	118,296
Eating & Drinking Places (0.64%)		
Boston Chicken, Inc.	900 (a)	12,600
Cracker Barrel Old Country Store, Inc.	8,200	217,300
Host Marriott Corp.	8,200 (a)	147,063
McDonald's Corp.	1,800	86,962
		462,925
Electric Services (1.52%)		
Centrais Electricas Brasileiras SA - Electrobras ADR	1,655	49,117
Centrais Electricas Brasileiras ADR	10,165	284,210
Chilectra SA	2,223	63,965
Empresa Nacional de Electricidad SA ADR	1,400	119,088
Enersis SA ADR	631	22,440
EVN Energie-Vansorgung Nied ADR	3,600	92,782
GPU, Inc.	2,100	75,338
National Power ADR	3,300	116,119
Pinnacle West Capital Corp.	4,100	123,256
Shangdong Huaneng Power Development Ltd. ADS	8,000	86,000
Texas Utilities Co.	1,900	65,431
		1,097,746
Electrical Goods (0.03%)		
Kent Electronics Corp.	700 (a)	25,681

Electronic Components & Accessories (0.77%)		
Altera Corp.	200 (a)	10,100
Kyocera Corp. ADR	1,500	238,500
Level One Communications	500 (a)	19,219
Linear Technology Corp.	1,600	82,800
Maxim Integrated Products, Inc.	400 (a)	22,750
Molex, Inc., Class A	1,100	38,363
PMC Sierra, Inc.	1,100 (a)	28,875
Semtech Corp.	100 (a)	3,650
Texas Instruments	974	81,877
Xilinx, Inc.	600 (a)	29,437
		555,571
Electronic Distribution Equipment (0.82%)		
Phillips NV ADR	6,969	500,897
Watkins-Johnson Co.	2,900	89,175
		590,072
Engineering & Architectural Services (0.08%)		
Gartner Group, Inc.	500 (a)	17,969
Paychex, Inc.	1,100	41,800
		59,769
Farm & Garden Machinery (0.15%)		
Deere & Co.	1,900	104,263
Federal & Federally Sponsored Credit (0.57%)		
Student Loan Marketing Association (Non-Voting)	3,200	406,400
Finance Services (0.60%)		
Grupo Financiero Bancomer SA ADR	16,165 (a) (b)	156,070
Nomura Sec. Co. Ltd. ADR	2,000	276,151
		432,221
Fire Marine & Casualty Insurance (3.26%)		
Aetna, Inc.	2,900	296,888
Berkshire Hathaway, Inc.	15 (a)	708,000
CIGNA Corp.	250	44,375
CNA Financial Corp.	3,100 (a)	326,856
Loews Corp.	3,700	370,463
Mutual Risk Management Ltd.	300	13,762
Progressive Corp.	1,100	95,700
St. Paul Cos., Inc.	1,400	106,750
Tokio Marine & Fire Insurance ADR	4,600	297,850
USF&G Corp.	3,600	86,400
		2,347,044
Footwear, Except Rubber (0.16%)		
Ollivetti Inc. Cos.	396,825 (a)	112,262
Fruit & Vegetable Markets (0.09%)		
CIFRA Un-sponsored ADR	34,623	63,547
General Industrial Machinery (0.63%)		
AmerGroup Ltd. ADR	5,500	49,502
SKF AB ADR	15,370	401,541
		451,043
Grain Mill Products (0.07%)		
Grupo Industrial Maseca Sade CV ADR	2,885	47,602
Groceries & Related Products (0.15%)		
Fleming Cos., Inc.	5,850	105,300
Grocery Stores (0.40%)		
Disco SA ADS	633 (a)	25,084
Koninklijke Bijenkorf Beheer NV ADR	2,400	84,090
Santa Isabella SA ADR	5,527	178,245
		287,419
Hardware, Plumbing & Heating Equipment (0.02%)		
Wilmar Industries, Inc.	700 (a)	17,062
Health & Allied Services, NEC (0.07%)		
Healthsouth Corp.	800 (a)	19,950
Renal Care Group, Inc.	100 (a)	4,169

Renal Treatment Centers, Inc.	300 (a)	8,062
Total Renal Care Holdings, Inc.	400 (a)	16,075
		48,256
Holding Offices (0.42%)		
Jardine Strategic Holdings Ltd. ADR	10,000	75,600
Quinenco SA	1,150 (a)	21,275
Trizec Hahn Corp.	9,534	203,789
		300,664
Home Health Care Services (0.03%)		
Pediatrics Medical Group, Inc.	500 (a)	22,906
Hospitals (0.02%)		
Health Management Association, Inc.	500 (a)	14,250
Hotels & Motels (0.74%)		
Extended Stay of America	8,700 (a)	137,025
John Q. Hammons Hotels, Inc.	17,400 (a)	160,950
La Quinta Motor Inns	400	8,750
Ladbroke Group ADR	37,000	144,711
Servico, Inc.	5,300 (a)	78,837
		530,273
Household Audio & Video Equipment (0.41%)		
Sony Corp. ADR	2,500	220,000
Time Warner, Inc.	1,500	72,375
		292,375
Individual & Family Services (0.08%)		
ARV Assisted Living, Inc.	5,400 (a)	59,400
Industrial Inorganic Chemicals (0.64%)		
AKZO ADR	4,283	296,062
Eastman Chemical Co.	1,150	73,025
Olin Corp.	2,300	89,844
		458,931
Industrial Organic Chemicals (0.08%)		
Nova Corp. ADR	6,700	56,950
Investment Offices (0.51%)		
American General Hospitality Corp.	14,700	363,825
Iron & Steel Foundries (0.64%)		
Kawasaki Steel Corp. ADR	7,900	257,511
Kubota Corp. ADR	850	83,300
Siderar S.A.I.C. Sponsored ADR	3,630	118,497
		459,308
Iron Ores (0.07%)		
Cia Vale Do Rio Doce	2,140	47,708
Laundry, Cleaning & Garment Services (0.02%)		
G&K Services, Inc.	400	14,900
Life Insurance (0.32%)		
American General Corp.	1,800	85,950
Lincoln National Corp.	2,200	141,625
		227,575
Lumber & Other Building Materials (0.52%)		
Home Depot, Inc.	5,400	372,262
Management & Public Relations (0.24%)		
Advanced Health Corp.	200 (a)	3,675
Corrections Corp. of America	700 (a)	27,825
Ogden Corp.	4,300	93,525
Whitman-Hart, Inc.	1,600 (a)	45,000
		170,025
Measuring & Controlling Devices (0.05%)		
Applied Imaging Corp.	800 (a)	5,000
Kla-Tencor Corp.	600 (a)	29,250
		34,250
Meat Products (0.50%)		
Groupe Danone	10,764	356,053
Medical Instruments & Supplies (0.13%)		
Arterial Vascular Engineering	200 (a)	6,438
Baxter International, Inc.	1,100	57,475

Mentor Corp.	400	11,850
Nitinol Medical Tech.	800 (a)	12,100
Novoste Corp.	100 (a)	1,637
Vivus, Inc.	200 (a)	4,762
		94,262
Metalworking Machinery (0.27%)		
JLK Direct Distribution	200 (a)	5,125
Makita Corp. ADR	13,000	190,125
		195,250
Miscellaneous Business Services (0.27%)		
Teletch Holdings, Inc.	700 (a)	18,375
Viad Corp.	9,100	175,175
		193,550
Miscellaneous Converted Paper Products (0.42%)		
Kimberly Clark Mexico ADR	14,600	277,400
P. T. Inti Indorayon Utama ADR	10,000	20,974
		298,374
Miscellaneous Electrical Equipment & Supplies (0.39%)		
Motorola, Inc.	900	68,400
TDK Corp. ADS	2,800	209,475
		277,875
Miscellaneous Food & Kindred Products (0.22%)		
Nestle Reg. ADR	2,000	132,112
Starbucks Corp.	600 (a)	23,363
		155,475
Miscellaneous Food Stores (0.04%)		
General Nutrition Cos.	1,000 (a)	28,000
MAV	415	4,202
		32,202
Miscellaneous Investing (10.36%)		
Alexandria Real Estate	2,500	54,844
AMLI Residential Property	1,000	23,625
Associated Estates Realty Co.	4,500	105,750
Avalon Properties	7,100	203,238
Bay Apartments Communities	6,600	244,200
Boston Properties, Inc.	3,600 (a)	99,000
Brandywine Realty Trust	13,200	267,300
Brookfield Properties I/R	5,900 (a)	41,484
Burnham Pacific Properties	13,700	188,375
Carr Realty Corp.	5,500	158,125
Chateau Properties	14,253	407,992
Columbus Realty Trust	200	4,550
Cornerstone Properties	3,500	53,812
East Group Properties	1,000	20,125
Essex Property Trust	9,200	295,550
Federal Realty Investments	2,300	62,100
First Union Real Estate	14,700	207,638
Gables Residential Trust	4,000	101,000
Great Lakes REIT, Inc.	8,100	133,144
Grupo Carso Sponsored ADR	5,040	70,076
Health Care Property Investors, Inc.	2,600	91,650
HFS, Inc.	40,300 (a)	2,337,400
Kilroy Realty Corp.	2,600	65,650
Koger Equity, Inc.	3,600	65,700
LTC Properties, Inc.	900	16,312
Manufactured Home Communities	6,100	140,681
Meridian Industrial Trust	2,900	68,150
Merry Land & Investment Co.	5,900	127,956
Oasis Residential, Inc.	5,000	117,500
Omega Healthcare Investors	7,900	258,231
Prentiss Property Trust	2,700	69,188
Price REIT, Inc.	100	3,637
Ramco-Gershenson Properties	100	1,762
Security Capital Atlantic, Inc.	6,200	148,413
Shurgard Storage Center	4,300	120,400
Starwood Lodging Trust	4,800	204,900
Summit Properties, Inc.	1,000	20,625
Taubman Centers	10,300	136,475
Urban Shopping Centers	8,700	277,313
Wellsford Real Properties, Inc.	15,877 (a) (b)	174,647
Western Investment Real Estate Trust	3,900	54,113
Westfield America, Inc.	12,000 (a)	202,500

7,445,131

Miscellaneous Non-Durable

Goods (0.38%)		
Mitsubishi Corp. ADR	11,000	274,927
Miscellaneous Special Trade		
Contractors (0.12%)		
Hang Lung Development Co. ADR	9,400	86,146
Mortgage Bankers & Brokers (0.03%)		
Homeside, Inc.	900 (a)	19,688
Motor Vehicles & Equipment (1.68%)		
Chrysler Corp.	3,300	108,281
Fiat SPA ADR	4,700	85,775
Ford Motor Co.	1,500	56,625
General Motors Corp.	1,500	83,531
ITT Industries, Inc.	5,800	149,350
Toyota Motor Corp. ADR	8,600	509,550
Volkswagen AG ADR	1,400	214,837
		1,207,949
Nonferrous Foundries (Casting) (0.02%)		
Matthews Intl. Corp.	300	10,950
Non-Classifiable Establishments (0.07%)		
Keppel Corp. Ltd. ADR	5,375	47,741
Non-Store Retailers (0.00%)		
Henry Schein, Inc.	100 (a)	3,125
Nursing & Personal Care		
Facilities (0.00%)		
Manor Care, Inc.	100	3,263
Offices & Clinics of Medical		
Doctors (0.07%)		
Horizon Mental Health Mgmt.	400 (a)	9,000
Occusystems, Inc.	500 (a)	14,500
Phycor, Inc.	800 (a)	27,550
		51,050
Oil & Gas Field Services (0.61%)		
Diamond Offshore Drilling	2,500 (a)	195,313
Ensco International, Inc.	400 (a)	21,100
Petroleo Brasileiro SA	5,700	156,193
Schlumberger Ltd.	500	62,500
		435,106
Ophthalmic Goods (0.17%)		
Bausch & Lomb	2,550	120,169
Paper Mills (0.15%)		
Willamette Industries, Inc.	1,500	105,000
Periodicals (0.55%)		
K III Communications Corp.	32,900 (a)	394,800
Personal Credit Institutions (0.38%)		
Advanta Corp.	500	18,375
American Express Co.	3,300	245,850
Firstplus Financial Group	200 (a)	6,800
		271,025
Personnel Supply Services (0.13%)		
Data Processing Resources	500 (a)	11,688
Emcare Holdings, Inc.	100 (a)	3,662
Robert Half International, Inc.	800 (a)	37,650
Romac International, Inc.	1,300 (a)	42,575
		95,575
Petroleum Refining (1.43%)		
Amoco Corp.	900	78,244
Ashland, Inc.	4,600	213,325
Atlantic Richfield Co.	3,200	225,600
Exxon Corp.	1,000	61,500
Mobil Corp.	3,400	237,575
Total SA IE Francaise ADR	2,800	141,750
YPF Sociedad Anonima ADR	2,175	66,881
		1,024,875
Photographic Equipment &		
Supplies (0.88%)		
Eastman Kodak Co.	550	42,212
Fuji Photo Film	8,800	355,300
OCE NV	1,400	179,725
Xerox Corp.	700	55,213

Plastic Materials & Synthetics (0.19%)		632,450
Du Pont (E.I.) De Nemour	1,200	75,450
Shanghai Petrochemical Co. Ltd. ADR	2,600	63,700
		139,150
Primary Nonferrous Metals (0.14%)		
Phelps Dodge Corp.	1,150	97,966
Radio, Television & Computer Stores (0.10%)		
Lojas Arapua SA GDR	4,200 (b)	69,639
Radio & Television Broadcasting (0.66%)		
Clear Channel Communications	5,300 (a)	325,950
Grupo Televisa SA GDR	4,785 (a)	145,344
		471,294
Railroads (0.17%)		
Nagoya Railroad Co. Ltd.	2,900	119,619
Real Estate Agents & Managers (0.16%)		
Atlantic Gulf Communities Co.	15,900 (a)	101,363
Crescent Real Estate Equities	400	11,862
Crescent Operating	40	1,318
		114,543
Real Estate Operators & Lessors (1.81%)		
Alexander Haagen Properties	4,100	66,625
Arden Realty Group, Inc.	6,300	163,800
Beacon Properties Corp.	6,800	226,950
Catellus Dev. Corp.	4,500 (a)	81,563
CRA Managed Care, Inc.	300 (a)	15,656
IRT Property Co.	900	10,575
Nationwide Health Properties	14,400	316,800
Pacific Gulf Properties	8,400	184,800
Sekisui House Ltd. ADR	2,300	233,155
		1,299,924
Research & Testing Services (0.01%)		
Parexel International Corp.	100 (a)	3,175
Quintiles Transnational Corp.	100 (a)	6,962
		10,137
Retail Stores, NEC (0.09%)		
CIA Brasileira de Distribuicao		
Acucar GDR	1,960	44,970
Supermercados Unimac SA	1,190 (a)	22,312
		67,282
Savings Institutions (0.00%)		
Ocwen Financial Corp.	100 (a)	3,263
Sawmills & Planning Mills (0.14%)		
Louisiana Pacific Corp.	4,700	99,288
Search & Navigation Equipment (0.22%)		
Litton Industries, Inc.	3,200 (a)	154,600
Security & Commodity Services (0.21%)		
Franklin Resources, Inc.	2,050	148,753
Security Brokers & Dealers (0.05%)		
Charles Schwab Corp.	900	36,619
Soap, Cleaners & Toilet Goods (0.68%)		
KAO Corp. ADR	2,200	305,689
Shiseido Co. Ltd. ADR	11,000	181,683
		487,372
Special Industry Machinery (0.02%)		
Fusion Systems Corp.	300 (a)	11,869
Subdividers & Developers (0.07%)		
Singapore Land ADR	11,600	52,732
Sugar & Confectionary Products (0.10%)		
Perlis Plantations ADR	25,000	73,295
Surety Insurance (0.95%)		
ACE Ltd.	3,200	236,400
CMAC Investment Corp.	6,400	305,600
MGIC Investment Corp.	2,900	139,019
Triad Guaranty, Inc.	100 (a)	4,537

Telephone Communication (3.34%)		685,556
AT&T Corp.	3,500	122,719
BCE, Inc.	17,180	481,040
Compania Anonima Telefonos de Venezuela	1,485	64,041
LCI International, Inc.	500 (a)	10,937
Mobile Telecommunications Technologies	900 (a)	12,881
Sprint Corp.	1,700	89,463
Telebras GDR	18	2,731
Telecomunicacoes Brasileiras SA ADR	6,220	943,885
Telefonica de Argentina ADR	2,885	99,893
Telefonica de Espana SA ADS	2,500	215,625
Telefonica Del Peru ADR	1,865	48,840
Telefonos de Mexico SA ADR	3,865	184,554
Teleport Communication	600 (a)	20,475
U.S. West Communications Group	2,700	101,756

2,398,840

Tires & Inner Tubes (0.36%)		
Bridgestone ADR	1,100	255,702

Variety Stores (0.38%)		
Wal-Mart Stores, Inc.	2,800	94,675
Woolworth Corp.	7,350 (a)	176,400

271,075

Vocational Schools (0.02%)		
Apollo Group, Inc.	500 (a)	17,625

Water Transportation of Freight, NEC (0.15%)		
Penninsular & Oriental Steamships ADR	5,400	107,847

Total Common Stocks 48,333,901

Preferred Stock (0.19%)

Miscellaneous Investing (0.10%)		
First Washington Realty Trust; Series A	2,400	73,200

Periodicals (0.05%)		
Time Warner; Series M	31 (a)	34,149

Real Estate Agents & Managers (0.04%)		
Atlantic Gulf Communities	2,772 (a)	27,725

Total Preferred Stocks 135,074

	Principal Amount	Value
Bonds (3.51%)		

Business Credit Institutions (0.46%)		
AT&T Capital Corp. Medium-Term Notes; 5.85%; 1/5/99	\$ 330,000	\$ 327,749

Commercial Banks (0.34%)		
NationsBank Corp. Senior Notes; 5.70%; 2/9/01	250,000	241,558

Electronic Distribution Equipment (0.34%)		
Israel Electric Corp. Senior Notes; 7.25%; 12/15/06	250,000 (b)	247,301

Finance Services (0.98%)		
First Plus Home Loan Trust Notes; 7.60%; 4/10/30	150,000	151,289
Lehman Brothers Holdings, Inc. Senior Notes; 7.38%; 5/15/04	300,000	302,260
Team Fleet Finance Corp. Notes; 7.35%; 5/15/03	250,000	254,903
		708,452

Metal Mining Services (0.35%)		
PTTEP International, Ltd. Yankee Dollar Notes; 7.63%; 10/1/06	250,000 (b)	254,176

Miscellaneous Investing (0.35%)

Florida Residential Property & Casualty Notes; 7.25%; 7/1/02	250,000 (b)	250,618
Personal Credit Institutions (0.69%)		
Ford Motor Credit Unsubordinated; 7.20%; 6/15/07	250,000	250,792
GMAC Medium-Term Notes; 6.10%; 12/06/00	250,000	245,545
		496,337
Total Bonds		2,526,191
U.S. Government Treasury Notes (20.57%)		
6.38%; 5/15/99	2,000,000	2,010,000
6.38%; 5/15/00	4,500,000	4,516,875
6.25%; 5/31/00	1,500,000	1,500,938
6.25%; 4/30/01	1,750,000	1,745,625
6.63%; 4/30/02	1,350,000	1,362,235
7.25%; 8/15/04	3,500,000	3,648,750
Total U.S. Government Treasury Notes		14,784,423
Total Portfolio Investments (91.50%)		65,779,589
Cash and receivables, net of liabilities (8.50%)		6,112,483
Total Net Assets (100.00%)		\$71,892,072

(a) Non-income producing security - No dividend paid during the past twelve months.

(b) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL BALANCED FUND, INC.

	Shares Held	Value
Common Stocks (56.65%)		
Auto & Home Supply Stores (0.51%)		
Autozone, Inc.	24,900 (a)	\$ 586,706
Bakery Products (0.63%)		
Sara Lee Corp.	17,100	711,788
Beverages (1.21%)		
Pepsico, Inc.	32,000	1,202,000
Universal Foods Corp.	4,300	163,937
		1,365,937
Commercial Banks (4.94%)		
BankBoston Corp.	16,600	1,196,238
Corestates Financial Corp.	16,400	881,500
First of America Bank Corp.	11,400	521,550
Fleet Financial Group, Inc.	16,000	1,012,000
NationsBank Corp.	16,500	1,064,250
PNC Financial Corp.	22,000	915,750
		5,591,288
Commercial Printing (0.53%)		
R. R. Donnelley & Sons Co.	16,400	600,650
Communications Equipment (1.10%)		
Allen Telecom, Inc.	4,200 (a)	87,150
DSC Communications Corp.	17,400 (a)	387,150
General Instrument Corp.	30,700 (a)	767,500
		1,241,800
Computer & Data Processing Services (2.67%)		
Computer Associates International, Inc.	14,700	818,606
Electronic Data Systems Corp.	32,700	1,340,700
First Data Corp.	19,600	861,175
		3,020,481
Computer & Office Equipment (1.57%)		
Hewlett-Packard Co.	12,400	694,400

International Business Machines Corp.	12,000	1,082,250
		1,776,650
Consumer Products (0.35%) Philip Morris Cos., Inc.	9,000	399,375
Crude Petroleum & Natural Gas (1.35%) Texaco, Inc.	14,100	1,533,375
Department Stores (0.82%) Dillard, Inc., Class A	26,900	931,412
Drug Stores & Proprietary Stores (0.97%) Rite Aid Corp.	22,000	1,097,250
Drugs (4.78%) Abbott Labs	9,600	640,800
American Home Products Corp.	15,900	1,216,350
Johnson & Johnson	12,400	798,250
Merck & Co., Inc.	10,700	1,107,450
Pharmacia & Upjohn, Inc.	35,300	1,226,675
Schering-Plough Corp.	9,000	430,875
		5,420,400
Electric Services (2.97%) Central & Southwest	42,600	905,250
Dominion Resources, Inc.	13,600	498,100
FPL Group, Inc.	11,600	534,325
Houston Industries, Inc.	32,200	690,287
Potomac Electric Power Co.	16,400	379,250
Southern Co.	16,500	360,938
		3,368,150
Electrical Industrial Apparatus (1.02%) Emerson Electric Co.	20,900	1,150,806
Electronic Distribution Equipment (0.88%) General Electric Co.	15,200	993,700
Fats & Oils (1.34%) Archer Daniels Midland Co.	64,595	1,517,983
General Industrial Machinery (0.71%) BW/IP Holdings, Inc., Class A	6,400	130,000
Pall Corp.	28,900	671,925
		801,925
Grain Mill Products (0.89%) Ralston-Ralston Purina Group	12,200	1,002,687
Greeting Cards (0.81%) American Greetings Corp.	24,700	916,988
Grocery Stores (3.47%) Albertson's, Inc.	38,400	1,401,600
American Stores Co.	22,600	1,115,875
Sysco Corp.	38,600	1,408,900
		3,926,375
Household Furniture (1.12%) Masco Corp.	30,500	1,273,375
Industrial Inorganic Chemicals (0.81%) Dow Chemical Co.	6,600	575,025
Eastman Chemical Co.	5,450	346,075
		921,100
Jewelry, Silverware & Plated Ware (0.23%) Jostens, Inc.	9,700	259,475
Life Insurance (0.73%) Lincoln National	12,900	830,437
Management & Public Relations (1.36%) Cognizant Corp.	20,900	846,450
Dun & Bradstreet Corp.	26,600	698,250
		1,544,700
Meat Products (0.74%) Tyson Foods, Inc.	43,600	833,850

Medical Instruments & Supplies (0.99%)			
St. Jude Medical, Inc.	28,850 (a)	1,125,150	
Medical Service & Health Insurance (1.49%)			
AON Corp.	13,125	679,219	
Foundation Health Systems, Inc., Class A	32,340 (a)	980,306	
Physicians Corp. of America	5,000 (a)	31,875	
			1,691,400
Metal Forgings & Stampings (0.54%)			
Newell Co.	15,500	614,188	
Miscellaneous Business Services (0.20%)			
Safety-Kleen Corp.	13,600	229,500	
Miscellaneous Electrical Equipment & Supplies (0.79%)			
Motorola, Inc.	11,800	896,800	
Miscellaneous Shopping Goods Stores (1.22%)			
Toys 'R' Us, Inc.	39,400 (a)	1,379,000	
Motor Vehicles, Parts & Supplies (1.04%)			
Grainger (W. W.), Inc.	15,000	1,172,812	
Paper Mills (1.20%)			
Kimberly Clark Corp.	27,400	1,363,150	
Petroleum Refining (3.57%)			
Amoco Corp.	6,800	591,175	
Atlantic Richfield Co.	23,200	1,635,600	
Exxon Corp.	29,600	1,820,400	
			4,047,175
Plastic Materials & Synthetics (0.11%)			
Wellman, Inc.	7,400	128,575	
Sanitary Services (2.36%)			
Browning-Ferris Industries, Inc.	32,900	1,093,925	
Waste Management, Inc.	49,100	1,577,338	
			2,671,263
Soap, Cleaners & Toilet Goods (0.98%)			
Avon Products	15,700	1,107,831	
Telephone Communication (1.78%)			
AT&T Corp.	32,700	1,146,544	
MCI Communications Corp.	22,600	865,156	
			2,011,700
Variety Stores (1.87%)			
Dayton-Hudson Corp.	15,200	808,450	
Wal-Mart Stores, Inc.	38,700	1,308,544	
			2,116,994
	Total Common Stocks	64,174,201	
Preferred Stocks (1.49%)			
Motor Vehicles & Equipment (1.49%)			
Federal-Mogul Corp.			
Series D Convertible	4,300 (b)	417,100	
Ford Motor Co.			
Series A Convertible	10,000	1,270,000	
	Total Preferred Stocks	1,687,100	
	Principal Amount	Value	
Bonds (0.77%)			
Blast Furnace & Basic Steel Products (0.19%)			
Quanex Corp. Convertible Subordinated Debentures; 6.88%; 6/30/07	\$ 200,000	\$ 213,500	
Engines & Turbines (0.17%)			
Outboard Marine Corp. Convertible			

Subordinated Debentures; 7.00%; 7/1/02	200,000	198,500
Petroleum Refining (0.31%)		
Pennzoil Co. Senior Exchangeable Debentures; 6.50%; 1/15/03	200,000	350,000
Trucking & Courier Services, Ex., Air (0.10%)		
Builders Transport, Inc. Convertible Subordinated Debentures; 6.50%; 5/1/11	306,000 (c)	116,663
Total Bonds		878,663

U.S. Government Treasury Notes & Bonds (36.13%)

5.13%; 2/28/98	\$2,500,000	\$ 2,489,845
5.13%; 11/30/98	3,000,000	2,966,250
6.00%; 8/15/99	1,100,000	1,097,250
6.38%; 1/15/00	1,900,000	1,910,094
5.50%; 4/15/00	3,500,000	3,437,658
6.13%; 9/30/00	3,500,000	3,483,595
6.25%; 4/30/01	4,000,000	3,990,000
6.38%; 9/30/01	2,000,000	2,000,626
6.38%; 8/15/02	3,000,000	2,998,125
6.25%; 2/15/03	3,000,000	2,976,564
5.75%; 8/15/03	4,800,000	4,635,000
7.25%; 8/15/04	1,500,000	1,563,750
7.50%; 2/15/05	800,000	846,500
5.63%; 2/15/06	3,600,000	3,380,627
7.25%; 5/15/16	1,000,000	1,042,813
7.50%; 11/15/16	1,000,000	1,068,750
7.25%; 8/15/22	1,000,000	1,043,438

Total U. S. Government Treasury Notes & Bonds 40,930,885

Commercial Paper (4.20%)

Personal Credit Institutions (4.20%)

Investment in Joint Trade Account; Associates Corp.;		
6.25%; 7/1/97	4,756,669	4,756,669

Total Portfolio Investments (99.24%) 112,427,518

Cash and receivables, net of liabilities (0.76%) 860,560

Total Net Assets (100.00%) \$113,288,078

- (a) Non-income producing security - No dividend paid during the past twelve months.
- (b) Restricted Security - See Note 4 to the financial statements.
- (c) Non-income producing security - Security in default.

PRINCIPAL BOND FUND, INC.

	Principal Amount	Value
Bonds (94.92%)		
Air Transportation, Scheduled (1.38%)		
Federal Express Corp., Pass-Through Cert.;		
7.96%; 3/28/17	\$ 500,000	\$ 509,265
7.58%; 7/2/19	500,000	484,455
		993,720
Aircraft & Parts (0.45%)		
Textron, Inc. Medium-Term Notes, Series C; 9.55%; 3/19/01	300,000	326,524
Auto & Home Supply Stores (0.83%)		
Pep Boys-Manny, Moe & Jack Notes; 7.00%; 6/1/05	600,000	596,289
Bakery Products (1.30%)		
Nabisco, Inc. Notes; 7.05%; 7/15/07	950,000	931,507

Beverages (2.38%) Joseph E. Seagram & Sons Guaranteed Debentures; 8.88%; 9/15/11	1,500,000	1,709,430
Broadwoven Fabric Mills, Cotton (2.05%) Burlington Industries, Inc. Notes; 7.25%; 9/15/05	1,500,000	1,469,439
Cable & Other Pay TV Services (1.41%) TCI Communications, Inc. Senior Notes; 8.00%; 8/1/05	1,000,000	1,016,296
Combination Utility Services (0.37%) Public Service Electric & Gas Medium-Term Notes; 8.16%; 5/26/09	250,000	267,922
Computer & Office Equipment (2.80%) Seagate Technology, Inc. Senior Notes; 7.37%; 3/1/07	2,000,000	2,014,682
Consumer Products (1.11%) Philip Morris Cos. Notes; 6.80%; 12/1/03 RJR Nabisco Capital Corp. Senior Notes; 8.75%; 4/15/04	500,000 300,000	491,617 306,375
		797,992
Copper Ores (0.43%) Asarco, Inc. Notes; 7.38%; 2/1/03	300,000	305,980
Crude Petroleum & Natural Gas (1.10%) Occidental Petroleum Corp. Medium-Term Notes; 9.73%; 6/15/01 Union Oil of California Medium-Term Notes; 7.77%; 4/19/05	250,000 500,000	274,540 518,362
		792,902
Deep Sea Foreign Transportation of Freight (1.36%) American President Cos., Ltd. Senior Notes; 7.13%; 11/15/03	1,000,000	976,233
Department Stores (3.26%) Harcourt General, Inc. Subordinated Notes; 9.50%; 3/15/00 J. C. Penney Co., Inc. Medium- Term Notes, Series A; 6.88%; 10/15/15 Sears Roebuck Co. Medium-Term Notes; 9.05%; 2/6/12	350,000 1,500,000 500,000	372,753 1,382,101 584,339
		2,339,193
Drug Stores & Proprietary Stores (1.89%) Rite Aid Corp. Senior Debentures; 6.88%; 8/15/13	1,500,000	1,359,607
Eating & Drinking Places (2.15%) Marriott International, Inc. Notes; 6.75%; 12/15/03 Senior Notes; 7.88%; 4/15/05	200,000 1,300,000	196,802 1,347,573
		1,544,375
Electric Services (1.89%) Cleveland Electric Illuminating Co. First Mortgage Bonds; 8.75%; 11/15/05 Southern California Edison Co. Notes; 6.38%; 1/15/06	400,000 1,000,000	404,584 954,700
		1,359,284
Engines & Turbines (1.33%) Brunswick Corp. Debentures; 7.38%; 9/1/23	1,000,000	954,353
Fabricated Rubber Products, NEC (0.39%) M. A. Hanna Co. Senior Notes;		

9.38%; 9/15/03	250,000	277,063
Farm & Garden Machinery (1.96%)		
Case Corp. Notes; 7.25%; 1/15/16	1,500,000	1,410,456
Gas Production & Distribution (1.65%)		
Enron Corp. Notes;		
7.13%; 5/15/07	750,000	751,553
Transco Energy Co. Notes;		
9.38%; 8/15/01	400,000	435,292
		1,186,845
General Government, NEC (1.45%)		
Ontario Hydro Debentures;		
7.45%; 3/31/13	500,000	510,865
Province of Saskatchewan, Canada		
Global Notes; 8.00%; 2/1/13	500,000	532,445
		1,043,310
Gold & Silver Ores (1.03%)		
Placer Dome, Inc. Notes;		
7.13%; 6/15/07	750,000	737,158
Grain Mill Products (1.40%)		
Ralston Purina Co. Debentures;		
7.75%; 10/1/15	1,000,000	1,007,847
Groceries & Related Products (1.99%)		
Supervalu, Inc. Medium-Term Notes,		
Series B; 6.49%; 12/12/05	1,500,000	1,430,448
Grocery Stores (1.43%)		
Food Lion, Inc. Notes;		
7.55%; 4/15/07	1,000,000	1,025,108
Highway & Street Construction (2.57%)		
Foster Wheeler Corp. Notes;		
6.75%; 11/15/05	1,900,000	1,846,811
Hospitals (0.77%)		
Columbia/HCA Healthcare Corp.		
Medium-Term Notes;		
8.70%; 2/10/10	500,000	550,214
Hotels & Motels (2.13%)		
Hilton Hotels Corp. Notes;		
7.70%; 7/15/02	1,500,000	1,526,481
Household Appliances (0.77%)		
Maytag Corp. Medium-Term Notes;		
8.62%; 11/15/07	500,000	550,332
Household Furniture (0.68%)		
Masco Corp. Debentures;		
7.13%; 8/15/13	500,000	486,560
Industrial Inorganic Chemicals (3.16%)		
FMC Corp.		
Debentures; 7.75%; 7/1/11	1,500,000	1,553,754
Senior Notes; 6.38%; 9/1/03	200,000	194,695
Grace (W.R.) & Co. Guaranteed		
Notes; 8.00%; 8/15/04	500,000	523,950
		2,272,399
Life Insurance (1.33%)		
John Hancock Mutual Life Insurance Co.		
Surplus Notes; 7.38%; 2/15/24	1,000,000 (a)	952,495
Lumber & Construction		
Materials (2.29%)		
Crane Co. Notes; 8.50%; 3/15/04	1,524,000	1,642,581
Machinery, Equipment &		
Supplies (1.02%)		
AAR Corp. Notes; 7.25%; 10/15/03	750,000	732,981
Millwork, Plywood & Structural		
Members (1.54%)		
Georgia-Pacific Corp.		
Debentures; 9.50%; 12/1/11	100,000	118,060
Senior Debentures; 7.70%; 6/15/15	1,000,000	988,501
		1,106,561
Miscellaneous Amusement, Recreation		
Services (1.98%)		

Circus Circus Enterprises Senior Notes; 6.45%; 2/1/06	1,500,000	1,418,856
Miscellaneous Chemical Products (0.55%) Ferro Corp. Senior Debentures; 7.63%; 5/1/13	400,000	396,990
Miscellaneous Investing (2.44%) Washington Real Estate Investment Trust Senior Notes; 7.25%; 8/13/06	1,000,000	997,947
Weingarten Realty Investors Medium-Term Notes; 7.29%; 5/23/05	750,000	757,543
		1,755,490
Miscellaneous Metal Ores (1.61%) Amax, Inc. Notes; 9.88%; 6/13/01	100,000	109,915
Cyprus Amax Minerals Notes; 7.38%; 5/15/07	650,000	654,540
Cyprus Minerals Co. Notes; 10.13%; 4/1/02	350,000	393,984
		1,158,439
Motion Picture Production & Services (0.50%) Columbia Pictures Entertainment, Inc. Senior Subordinated Notes; 9.88%; 2/1/98	350,000	357,490
Motor Vehicles & Equipment (1.15%) TRW, Inc. Medium-Term Notes; 9.25%; 12/30/11	700,000	823,317
Newspapers (2.23%) News America Holdings, Inc. Guaranteed Senior Notes; 8.50%; 2/15/05	1,500,000	1,599,129
Oil & Gas Field Services (2.82%) Petroleum Geo-Services ASA Notes; 7.50%; 3/31/07	2,000,000	2,023,044
Operative Builders (2.15%) Pulte Corp. Senior Notes; 8.38%; 8/15/04	1,000,000	1,050,536
7.30%; 10/24/05	500,000	492,583
		1,543,119
Paper Mills (2.71%) Bowater, Inc. Debentures; 9.38%; 12/15/21	200,000	235,073
Champion International Corp. Notes; 9.88%; 6/1/00	250,000	271,106
7.10%; 9/1/05	875,000	876,035
Potlatch Corp. Medium-Term Notes; 8.75%; 1/14/22	500,000	563,155
		1,945,369
Personal Credit Institutions (1.42%) General Motors Acceptance Corp. Medium-Term Notes; 8.25%; 2/24/04	500,000	533,056
Notes; 6.63%; 10/15/05	500,000	483,703
		1,016,759
Petroleum Refining (3.90%) Ashland Oil, Inc. Medium-Term Notes; 7.71%; 5/11/07	500,000	517,125
7.73%; 7/15/13	250,000	254,112
Series F; 8.54%; 1/13/05	250,000	270,928
Pennzoil Co. Debentures; 10.13%; 11/15/09	325,000	397,427
Phillips Petroleum Co. Notes; 9.38%; 2/15/11	500,000	595,241
Sun Co., Inc. Debentures; 9.00%; 11/1/24	500,000	562,308
Notes; 7.13%; 3/15/04	200,000	200,445
		2,797,586
Plastic Materials & Synthetics (2.70%) Geon Co. Notes; 6.88%; 12/15/05	2,000,000	1,937,094

Primary Nonferrous Metals (0.93%)			
Reynolds Metals Co.			
Medium-Term Notes;			
8.34%; 5/22/07	500,000	538,030	
7.65%; 2/4/08	125,000	128,476	
		666,506	
Pulp Mills (0.30%)			
International Paper Co. Medium-Term			
Notes; 9.70%; 8/15/00	200,000	216,817	
Railroads (1.33%)			
Union Pacific Corp. Notes;			
6.40%; 2/1/06	1,000,000	955,604	
Refrigeration & Service			
Machinery (0.52%)			
Westinghouse Electric Corp.			
Debentures; 8.63%; 8/1/12	350,000	370,629	
Rental of Railroad Cars (1.45%)			
Gatx Capital Corp. Medium-Term			
Notes, Series C; 6.86%; 10/13/05	1,000,000	978,639	
Signal Capital Corp. Equipment Trust			
Cert.; 9.95%; 2/1/06	64,000	66,044	
		1,044,683	
Sanitary Services (1.51%)			
Laidlaw, Inc. Senior Notes;			
7.88%; 4/15/05	1,045,000	1,084,410	
Sawmills & Planning Mills (1.10%)			
MacMillan Bloedel Delaware			
Guaranteed Notes; 8.50%; 1/15/04	750,000	789,240	
Security Brokers & Dealers (2.77%)			
Lehman Brothers, Inc.			
Senior Subordinated Notes;			
7.38%; 1/15/07	2,000,000	1,989,016	
Telephone Communication (3.48%)			
Sprint Corp. Notes; 8.13%; 7/15/02			
	500,000	526,706	
U.S. West Capital Funding, Inc.			
Medium-Term Notes;			
6.83%; 11/15/07	1,000,000	970,544	
Notes; 7.30%; 1/15/07	1,000,000	1,001,596	
		2,498,846	
Variety Stores (0.32%)			
Dayton-Hudson Corp. Debentures;			
9.63%; 2/1/08	150,000	175,903	
Dayton-Hudson Corp. Sinking Fund			
Debentures; 9.50%; 10/15/16	55,000	55,909	
		231,812	
	Total Bonds	68,161,623	
Commercial Paper (3.07%)			
Personal Credit Institutions (3.07%)			
Investment in Joint Trade Account;			
Associates Corp.;			
6.25%; 7/1/97	2,208,864	2,208,864	
	Total Portfolio Investments (97.99%)	70,370,487	
Cash, receivables and other assets,			
net of liabilities (2.01%)		1,441,278	
	Total Net Assets (100.00%)	\$71,811,765	

(a) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL CAPITAL ACCUMULATION
FUND, INC.

	Shares	Value
	Held	
Common Stocks (96.76%)		

Beverages (3.28%)		
Anheuser Busch Cos., Inc.	135,000	\$ 5,661,563
Pepsico, Inc.	49,000	1,840,562
Universal Foods Corp.	17,200	655,750
		8,157,875
Combination Utility Services (1.51%)		
Cinergy Corp.	58,200	2,026,088
Montana Power Co.	75,000	1,739,062
		3,765,150
Commercial Banks (14.88%)		
Banc One Corp.	123,940	6,003,344
BankBoston Corp.	38,300	2,759,994
Comerica, Inc.	95,000	6,460,000
Corestates Financial Corp.	111,000	5,966,250
First of America Bank Corp.	43,050	1,969,537
KeyCorp	103,000	5,755,125
NationsBank Corp.	36,800	2,373,600
Summit Bancorp.	115,000	5,764,375
		37,052,225
Commercial Printing (1.47%)		
R. R. Donnelley & Sons Co.	100,000	3,662,500
Communications Equipment (1.54%)		
Allen Telecom, Inc.	16,000 (a)	332,000
DSC Communications Corp.	52,800 (a)	1,174,800
General Instrument Corp.	92,800 (a)	2,320,000
		3,826,800
Computer & Office Equipment (2.27%)		
Hewlett-Packard Co.	33,400	1,870,400
International Business Machines Corp.	42,000	3,787,875
		5,658,275
Crude Petroleum & Natural Gas (1.72%)		
Texaco, Inc.	39,400	4,284,750
Drug Stores & Proprietary Stores (1.16%)		
Rite Aid Corp.	58,000	2,892,750
Drugs (6.70%)		
Abbott Labs	48,000	3,204,000
American Home Products Corp.	45,000	3,442,500
Merck & Co., Inc.	37,000	3,829,500
Pharmacia & Upjohn, Inc.	179,000	6,220,250
		16,696,250
Electric Services (3.77%)		
Dominion Resources, Inc.	44,400	1,626,150
FPL Group, Inc.	38,500	1,773,406
Houston Industries, Inc.	231,000	4,952,063
Potomac Electric Power Co.	45,000	1,040,625
		9,392,244
Electrical Industrial Apparatus (1.20%)		
Emerson Electric Co.	54,180	2,983,286
Electronic Distribution Equipment (1.31%)		
General Electric Co.	50,000	3,268,750
Farm & Garden Machinery (2.39%)		
Tenneco, Inc.	131,600	5,946,675
Fats & Oils (1.75%)		
Archer Daniels Midland Co.	185,010	4,347,735
General Industrial Machinery (1.68%)		
Pall Corp.	180,100	4,187,325
Grain Mill Products (0.94%)		
Ralston-Ralston Purina Group	28,600	2,350,562
Greeting Cards (2.67%)		
American Greetings Corp.	179,000	6,645,375
Grocery Stores (3.01%)		
Albertson's, Inc.	40,600	1,481,900
American Stores Co.	60,000	2,962,500
Sysco Corp.	83,400	3,044,100

Household Furniture (2.49%)		7,488,500
Masco Corp.	148,200	6,187,350
Industrial Inorganic Chemicals (1.15%)		
Dow Chemical Co.	22,000	1,916,750
Eastman Chemical Co.	14,900	946,150
		2,862,900
Industrial Organic Chemicals (0.56%)		
Ethyl Corp.	150,000	1,387,500
Jewelry, Silverware & Plated Ware (0.34%)		
Jostens, Inc.	31,700	847,975
Life Insurance (2.45%)		
American General Corp.	128,000	6,112,000
Management & Public Relations (2.94%)		
Cognizant Corp.	44,900	1,818,450
Dun & Bradstreet Corp.	209,900	5,509,875
		7,328,325
Meat Products (1.01%)		
Tyson Foods, Inc.	132,000	2,524,500
Medical Instruments & Supplies (0.83%)		
St. Jude Medical, Inc.	53,100 (a)	2,070,900
Medical Service & Health Insurance (1.56%)		
AON Corp.	46,575	2,410,256
Foundation Health Systems, Inc., Class A	48,620 (a)	1,473,794
		3,884,050
Metal Forgings & Stampings (1.02%)		
Newell Co.	64,000	2,536,000
Miscellaneous Electrical Equipment & Supplies (0.96%)		
Motorola, Inc.	31,400	2,386,400
Miscellaneous Shopping Goods Stores (1.53%)		
Toys 'R' Us, Inc.	108,700 (a)	3,804,500
Motor Vehicles, Parts & Supplies (1.14%)		
Grainger (W. W.), Inc.	36,400	2,846,025
Newspapers (0.81%)		
Dow Jones & Co., Inc.	50,000	2,009,375
Paper Mills (1.25%)		
Kimberly Clark Corp.	62,800	3,124,300
Petroleum Refining (4.98%)		
Atlantic Richfield Co.	80,000	5,640,000
Chevron Corp.	30,000	2,218,125
Exxon Corp.	74,000	4,551,000
		12,409,125
Photographic Equipment & Supplies (2.31%)		
Eastman Kodak Co.	75,000	5,756,250
Rental of Railroad Cars (2.55%)		
GATX Corp.	110,000	6,352,500
Sanitary Services (3.75%)		
Browning-Ferris Industries, Inc.	173,900	5,782,175
Waste Management, Inc.	110,600	3,553,025
		9,335,200
Soap, Cleaners, & Toilet Goods (1.60%)		
Avon Products	56,600	3,993,838
Telephone Communication (5.27%)		
AT&T Corp.	52,000	1,823,250
Southern New England Telecom	125,000	4,859,375

Seagate Technology	4,000 (a)	140,750
Systemsoft Corp.	110,000 (a)	1,182,500
		7,640,800
Construction & Related Machinery (2.85%)		
EVI, Inc.	122,000 (a)	5,124,000
Crude Petroleum & Natural Gas (1.22%)		
Devon Energy Corp.	60,000	2,205,000
Dairy Products (0.40%)		
Dreyer's Grand Ice Cream, Inc.	18,200	718,900
Drugs (1.89%)		
Alliance Pharmaceutical Corp.	30,000 (a)	301,875
Forest Laboratories, Inc.	17,400 (a)	721,013
Genzyme Corp. - General Division	7,182 (a)	199,300
Merck & Co., Inc.	10,000	1,035,000
Pharmacia & Upjohn, Inc.	32,400	1,125,900
Seragen, Inc.	20,000 (a)	20,000
		3,403,088
Electronic Components & Accessories (6.40%)		
Intel Corp.	37,900	5,374,694
Linear Technology Corp.	46,800	2,421,900
Solelectron Corp.	53,100 (a)	3,720,319
		11,516,913
Engineering & Architectural Services (0.96%)		
Paychex, Inc.	45,600	1,732,800
Family Clothing Stores (0.05%)		
Gadzooks, Inc.	5,000 (a)	97,500
Finance Services (1.39%)		
First Financial Corp.	85,250	2,504,219
Fire, Marine, & Casualty Insurance (1.59%)		
Berkley W.R. Corp.	48,500	2,855,437
Footwear, Except Rubber (0.61%)		
Nine West Group, Inc.	28,900 (a)	1,103,619
General Industrial Machinery (4.37%)		
Flow International Corp.	101,500 (a)	989,625
Kaydon Corp.	45,600	2,262,900
Pentair, Inc.	54,600	1,794,975
Roper Industries, Inc.	54,500	2,827,188
		7,874,688
Grocery Stores (0.77%)		
Casey's General Stores, Inc.	64,500	1,388,766
Holding Offices (0.76%)		
ISB Financial Corp.	52,400	1,362,400
Hose, Belting, Gaskets & Packing (1.09%)		
Mark IV Industries	81,818	1,963,632
Hospitals (1.87%)		
Humana, Inc.	62,300 (a)	1,440,687
Universal Health Services, Inc., Class B	50,000 (a)	1,925,000
		3,365,687
Household Appliances (1.02%)		
Maytag Corp.	70,000	1,828,750
Industrial Machinery, NEC (1.08%)		
Coltec Industries	100,000 (a)	1,950,000
Insurance Agents, Brokers & Services (1.23%)		
Equifax, Inc.	59,400	2,208,937
Investment Offices (1.21%)		
AMVESCAP PLC Sponsored ADS	37,560	2,187,870
Iron & Steel Foundries (0.28%)		

Atchison Casting Corp.	30,000 (a)	498,750
Laundry, Cleaning & Garment Services (0.77%)		
G & K Services, Inc., Class A	37,225	1,386,631
Measuring & Controlling Devices (1.57%)		
ISCO, Inc.	22,513	196,984
Millipore Corp.	49,100	2,160,400
Photon Dynamics	73,600 (a)	478,400
		2,835,784
Meat Products (0.98%)		
Michael Foods, Inc.	95,200	1,761,200
Medical Instruments & Supplies (3.20%)		
Boston Scientific Corp.	35,200 (a)	2,162,600
Nellcor Puritan Bennett	84,000 (a)	1,522,500
Steris Corp.	55,700 (a)	2,081,787
		5,766,887
Medical Service & Health Insurance (5.07%)		
Alternative Living Services	93,700 (a)	2,102,394
Foundation Health Systems, Inc., Class A	104,850 (a)	3,178,266
Orthofix International NV	77,600 (a)	805,100
PacifiCare Health Systems, Inc., Class A	190 (a)	11,507
PacifiCare Health Systems, Inc., Class B	20,598 (a)	1,315,697
Patient InfoSystems, Inc.	59,000 (a)	265,500
United Healthcare Corp.	27,900	1,450,800
		9,129,264
Metal Services, NEC (1.56%)		
BMC Industries, Inc.	81,900	2,805,075
Miscellaneous Apparel & Accessories (0.63%)		
Designer Holdings, Ltd.	112,000 (a)	1,141,000
Miscellaneous Chemical Products (1.70%)		
Cytec Industries	48,200 (a)	1,801,475
H. B. Fuller Co.	23,000	1,265,000
		3,066,475
Mortgage Bankers & Brokers (1.19%)		
Money Store, Inc.	75,000	2,151,562
Non-Store Retailers (1.19%)		
U.S. Office Products Co.	70,000 (a)	2,139,375
Office Furniture (0.98%)		
Chromcraft Revington, Inc.	36,200 (a)	1,036,225
Kimball International, Inc., Class B	18,200	732,550
		1,768,775
Oil & Gas Field Services (1.59%)		
Diamond Offshore Drilling	36,700 (a)	2,867,188
Operative Builders (1.12%)		
D. R. Horton, Inc.	151,200	1,568,700
Pulte Corp.	12,621	436,213
		2,004,913
Paints & Allied Products (0.73%)		
RPM, Inc.	71,700	1,317,488
Plastic Materials & Synthetics (0.70%)		
A. Schulman, Inc.	51,000	1,255,875
Plumbing, Heating, Air-Conditioning (1.40%)		
Apogee Enterprises, Inc.	114,000	2,451,000
Metalclad Corp.	45,600 (a)	69,825
		2,520,825
Refrigeration & Service Machinery (0.48%)		
Tecumseh Products Co., Class A	14,400	862,200
Sanitary Services (0.99%)		
Browning-Ferris Industries, Inc.	46,600	1,549,450
USA Waste Services, Inc.	5,847 (a)	225,840

Savings Institutions (0.52%)		1,775,290
Sterling Financial Corp.	49,900 (a)	929,388
Screw Machine Products, Bolts, Etc. (0.90%)		
TriMas Corp.	57,500	1,617,187
Security Brokers & Dealers (0.84%)		
Jefferies Group, Inc.	26,400	1,504,800
Telephone Communication (1.53%)		
McLeod, Inc.	81,500 (a)	2,750,625
Toys & Sporting Goods (0.97%)		
Mattel, Inc.	51,700	1,751,338
Trucking & Courier Services, Ex. Air (0.44%)		
J. B. Hunt Transport Services, Inc.	53,500	795,812
	Total Common Stocks	154,955,947

Preferred Stock (0.15%)

Medical Service & Health Insurance (0.15%)		
PacifiCare Health Systems, Inc. Series A Convertible	10,000	268,750

	Principal Amount	Value
Bonds (1.12%)		
Computer & Data Processing Services (0.20%)		
Sierra On Line Convertible Subordinated Debentures; 6.50%; 4/1/01	\$ 110,000 (b)	\$ 368,638
Industrial Inorganic Chemicals (0.30%)		
Ciba-Geigy Corp. Exchangeable Subordinated Debentures; 6.25%; 3/15/16	150,000 (b)	150,187
ICN Pharmaceuticals, Inc. Convertible Subordinated Debentures; 8.50%; 11/15/99	300,000	388,500
		538,687
Management & Public Relations (0.56%)		
Complete Management, Inc. Convertible Debentures; 8.00%; 12/15/03	1,000,000	995,000
Sanitary Services (0.06%)		
Enclean, Inc. Convertible Subordinated Debentures; 7.50%; 8/1/01	100,000	102,426
	Total Bonds	2,004,751

Commercial Paper (12.58%)

Business Credit Institutions (3.10%)		
American Express Credit Corp.;		
5.55%; 7/16/97	400,000	399,075
5.54%; 7/21/97	5,200,000	5,183,996
		5,583,071
Personal Credit Institutions (8.60%)		
Investment in Joint Trade Account; Associates Corp.; 6.25%; 7/1/97	8,959,254	8,959,254
Ford Motor Credit Co.;		
5.47%; 7/2/97	4,325,000	4,324,343
5.45%; 7/7/97	975,000	974,114
5.54%; 7/28/97	1,225,000	1,219,910
		15,477,621
Security Brokers & Dealers (0.88%)		
Merrill Lynch & Co., Inc.;		
5.57%; 7/14/97	1,600,000	1,596,782
	Total Commercial Paper	22,657,474

Total Portfolio Investments (99.90%)	179,886,922
Cash and receivables, net of liabilities (0.10%)	184,892
Total Net Assets (100.00%)	\$180,071,814

- (a) Non-income producing security - No dividend paid during the past twelve months.
(b) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL GOVERNMENT SECURITIES
FUND, INC.

Description of Issue			Principal	
Type	Rate	Maturity	Amount	Value
Government National Mortgage Association (GNMA) Certificates (32.10%)				
GNMA I	6.50%	5/15/26	\$ 988,983	\$ 946,892
GNMA I	7.00	1/15/24-2/15/27	1,835,482	1,807,245
GNMA I	7.50	1/15/27	988,383	995,905
GNMA I	8.00	10/15/16-6/15/17	1,357,455	1,409,495
GNMA II	6.00	5/20/24-3/20/27	19,833,224	18,342,727
GNMA II	6.50	12/20/25-2/20/26	3,848,516	3,670,885
Total GNMA Certificates				27,173,149

Federal National Mortgage Association (FNMA)
Certificates (19.51%)

FNMA	5.50	5/1/24	1,166,590	1,043,363
FNMA	6.00	11/1/23-3/1/26	3,924,532	3,656,724
FNMA	6.50	11/1/23-6/1/26	7,393,495	7,094,031
FNMA	7.00	8/1/23-2/1/27	2,738,226	2,688,031
FNMA	7.50	4/1/22	1,021,754	1,030,919
FNMA	7.50	TBA*	1,000,000	1,002,720
Total FNMA Certificates				16,515,788

Federal Home Loan Mortgage Corporation (FHLMC) Certificates (15.23%)

FHLMC	5.50	2/1/24-3/1/24	\$ 1,392,860	\$ 1,269,262
FHLMC	6.00	12/1/23-1/1/26	2,776,930	2,591,983
FHLMC	6.50	4/1/24-5/1/26	5,172,481	4,970,007
FHLMC	7.00	9/1/23-1/1/24	2,497,922	2,466,473
FHLMC	7.50	2/1/22-6/1/24	1,583,695	1,599,496
Total FHLMC Certificates				12,897,221

			Principal	Value
			Amount	
Student Loan Marketing Association (SLMA) Certificates (16.24%)				
Student Loan Marketing Association				
Debentures;				
7.30%; 8/1/12			\$10,000,000	\$10,318,450
8.47%; 12/1/08			1,000,000	1,127,978
9.15%; 12/1/04			1,200,000	1,364,346
Notes; 6.13%; 12/1/05			560,000	535,754
Notes; 9.25%; 6/1/04			350,000	397,706
Total SLMA Certificates				13,744,234

Private Export Funding Corporation (PEFCO)
Certificates (15.56%)

Private Export Funding Corp.				
Secured Notes;				
6.62%; 10/1/05			2,000,000	1,975,240
9.45%; 12/31/99			4,500,000	4,824,810
Series SS, Senior Secured Notes;				
5.50%; 3/15/01			3,325,000	3,219,331
5.80%; 2/1/04			2,200,000	2,136,090
7.03%; 10/31/03			1,000,000	1,019,090

Total PEFCO Certificates 13,174,561

Total Portfolio Investments (98.64%) 83,504,953

Cash and receivables, not of liabilities (1.36%) 1,151,155

Total Net Assets (100.00%) \$84,656,108

* Securities purchased on a to-be-announced basis.

PRINCIPAL GROWTH FUND, INC.

	Shares Held	Value
Common Stocks (82.78%)		
Advertising (1.17%)		
Interpublic Group of Cos., Inc.	25,300	\$ 1,551,206
Beverages (1.64%)		
Coca-Cola Co.	8,800	594,000
Pepsico, Inc.	42,100	1,581,381
		2,175,381
Blast Furnace & Basic Steel Products (0.48%)		
Lukens, Inc.	33,600	632,100
Carpets & Rugs (0.44%)		
Shaw Industries, Inc.	54,800	582,250
Cash Grains (1.66%)		
Pioneer Hi-Bred International	27,400	2,192,000
Commercial Banks (5.50%)		
Banc One Corp.	16,500	799,219
BankBoston Corp.	11,000	792,687
Barnett Banks Inc.	10,000	525,000
CoreStates Financial Corp.	12,300	661,125
First of America Bank Corp.	17,550	802,913
Firststar Corp.	30,000	915,000
FirstMerit Corp.	14,600	700,800
NationsBank Corp.	24,402	1,573,929
Princeton National Bancorp., Inc.	27,300	505,050
		7,275,723
Communications Equipment (3.91%)		
General Instrument Corp.	75,800 (a)	1,895,000
Northern Telecom Ltd.	18,700	1,701,700
Octel Communications Corp.	67,200 (a)	1,575,000
		5,171,700
Computer & Data Processing Services (2.87%)		
GTECH Holdings Corp.	47,800 (a)	1,541,550
Microsoft Corp.	17,800 (a)	2,249,475
		3,791,025
Computer & Office Equipment (4.16%)		
Automatic Data Processing, Inc.	20,000	940,000
Ceridian Corp.	37,400 (a)	1,580,150
Digital Equipment Corp.	30,800 (a)	1,091,475
Hewlett-Packard Co.	27,500	1,540,000
Pitney Bowes, Inc.	5,000	347,500
		5,499,125
Department Stores (0.46%)		
May Department Stores	12,800	604,800
Drugs (8.40%)		
Alliance Pharmaceutical Corp.	10,000 (a)	100,625
Bristol-Myers Squibb Co.	20,000	1,620,000
Forest Laboratories, Inc.	32,600 (a)	1,350,863
Genzyme Corp. - General Division	9,500 (a)	263,625
Johnson & Johnson	20,000	1,287,500
Lilly (Eli) & Co.	20,000	2,186,250
Merck & Co., Inc.	14,600	1,511,100
Pharmacia & Upjohn, Inc.	27,500	955,625
Smithkline Beecham PLC ADR	20,000	1,832,500

		11,108,088
Eating & Drinking Places (1.42%)		
Marriott International, Inc.	25,000	1,534,375
McDonald's Corp.	7,000	338,187
		1,872,562
Electrical Goods (0.54%)		
Avnet, Inc.	12,500	718,750
Electronic Components & Accessories (3.33%)		
Intel Corp.	17,300	2,453,356
Linear Technology Corp.	37,800	1,956,150
		4,409,506
Electronic Distribution Equipment (0.49%)		
General Electric Co.	10,000	653,750
Federal & Federally Sponsored Credit (0.36%)		
Federal National Mortgage Association	11,000	479,875
Footwear, Except Rubber (1.65%)		
Stride Rite Corp.	169,300	2,179,738
General Industrial Machinery (2.77%)		
Ingersoll-Rand Co.	20,400	1,259,700
Tyco International Ltd.	34,500	2,399,906
		3,659,606
Grain Mill Products (1.03%)		
General Mills, Inc.	2,445	159,231
Ralston-Ralston Purina Group	14,600	1,199,937
		1,359,168
Grocery Stores (0.35%)		
Casey's General Stores, Inc.	21,200	456,463
Hose, Belting, Gaskets & Packing (1.11%)		
Mark IV Industries	61,425	1,474,200
Hospitals (2.41%)		
Columbia/HCA Healthcare Corp.	24,900	978,881
Humana, Inc.	45,500 (a)	1,052,188
Universal Health Services, Inc., Class B	30,000 (a)	1,155,000
		3,186,069
Household Furniture (1.10%)		
Masco Corp.	34,900	1,457,075
Investment Offices (1.11%)		
AMVESCAP PLC Sponsored ADS	25,200	1,467,900
Knitting Mills (0.22%)		
Russell Corp.	10,000	296,250
Lumber & Other Building Materials (1.43%)		
Home Depot, Inc.	27,400	1,888,888
Management & Public Relations (1.49%)		
Dun & Bradstreet Corp.	5,000	131,250
Medaphis Corp.	183,000 (a)	1,841,437
		1,972,687
Medical Instruments & Supplies (3.64%)		
Becton, Dickinson & Co.	20,000	1,012,500
Boston Scientific Corp.	41,100 (a)	2,525,081
Nellcor Puritan Bennett	70,200 (a)	1,272,375
		4,809,956
Medical Service & Health Insurance (3.37%)		
AON Corp.	17,550	908,212
Foundation Health Systems, Inc., Class A	62,080 (a)	1,881,800
Pacificare Health Systems, Inc., Class A	1,467	88,845
Pacificare Health Systems, Inc., Class B	4,611	294,528
United Healthcare Corp.	15,000	780,000
Value Health, Inc.	25,000 (a)	506,250

Millwork, Plywood & Structural Members (0.90%)		4,459,635
Georgia-Pacific Corp.	14,000	1,195,250
Miscellaneous Converted Paper Products (0.50%)		
Minnesota Mining & Mfg. Co.	6,500	663,000
Miscellaneous Electrical Equipment & Supplies (1.57%)		
Motorola, Inc.	27,300	2,074,800
Miscellaneous Fabricated Metal Products (1.12%)		
Parker-Hannifin Corp.	24,300	1,474,706
Miscellaneous Investing (1.10%)		
HFS, Inc.	25,000 (a)	1,450,000
Miscellaneous Plastics Products, NEC (0.22%)		
Rubbermaid, Inc.	10,000	297,500
Miscellaneous Shopping Goods Stores (0.40%)		
Toys 'R' Us, Inc.	15,000 (a)	525,000
Motor Vehicles & Equipment (2.68%)		
Chrysler Corp.	60,200	1,975,313
Dana Corp.	41,300	1,569,400
		3,544,713
Operative Builders (0.50%)		
Pulte Corp.	19,300	667,056
Paints & Allied Products (0.35%)		
RPM, Inc.	25,000	459,375
Petroleum Refining (1.99%)		
Atlantic Richfield Co.	11,600	817,800
Exxon Corp.	29,600	1,820,400
		2,638,200
Plastic Materials & Synthetics (0.63%)		
A. Schulman, Inc.	33,600	827,400
Preserved Fruits & Vegetables (0.77%)		
CPC International, Inc.	11,100	1,024,669
Radio, Television & Computer Stores (0.21%)		
Tandy Corp.	5,000	280,000
Radio & Television Broadcasting (0.82%)		
Sinclair Broadcasting Group	35,000	1,080,625
Refrigeration & Service Machinery (0.76%)		
Tecumseh Products Co., Class A	16,800	1,005,900
Rubber & Plastics Footwear (0.88%)		
Nike, Inc.	20,000	1,167,500
Sanitary Services (1.10%)		
Browning-Ferris Industries, Inc.	29,300	974,225
Waste Management, Inc.	15,000	481,875
		1,456,100
Security Brokers & Dealers (0.86%)		
Salomon, Inc.	20,400	1,134,750
Soap, Cleaners & Toilet Goods (2.83%)		
Colgate-Palmolive Co.	23,400	1,526,850
Ecolab, Inc.	46,400	2,215,600
		3,742,450
Telephone Communication (1.09%)		
WorldCom, Inc.	45,000 (a)	1,440,000
Toys & Sporting Goods (0.92%)		
Mattel, Inc.	35,950	1,217,806
Variety Stores (0.39%)		
Wal-Mart Stores, Inc.	15,000	507,188

Women's & Children's
Undergarments (1.68%)
Warnaco Group, Class A 69,800 2,224,875

Total Common Stock 109,484,339

Preferred Stock (0.12%)

Medical Service & Health
Insurance (0.12%)

Pacificare Health Systems, Inc.,
Series A Convertible 6,091 163,695

Principal
Amount Value

Commercial Paper (17.03%)

Business Credit Institutions (4.46%)

American Express Credit Corp.;
5.50%; 7/7/97 \$ 2,950,000 \$ 2,947,296
5.55%; 7/14/97 2,950,000 2,944,088

5,891,384

Personal Credit Institutions (9.15%)

Investment in Joint Trade Account;
Associates Corp.;
6.25%; 7/1/97 6,619,662 6,619,662
Ford Motor Credit Co.;
5.54%; 7/21/97 3,475,000 3,464,305
5.54%; 7/28/97 2,025,000 2,016,586

12,100,553

Security Brokers & Dealers (3.42%)

Merrill Lynch & Co., Inc.
5.55%; 7/2/97 4,525,000 4,524,302

Total Commercial Paper 22,516,239

Total Portfolio Investments (99.93%) 132,164,273

Cash and receivables, net of liabilities (0.07%) 94,449

Total Net Assets (100.00%) \$ 132,258,722

(a) Non-income producing security - No dividend paid during the past twelve months.

PRINCIPAL HIGH YIELD FUND, INC.

Principal
Amount Value

Bonds (93.19%)

Advertising (2.75%)

Lamar Advertising Company Senior
Subordinated Notes; 9.63%; 12/1/06 \$ 200,000 \$ 205,000
Outdoor Systems Senior Subordinated
Notes; 8.88%; 6/15/07 200,000 (a) 194,250
399,250

Aircraft & Parts (1.94%)

Rohr Industries, Inc. Subordinated
Debentures; 9.25%; 3/1/17 300,000 281,250

Blast Furnace & Basic Steel

Products (5.36%)

Ivaco Senior Notes;
11.50%; 9/15/05 150,000 160,875
Titan Wheel International Senior
Subordinated Notes; 8.75%; 4/1/07 300,000 306,000
Weirton Steel Corp. Senior Notes;
10.75%; 6/1/05 300,000 312,000

778,875

Broadwoven Fabric Mills,

Cotton (2.02%)

J.P. Stevens & Co., Inc. Sinking Fund

Debentures; 9.00%; 3/1/17	300,000	293,250
Business Credit Institutions (0.18%)		
Navistar Financial Corp. Senior Subordinated Notes; 9.00%; 6/1/02	25,000 (a)	25,719
Cable & Other Pay TV Services (3.60%)		
Jones Intercable, Inc. Senior Notes; 9.63%; 3/15/02	300,000	314,250
TCI Communications, Inc. Debentures; 8.75%; 8/1/15	200,000	209,810
		524,060
Cogeneration - Small Power Producer (3.35%)		
AES Corp. Senior Subordinated Notes; 10.25%; 7/15/06	300,000	327,750
California Energy Co., Inc. Ltd. Resource Senior Secured Notes; 9.88%; 6/30/03	150,000	159,000
		486,750
Crude Petroleum & Natural Gas (6.87%)		
Chesapeake Energy Corp. Senior Notes; 8.50%; 3/15/12	200,000	182,000
Nuevo Energy Co. Senior Subordinated Notes; 9.50%; 4/15/06	400,000	420,000
Ocean Energy, Inc. Senior Subordinated Notes; 8.88%; 7/15/07	200,000	199,250
Snyder Oil Company Senior Subordinated Notes; 8.75%; 6/15/07	200,000	198,250
		999,500
Dairy Farms (2.00%)		
Fage Dairy Industry S.A. Senior Notes; 9.00%; 2/1/07	300,000 (a)	291,000
Electrical Industrial Apparatus (1.44%)		
Motors & Gears, Inc., Series A Senior Notes; 10.75%; 11/15/06	200,000	209,000
Electronic Components & Accessories (3.22%)		
Advanced Micro Devices, Inc.; Senior Secured Notes; 11.00%; 8/1/03	300,000	335,250
Fairchild Semiconductor Corp. Senior Subordinated Notes; 10.13%; 3/15/07	125,000 (a)	132,500
		467,750
Engines & Turbines (1.90%)		
Outboard Marine Corp. Debentures; 9.13%; 4/15/17	300,000	276,000
Family Clothing Stores (0.35%)		
Specialty Retailers, Inc. Senior Notes; 8.50%; 7/15/05	50,000 (a)	50,375
Finance Services (1.38%)		
DVI, Inc. Senior Notes; 9.88%; 2/1/04	200,000	200,000
Footwear, Except Rubber (1.41%)		
Brown Group, Inc. Senior Notes; 9.50%; 10/15/06	200,000	205,000
Forest Products (2.00%)		
Doman Industries, Ltd. Senior Notes; 8.75%; 3/15/04	300,000	291,000
Fuel Dealers (2.02%)		
Petroleum Heat & Power Co., Inc. Subordinated Notes; 10.13%; 4/1/03	300,000	294,000
Groceries & Related Products (2.04%)		
Rykoff-Sexton, Inc. Senior Subordinated Notes; 8.88%; 11/1/03	300,000	297,000
Grocery Stores (1.37%)		
Quality Food Centers Senior Subordinated Notes; 8.70%; 3/15/07	200,000 (a)	198,500
Hotels & Motels (2.09%)		
John Q. Hammons Hotels, L.P. & Finance Corp. First Mortgage Notes; 8.88%; 2/15/04	300,000	303,000
Industrial Inorganic Chemicals (1.38%)		

PT Tri Polyta Indonesia TBK; Guaranteed Secured Notes; 11.38%; 12/1/03	200,000	200,500
Knitting Mills (2.26%) Tultex Corp. Senior Notes; 10.63%; 3/15/05	300,000	327,750
Lumber & Other Building Materials (0.53%) Central Tractor Farm & Country, Inc. Senior Notes; 10.63%; 4/1/07	75,000	77,625
Miscellaneous Amusement, Recreation Service (3.49%) Rio Hotel & Casino, Inc. Senior Subordinated Notes; 9.50%; 4/15/07	300,000	308,250
Station Casinos, Inc. Senior Subordinated Notes, Series B 9.63%; 6/1/03	200,000	198,000
		506,250
Miscellaneous Plastics Products, NEC (2.09%) Congoleum Corp. Senior Notes; 9.00%; 2/1/01	300,000	303,000
Motor Vehicles & Equipment (0.37%) Blue Bird Body Co. Senior Subordinated Notes; 10.75%; 11/15/06	50,000	53,125
Newspapers (1.74%) Hollinger International Publishing, Inc. Senior Notes; 8.63%; 3/15/05	200,000	202,000
Sun Media Corp. Senior Subordinated Notes; 9.50%; 2/15/07	50,000 (a)	50,500
		252,500
Nursing & Personal Care Facilities (2.09%) Mariner Health Group, Inc. Senior Subordinated Notes; 9.50%; 4/1/06	300,000	303,375
Oil & Gas Field Services (2.82%) Dawson Production Services Senior Notes; 9.38%; 2/1/07	300,000	304,500
Parker Drilling Co. Senior Notes, Series B; 9.75%; 11/15/06	100,000	105,250
		409,750
Paper Mills (1.37%) Indah Kiat Finance Mauritius Ltd. Guaranteed Senior Notes; 10.00%; 7/1/07	200,000	198,454
Petroleum Refining (2.17%) Crown Central Petroleum Corp. Senior Notes; 10.88%; 2/1/05	300,000	315,000
Primary Nonferrous Metals (0.37%) Euramax International PLC Senior Subordinated Notes; 11.25%; 10/1/06	50,000	53,750
Pulp Mills (0.35%) Pen-Tab Industries, Inc. Senior Subordinated Debentures; 10.88%; 2/1/07	50,000 (a)	50,875
Radio, Television & Computer Stores (2.13%) Compusa, Inc. Senior Subordinated Notes; 9.50%; 6/15/00	300,000	309,750
Radio & Television Broadcasting (3.14%) American Radio Systems Senior Subordinated Notes; 9.00%; 2/1/06	300,000	303,750
Sullivan Broadcasting, Inc. Senior Subordinated Notes; 10.25%; 12/15/05	150,000	153,000
		456,750
Retail Stores, NEC (1.44%) Cole National Group, Inc. Senior Subordinated Notes; 9.88%; 12/31/06	200,000	209,500
Search & Navigation Equipment (2.10%)		

Amresco, Inc. Senior Subordinated Notes; 10.00%; 3/15/04	300,000	304,500
Soap, Cleaners & Toilet Goods (2.23%) Coty, Inc. Senior Subordinated Notes; 10.25%; 5/1/05	300,000	323,250
Telephone Communication (9.33%) Lenfest Communications Senior Notes; 8.38%; 11/1/05	200,000	196,750
Paging Network, Inc. Senior Debentures; 8.88%; 2/1/06	300,000	273,750
Rogers Cablesystems, Ltd. Senior Secured Second Priority Notes; 9.63%; 8/1/02	250,000	263,125
Rogers Cantel, Inc. Senior Secured Debentures; 9.75%; 6/1/16	300,000	318,000
Vanguard Cellular Systems, Inc. Senior Debentures; 9.38%; 4/15/06	300,000	303,000
		1,354,625
Textile Finishing, Except Wool (2.15%) Dominion Textile (USA), Inc. Guaranteed Senior Notes; 9.25%; 4/1/06	300,000	312,750
Water Supply (2.35%) California Energy Casecnan Water & Energy Co., Inc. Senior Secured Bonds, Series B; 11.95%; 11/15/10	300,000	342,000
	Total Bonds	13,536,358
Commercial Paper (0.99%)		
Personal Credit Institutions (0.99%) Investment in Joint Trade Account; Associates Corp.; 6.25%; 7/1/97	144,282	144,282
	Total Portfolio Investments (94.18%)	13,680,640
Cash and receivables, net of liabilities (5.82%)		844,689
	Total Net Assets (100.00%)	\$14,525,329

(a) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL MONEY MARKET FUND, INC.

	Principal Amount	Value
Commercial Paper (81.26%)		
Advertising (1.88%) Omnicom Finance, Inc.; LOC ABN-AMRO Bank N.V. 5.58%; 7/14/97	\$ 825,000	\$ 823,337
Asset Backed Securities (3.71%) Retailer Funding Corp.; 5.57%; 7/15/97	500,000	498,917
Sheffield Receivables Corp.; 5.55%; 7/16/97	625,000	623,555
5.57%; 7/22/97	500,000	498,375
		1,620,847
Business Credit Institutions (8.13%) American Express Credit Corp.; 5.54%; 8/19/97	850,000	843,591
Golden Gate Management, Inc.; LOC Sumitomo Bank; 5.63%; 7/3/97	1,000,000	999,687
5.67%; 7/25/97	900,000	896,598
General Electric Capital Corp.; 5.85%; 1/23/98	500,000	483,262
International Lease Finance Corp.; 5.65%; 7/17/97	329,000	328,174
		3,551,312
Department Stores (4.96%)		

Sears Roebuck Acceptance Corp.;			
5.55%; 7/28/97	275,000	273,855	
5.57%; 7/30/97	675,000	671,971	
5.56%; 7/31/97	550,000	547,452	
5.56%; 8/4/97	675,000	671,456	
			2,164,734
Electric Services (5.88%)			
AES Shady Point, Inc.;			
LOC Bank of Tokyo-Mitsubishi, Ltd.;			
5.68%; 7/10/97	1,225,000	1,223,260	
CommEd Fuel Co., Inc.;			
LOC Credit Suisse;			
5.58%; 7/21/97	750,000	747,675	
5.54%; 7/25/97	600,000	597,784	
			2,568,719
Finance Services (6.33%)			
Mitsubishi International Corp.;			
5.58%; 7/2/97	300,000	299,954	
5.56%; 7/9/97	500,000	499,382	
5.54%; 7/17/97	500,000	498,769	
5.60%; 7/28/97	800,000	796,640	
PHH Corp.;			
5.61%; 7/25/97	350,000	348,691	
5.57%; 8/18/97	325,000	322,586	
			2,766,022
Forest Products (1.72%)			
Weyerhaeuser Co.;			
5.55%; 7/18/97	755,000	753,021	
Mortgage Bankers & Brokers (4.91%)			
Countrywide Home Loan, Inc.;			
5.55%; 7/2/97	1,000,000	999,846	
5.57%; 7/21/97	675,000	672,911	
5.60%; 8/6/97	475,000	472,340	
			2,145,097
Motor Vehicles & Equipment (7.29%)			
Echlin, Inc.;			
5.61%; 7/16/97	500,000	498,831	
5.60%; 7/23/97	850,000	847,091	
5.64%; 7/30/97	400,000	398,183	
5.65%; 9/12/97	325,000	321,277	
Paccar Financial Corp.;			
5.55%; 7/28/97	1,125,000	1,120,317	
			3,185,699
Paperboard Mills (1.60%)			
Sonoco Products Co.;			
5.53%; 7/1/97	700,000	700,000	
Personal Credit Institutions (9.44%)			
Beneficial Corp.;			
5.55%; 8/5/97	950,000	944,874	
Comoloco, Inc.;			
5.38%; 7/24/97	500,000	498,281	
5.72%; 12/12/97	500,000	486,971	
Ford Motor Credit Co.;			
5.54%; 7/28/97	675,000	672,195	
General Motors Acceptance Corp.;			
5.58%; 7/3/97	500,000	499,845	
Norwest Financial, Inc.;			
5.55%; 7/29/97	1,025,000	1,020,576	
			4,122,742
Real Estate Operators & Lessors (4.27%)			
Towson Town Center, Inc.; LOC			
Bank of Tokyo-Mitsubishi, Ltd.;			
5.63%; 7/7/97	300,000	299,719	
5.63%; 7/10/97	500,000	499,296	
5.60%; 7/14/97	500,000	498,989	
5.67%; 8/1/97	400,000	398,047	
5.75%; 8/4/97	172,000	171,066	
			1,867,117
Security Brokers & Dealers (11.28%)			
Bear Stearns Cos., Inc.;			
5.55%; 7/17/97	500,000	498,767	
Goldman Sachs Group, L.P.;			
5.55%; 7/7/97	1,000,000	999,075	
5.57%; 7/11/97	750,000	748,840	
5.73%; 1/23/98	500,000	483,606	

Merrill Lynch & Co., Inc.;		
5.55%; 7/14/97	850,000	848,296
5.55%; 7/16/97	500,000	498,844
5.29%; 11/18/97	375,000	367,285
5.80%; 2/2/98	500,000	482,600
		4,927,313
Subdividers & Developers (2.29%)		
Hartz 667 Commercial Paper Corp.;		
LOC Bank of Tokyo-Mitsubishi, Ltd.;		
5.63%; 7/2/97	1,000,000	999,844
Telephone Communication (3.00%)		
Bell Atlantic Financial Services, Inc.;		
5.55%; 7/1/97	310,000	310,000
5.55%; 7/8/97	1,000,000	998,921
		1,308,921
Tires & Inner Tubes (4.57%)		
Bridgestone/Firestone, Inc.;		
LOC Sumitomo Bank Ltd.;		
5.60%; 7/8/97	500,000	499,456
5.63%; 7/9/97	1,000,000	998,749
5.63%; 7/11/97	500,000	499,218
		1,997,423
Total Commercial Paper	35,502,148	
Bank Notes (1.14%)		
Commercial Banks (1.14%)		
LaSalle National Bank;		
6.20%; 8/21/97	500,000	500,000
Bonds (18.14%)		
Beverages (1.15%)		
Pepsico, Inc.		
6.13%; 1/15/98	500,000	500,526
Business Credit Institutions (3.92%)		
CIT Group Holdings, Inc.		
Debentures; 8.75%; 4/15/98	500,000	510,360
Medium-Term Notes;		
6.20%; 4/15/98	500,000	500,264
Senior Notes; 5.85%; 3/16/98	500,000	500,668
General Electric Capital Corp. Notes;		
8.00%; 1/15/98	200,000	201,877
		1,713,169
Computer & Office Equipment (0.69%)		
Xerox Corp. Notes;		
9.63%; 9/1/97	300,000	301,853
Consumer Products (1.38%)		
Philip Morris Cos. Notes;		
6.38%; 1/15/98	600,000	601,055
Electric Services (1.60%)		
Southern California Edison Co.		
1st Ref. Mortgage; 6.13%; 7/15/97	500,000	500,096
Notes; 5.88%; 2/1/98	200,000	200,056
		700,152
Personal Credit Institutions (9.40%)		
American General Finance Corp.		
Notes; 7.70%; 11/15/97	500,000	503,654
Senior Notes; 8.25%; 1/15/98	500,000	505,709
Associates Corp. of North America		
Senior Notes;		
6.75%; 7/15/97	500,000	500,165
5.88%; 8/15/97	500,000	500,105
8.38%; 1/15/98	185,000	187,032
Commercial Credit Co. Notes;		
8.50%; 2/15/98	800,000	812,459
5.50%; 5/15/98	600,000	596,868
Household Finance Corp. Notes;		
6.25%; 10/15/97	500,000	500,704
		4,106,696
Total Bonds	7,923,451	
Total Portfolio Investments (100.54%)	43,925,599	

Liabilities, net of cash and receivables (-0.54%)	(237,972)
Total Net Assets (100.00%)	\$43,687,627

PRINCIPAL WORLD FUND, INC.

	Shares Held	Value
Common Stocks (94.33%)		
Advertising (1.59%)		
WPP Group PLC	415,000	\$ 1,702,538
Beverages (1.71%)		
Lion Nathan	205,000	518,226
Panamerican Beverages	39,900	1,311,712
		1,829,938
Blast Furnace & Basic Steel Products (1.37%)		
British Steel PLC	121,300	300,800
Voest-Alpine Stahl	25,700 (b)	1,164,370
		1,465,170
Central Reserve Depositories (4.74%)		
Banco Totta & Acores	39,000	652,477
Dao Heng Bank Group Ltd.	89,000	487,087
Ergo Bank	126	7,575
National Westminster Bank	110,000	1,478,315
Union Bank of Norway	12,800	381,161
Wing Hang Bank	343,200	2,073,212
		5,079,827
Chewing & Smoking Tobacco (1.46%)		
Imperial Tobacco Group PLC	243,500	1,566,319
Combination Utility Services (1.56%)		
ABB AG	1,105	1,675,104
Commercial Banks (10.40%)		
ABN-AMRO Holdings NV	101,156	1,889,587
Bank of Ireland	186,833	2,056,911
Barclays PLC	64,748	1,284,501
Fokus Bank	64,000 (b)	542,018
Istituto Mobiliare Italiano	141,000	1,267,881
National Australia Bank Ltd.	89,886	1,277,393
Royal Bank of Canada Montreal, Quebec	36,000 (a)	1,632,262
Svenska Handelsbanken AB Free	40,500	1,194,199
		11,144,752
Communications Equipment (0.97%)		
ECI Telecommunications Ltd.	35,000	1,041,250
Communications Services, NEC (0.97%)		
KPN Royal PTT Nederland	26,450	1,039,467
Computer & Office Equipment (0.10%)		
Canon, Inc.	4,000	109,062
Construction & Related Machinery (0.59%)		
Powerscreen International PLC	58,100	632,874
Consumer Products (1.51%)		
Imasco Ltd.	55,700	1,615,010
Crude Petroleum & Natural Gas (0.45%)		
Hardy Oil & Gas	86,200	479,883
Deap Sea Foreign Transportation of Freight (0.81%)		
Van Ommeren NV	22,288	866,803
Department Stores (0.65%)		
Vendex International	12,658	694,493
Drugs (6.97%)		
Elan Corp. PLC ADR	34,400 (a)	1,556,600
Galenica Holdings AG	480 (a)	225,538
Novartis AG	1,668	2,670,447
Pharmacia & Upjohn, Inc.	46,500	1,615,875

Teva Pharmaceutical ADR	21,500	1,392,125
		7,460,585
Electric Light & Wiring Equipment (0.21%)		
Clipsal Industries Holdings	25,000	88,500
Otra NV	8,300	133,439
		221,939
Electric Services (0.23%)		
Korea Electric Power Corp.	8,100	241,723
Electronic Components & Accessories (1.90%)		
Amtek Engineering	221,250	388,389
Elec & Eltek International	268,000	1,500,800
Murata Mfg.	1,000	39,850
Varitronix	63,000	106,934
		2,035,973
Electronic Distribution Equipment (3.41%)		
Amper SA	38,000	1,082,613
Phillips Electronics	28,900	2,073,850
Techtronic Industries Co.	2,800,000	498,756
		3,655,219
Engines & Turbines (2.28%)		
Mabuchi Motor	1,400	81,360
PT United Tractors	372,000	1,376,928
Scapa Group PLC	281,000	986,780
		2,445,068
Farm & Garden Machinery (1.15%)		
New Holland NV	45,000	1,231,875
Finance Services (0.68%)		
MBF Capital Berhad	395,000	726,148
Functions Closely Related to Banking (0.70%)		
Liechtenstein Global Trust AG	1,225	752,049
Gas Production & Distribution (1.19%)		
OMV AG	9,950	1,274,810
General Industrial Machinery (0.85%)		
SKF AB 'B' Free	35,300	913,044
Holding Offices (1.02%)		
First Pacific Co., Ltd.	860,382	1,099,455
Household Appliances (0.66%)		
Fisher & Paykel	182,087	709,582
Industrial Inorganic Chemicals (2.83%)		
Bayer AG	30,100	1,160,792
Kemira OY	112,000 (b)	1,056,552
Rhome Poulenc	20,000	817,587
		3,034,931
Investment Offices (1.24%)		
AMVESCAP PLC	226,800	1,323,009
Life Insurance (0.91%)		
QBE Insurance Group Ltd.	162,000 (a)	970,892
Meat Products (5.83%)		
AFFCO Holdings	1,147,266	396,543
Danisco AS	33,300	2,038,966
Davomas ABADI	780,000 (a)	962,369
Orkla B Ordinary Shares	21,300	1,446,031
Unilever NV	6,630	1,398,196
		6,242,105
Miscellaneous Chemical Products (1.10%)		
Hoechst AG	27,800	1,178,984
Miscellaneous Converted Paper Products (1.06%)		
Bunzl PLC	352,000 (a)	1,139,447
Miscellaneous Durable Goods (0.89%)		
Hagemeyer NV	18,350	949,660
Miscellaneous Food & Kindred		

Products (0.90%)			
Greencore Group PLC	197,000 (a)	962,290	
Miscellaneous Manufacturers (0.44%)			
Carter Holt Harvey Ltd.	181,000	467,369	
Miscellaneous Non-Durable Goods (1.95%)			
Grand Metropolitan PLC	215,516	2,085,744	
Miscellaneous Plastics Products, NEC (0.60%)			
Royal Group Technologies Ltd.	24,100 (a) (b)	646,366	
Miscellaneous Textile Goods (1.21%)			
Espirit Holdings Ltd.	1,822,000	1,293,486	
Miscellaneous Transportation Equipment (1.05%)			
Autoliv AB	28,700	1,122,888	
Miscellaneous Wood Products (0.19%)			
Enso OY	22,300	206,074	
Motor Vehicles & Equipment (1.75%)			
E.C.I.A. Equipment and Composants	4,600	702,035	
Hyundai Motor Co. Ltd. GDR	25,000 (b)	243,750	
UMW Holdings Berhad	196,000	924,087	
			1,869,872
Motor Vehicles, Parts & Supplies (0.66%)			
Dahl International AB	36,000	707,674	
Newspapers (1.28%)			
Publishing & Broadcasting Ltd.	240,000	1,371,834	
Oil & Gas Field Services (0.76%)			
ENI SPA	144,000	814,575	
Petroleum Refining (2.95%)			
Repsol Petroleo SA	39,860	1,688,500	
YPF Sociedad Anonima ADR	48,000	1,476,000	
			3,164,500
Plastic Materials & Synthetics (0.80%)			
Astra AB	48,000 \$	853,554	
Pulp Mills (2.22%)			
Lassila & Tikanoja Ltd. OY	10,700	896,086	
UPM-Kymmene OY	64,140	1,481,791	
			2,377,877
Security & Commodity Services (1.36%)			
Corporacion Bancaria de Espania SA	26,000	1,458,489	
Security Brokers & Dealers (1.70%)			
Peregrine Investment Holdings	875,000	1,801,438	
Peregrine Investment - Warrants	38,800 (a)	17,028	
			1,818,466
Soap, Cleaners, & Toilet Goods (1.27%)			
Reckitt & Colman PLC	90,945	1,355,427	
Special Industry Machinery (0.42%)			
IHC Caland NV	7,700	421,682	
Rauma Group	1,173 (a)	26,873	
			448,555
Sugar & Confectionary Products (2.38%)			
Nestle	1,545	2,041,136	
Tate & Lyle	68,500	509,030	
			2,550,166
Telephone Communication (6.14%)			
Investec Consultadoria Internacional S	8,600 (a)	293,483	
Nokia Corp., Class A ADR	23,800	1,755,250	
Tele Danmark B	8,500	442,260	
Telecom Corp of New Zealand Ltd.	289,000	1,468,979	
Telecom Italia-DI	448,200	886,390	
Telefonica de Espana SA	59,700	1,729,257	
			6,575,619
Water Transportation of Freight,			

NEC (0.31%)		
ICB Shipping AB 'B' Free	32,000	326,937
Total Common Stocks		101,026,750
Preferred Stock (1.06%)		
Commercial Banks (1.06%)		
National Australia Bank ECU Convertible Preferred	40,500	1,131,469
Bonds (0.95%)		
	Principal Amount	Value
Fire, Marine & Casualty Insurance (0.95%)		
Alfa SA Convertible Subordinated Debentures; 8.00%; 9/15/00	\$ 700,000 (b)	\$ 1,016,750
Commercial Paper (5.72%)		
Personal Credit Institutions (2.92%)		
Associates Corp.; 6.25%; 7/1/97	3,130,000	3,130,000
Security Brokers & Dealers (2.80%)		
Goldman Sachs Group L.P. 5.65%; 7/7/97	3,000,000	2,997,175
Total Commercial Paper		6,127,175
Total Portfolio Investments (102.06%)		109,302,144
Liabilities, net of cash and receivables (-2.06%)		(2,206,914)
Total Net Assets (100.00%)		\$107,095,230

(a) Non-Income producing security - No dividend paid during the period.

(b) Restricted security - See Note 4 to the financial statements.

Principal World Fund, Inc. Investments by Country

Country	Total Market Value	Percentage of Total Market Value
Argentina	\$ 1,476,000	1.35%
Australia	4,751,589	4.35
Austria	2,439,180	2.23
Canada	3,893,638	3.56
Denmark	2,481,226	2.27
Finland	5,422,626	4.96
France	1,519,621	1.39
Germany	2,339,776	2.14
Greece	7,575	0.01
Hong Kong	7,377,397	6.75
Indonesia	2,339,296	2.14
Israel	2,433,375	2.23
Italy	2,968,847	2.72
Japan	230,272	0.21
Korea	485,473	0.44
Malaysia	1,650,235	1.51
Mexico	1,016,750	0.93
Netherlands	10,699,051	9.79
New Zealand	3,560,699	3.26
Norway	2,369,210	2.17
Portugal	945,961	0.87
Singapore	1,977,689	1.81
Spain	5,958,859	5.45
Sweden	5,118,294	4.68
Switzerland	7,364,274	6.74
United Kingdom	19,420,470	17.77
United States	9,054,763	8.28
Total Market Value	\$109,302,144	100.00%

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

Income from

	Net Asset Value at Beginning of Period	Net Investment Income	Net Realized and Unrealized Gain (Loss) on Investments		Total from Investment Operations	Dividends from Net Investment Income	Distributions from Capital Gains	Excess Distributions from Capital Gains (a)	Total Distributions
			Unrealized Gain (Loss)	Realized Gain (Loss)					
PRINCIPAL AGGRESSIVE GROWTH FUND INC.									
<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Six Months Ended June 30, 1997	\$14.52	\$.02	\$1.91	\$1.93	\$--	\$(.45)	\$ --	\$(.45)	
Year Ended December 31, 1996	12.94	.11	3.38	3.49	(.11)	(1.80)	--	(1.91)	
1995	10.11	.13	4.31	4.44	(.13)	(1.48)	--	(1.61)	
Period Ended December 31, 1994 (d)	9.92	.05	.24	.29	(.05)	(.05)	--	(.10)	
PRINCIPAL ASSET ALLOCATION FUND, INC.									
Six Months Ended June 30, 1997	11.48	.16	1.14	1.30	--	(.21)	--	(.21)	
Year Ended December 31, 1996	11.11	.36	1.06	1.42	(.36)	(.69)	--	(1.05)	
1995	9.79	.40	1.62	2.02	(.40)	(.30)	--	(.70)	
Period Ended December 31, 1994 (d)	9.98	.23	(.18)	.05	(.23)	--	(.01)	(.24)	
PRINCIPAL BALANCED FUND, INC.									
Six Months Ended June 30, 1997	14.44	.22	1.19	1.41	--	(.01)	--	(.01)	
Year Ended December 31, 1996	13.97	.40	1.41	1.81	(.40)	(.94)	--	(1.34)	
1995	11.95	.45	2.44	2.89	(.45)	(.42)	--	(.87)	
1994	12.77	.37	(.64)	(.27)	(.37)	(.18)	--	(.55)	
1993	12.58	.42	.95	1.37	(.42)	(.76)	--	(1.18)	
Six Months Ended December 31, 1992 (e)	12.93	.23	.75	.98	(.47)	(.86)	--	(1.33)	
Year Ended June 30, 1992	11.33	.47	1.61	2.08	(.48)	--	--	(.48)	
PRINCIPAL BOND FUND, INC.									
Six Months Ended June 30, 1997	11.33	.38	(.04)	.34	--	--	--	--	
Year Ended December 31, 1996	11.73	.68	(.40)	.28	(.68)	--	--	(.68)	
1995	10.12	.62	1.62	2.24	(.63)	--	--	(.63)	
1994	11.16	.72	(1.04)	(.32)	(.72)	--	--	(.72)	
1993	10.77	.88	.38	1.26	(.87)	--	--	(.87)	
Six Months Ended December 31, 1992 (e)	11.08	.45	.13	.58	(.89)	--	--	(.89)	
Year Ended June 30, 1992	10.64	.91	.46	1.37	(.93)	--	--	(.93)	
PRINCIPAL CAPITAL ACCUMULATION FUND, INC.									
Six Months Ended June 30, 1997	29.84	.32	3.81	4.13	--	(1.07)	--	(1.07)	
Year Ended December 31, 1996	27.80	.57	5.82	6.39	(.58)	(3.77)	--	(4.35)	
1995	23.44	.60	6.69	7.29	(.60)	(2.33)	--	(2.93)	
1994	24.61	.62	(.49)	.13	(.61)	(.69)	--	(1.30)	
1993	25.19	.61	1.32	1.93	(.60)	(1.91)	--	(2.51)	
Six Months Ended December 31, 1992 (e)	26.03	.31	1.84	2.15	(.64)	(2.35)	--	(2.99)	
Year Ended June 30, 1992	23.35	.65	2.70	3.35	(.67)	--	--	(.67)	
PRINCIPAL EMERGING GROWTH FUND, INC.									
Six Months Ended June 30, 1997	29.74	.15	3.53	3.68	--	(.10)	--	(.10)	
Year Ended December 31, 1996	25.33	.22	5.07	5.29	(.22)	(.66)	--	(.88)	
1995	19.97	.22	5.57	5.79	(.22)	(.21)	--	(.43)	
1994	20.79	.14	.03	.17	(.14)	(.85)	--	(.99)	
1993	18.91	.17	3.47	3.64	(.17)	(1.59)	--	(1.76)	
Six Months Ended December 31, 1992 (e)	15.97	.10	3.09	3.19	(.21)	(.04)	--	(.25)	
Year Ended June 30, 1992	13.93	.21	2.04	2.25	(.21)	--	--	(.21)	

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

Ratios/Supplemental Data

Net Asset	Ratio of	Ratio of Net Investment
-----------	----------	-------------------------

	Value at End of Period	Total Return	Net Assets at End of Period (in thousands)	Expenses to Average Net Assets	Income to Average Net Assets	Portfolio Turnover Rate	Average Commission Rate
PRINCIPAL AGGRESSIVE GROWTH FUND INC.							
<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Six Months Ended June 30, 1997	\$16.00	13.60%(b)	\$109,514	.83%(c)	.31%(c)	179.5%(c)	.0563
Year Ended December 31, 1996	14.52	28.05%	90,106	.85%	1.05%	166.9%	.0541
1995	12.94	44.19%	33,643	.90%	1.34%	172.9%	N/A
Period Ended December 31, 1994 (d)	10.11	2.59%(b)	13,770	1.03%(c)	1.06%(c)	105.6%(c)	N/A
PRINCIPAL ASSET ALLOCATION FUND, INC.							
Six Months Ended June 30, 1997	12.57	11.47%(b)	71,892	.88%(c)	2.83%(c)	149.4%(c)	.0559
Year Ended December 31, 1996	11.48	12.92%	61,631	.87%	3.45%	108.2%	.0497
1995	11.11	20.66%	41,074	.89%	4.07%	47.1%	N/A
Period Ended December 31, 1994 (d)	9.79	.52%(b)	28,041	.95%(c)	4.27%(c)	60.7%(c)	N/A
PRINCIPAL BALANCED FUND, INC.							
Six Months Ended June 30, 1997	15.84	9.74%(b)	113,288	.62%(c)	3.19%(c)	33.5%(c)	.0374
Year Ended December 31, 1996	14.44	13.13%	93,158	.63%	3.45%	22.6%	.0417
1995	13.97	24.58%	45,403	.66%	4.12%	25.7%	N/A
1994	11.95	(2.09)%	25,043	.69%	3.42%	31.5%	N/A
1993	12.77	11.06%	21,399	.69%	3.30%	15.8%	N/A
Six Months Ended December 31, 1992 (e)	12.58	8.00%(b)	18,842	.73%(c)	3.71%(c)	38.4%(c)	N/A
Year Ended June 30, 1992	12.93	18.78%	17,344	.72%	3.80%	26.6%	N/A
PRINCIPAL BOND FUND, INC.							
Six Months Ended June 30, 1997	11.67	3.00%(b)	71,812	.52%(c)	7.07%(c)	8.7%(c)	N/A
Year Ended December 31, 1996	11.33	2.36%	63,387	.53%	7.00%	1.7%	N/A
1995	11.73	22.17%	35,878	.56%	7.28%	5.9%	N/A
1994	10.12	(2.90)%	17,108	.58%	7.86%	18.2%	N/A
1993	11.16	11.67%	14,387	.59%	7.57%	14.0%	N/A
Six Months Ended December 31, 1992 (e)	10.77	5.33%(b)	12,790	.62%(c)	8.10%(c)	6.7%(c)	N/A
Year Ended June 30, 1992	11.08	13.57%	12,024	.62%	8.47%	6.1%	N/A
PRINCIPAL CAPITAL ACCUMULATION FUND, INC.							
Six Months Ended June 30, 1997	32.90	14.28%(b)	249,077	.48%(c)	2.22%(c)	29.0%(c)	.0427
Year Ended December 31, 1996	29.84	23.50%	205,019	.49%	2.06%	48.5%	.0426
1995	27.80	31.91%	135,640	.51%	2.25%	49.2%	N/A
1994	23.44	.49%	120,572	.51%	2.36%	44.5%	N/A
1993	24.61	7.79%	128,515	.51%	2.49%	25.8%	N/A
Six Months Ended December 31, 1992 (e)	25.19	8.81%(b)	105,355	.55%(c)	2.56%(c)	39.7%(c)	N/A
Year Ended June 30, 1992	26.03	14.53%	94,596	.54%	2.65%	34.8%	N/A
PRINCIPAL EMERGING GROWTH FUND, INC.							
Six Months Ended June 30, 1997	33.32	12.39%(b)	180,072	.65%(c)	1.05%(c)	10.9%(c)	.0390
Year Ended December 31, 1996	29.74	21.11%	137,161	.66%	1.07%	8.8%	.0379
1995	25.33	29.01%	58,520	.70%	1.23%	13.1%	N/A
1994	19.97	.78%	23,912	.74%	1.15%	12.0%	N/A
1993	20.79	19.28%	12,188	.78%	.89%	22.4%	N/A
Six Months Ended December 31, 1992 (e)	18.91	20.12%(b)	9,693	.81%(c)	1.24%(c)	8.6%(c)	N/A
Year Ended June 30, 1992	15.97	16.19%	7,829	.82%	1.33%	10.1%	N/A

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS (Continued)

Selected data for a share of Capital Stock outstanding throughout each period:

	Income from Investment Operations			Less Distributions	
	Net Realized and Total			Excess Distributions	
Net Asset	Net	Unrealized	Total	Dividends	

	Value at Beginning of Period	Invest-ment Income	Gain (Loss) on Investments	from Investment Operations	from Net Investment Income	Distributions from Capital Gains	from Capital Gains (a)	Total Distributions
--	------------------------------	--------------------	----------------------------	----------------------------	----------------------------	----------------------------------	------------------------	---------------------

PRINCIPAL GOVERNMENT SECURITIES FUND, INC.

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	Six Months Ended June 30, 1997	\$10.31	\$.33	\$.01	\$.34	\$(.01)	\$--	\$(.01)
	Year Ended December 31, 1996	10.55	.59	(.24)	.35	(.59)	--	(.59)
	1995	9.38	.60	1.18	1.78	(.61)	--	(.61)
	1994	10.61	.76	(1.24)	(.48)	(.75)	--	(.75)
	1993	10.28	.71	.33	1.04	(.71)	--	(.71)
	Six Months Ended December 31, 1992 (e)	10.93	.40	.04	.44	(.78)	--	(1.09)
	Year Ended June 30, 1992	10.24	.80	.71	1.51	(.81)	--	(.82)

PRINCIPAL GROWTH FUND, INC.

	Six Months Ended June 30, 1997	13.79	.09	2.01	2.10	--	--	--
	Year Ended December 31, 1996	12.43	.16	1.39	1.55	(.16)	--	(.19)
	1995	10.10	.17	2.42	2.59	(.17)	--	(.26)
	Period Ended December 31, 1994 (f)	9.60	.07	.51	.58	(.08)	--	(.08)

PRINCIPAL HIGH YIELD FUND, INC.

	Six Months Ended June 30, 1997	8.72	.38	.09	.47	(.01)	--	(.01)
	Year Ended December 31, 1996	8.39	.80	.30	1.10	(.77)	--	(.77)
	1995	7.91	.76	.51	1.27	(.77)	(.02)	(.79)
	1994	8.62	.77	(.72)	.05	(.76)	--	(.76)
	1993	8.38	.80	.23	1.03	(.79)	--	(.79)
	Six Months Ended December 31, 1992 (e)	8.93	.45	(.10)	.35	(.90)	--	(.90)
	Year Ended June 30, 1992	8.28	.92	.66	1.58	(.93)	--	(.93)

PRINCIPAL MONEY MARKET FUND, INC.

	Six Months Ended June 30, 1997	1.000	.025	--	.025	(.025)	--	(.025)
	Year Ended December 31, 1996	1.000	.049	--	.049	(.049)	--	(.049)
	1995	1.000	.054	--	.054	(.054)	--	(.054)
	1994	1.000	.037	--	.037	(.037)	--	(.037)
	1993	1.000	.027	--	.027	(.027)	--	(.027)
	Six Months Ended December 31, 1992 (e)	1.000	.016	--	.016	(.016)	--	(.016)
	Year Ended June 30, 1992	1.000	.046	--	.046	(.046)	--	(.046)

PRINCIPAL WORLD FUND, INC.

	Six Months Ended June 30, 1997	13.02	.17	2.03	2.20	--	--	(.04)
	Year Ended December 31, 1996	10.72	.22	2.46	2.68	(.22)	--	(.38)
	1995	9.56	.19	1.16	1.35	(.18)	--	(.19)
	Period Ended December 31, 1994 (f)	9.94	.03	(.33)	(.30)	(.05)	(.02)	(.08)

See accompanying notes.

Notes to Financial Highlight
</TABLE>

<TABLE>
<CAPTION>

Ratios/Supplemental Data

Net Asset Value at End of Period	Total Return	Net Assets at End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate	Average Commission Rate
----------------------------------	--------------	--	---	--	-------------------------	-------------------------

PRINCIPAL GOVERNMENT SECURITIES FUND, INC.

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	Six Months Ended June 30, 1997	\$10.64	3.26% (b)	\$ 84,656	.53% (c)	6.48% (c)	11.0% (c)
	Year Ended December 31, 1996	10.31	3.35%	85,100	.52%	6.46%	8.4%
	1995	10.55	19.07%	50,079	.55%	6.73%	9.8%
	1994	9.38	(4.53)%	36,121	.56%	7.05%	23.2%
	1993	10.61	10.07%	36,659	.55%	7.07%	20.4%

Six Months Ended December 31, 1992 (e)	10.28	4.10%(b)	31,760	.59% (c)	7.35% (c)	34.5% (c)	N/A
Year Ended June 30, 1992	10.93	15.34%	33,022	.58%	7.84%	38.9%	N/A

PRINCIPAL GROWTH FUND, INC.

Six Months Ended June 30, 1997	15.89	15.23%(b)	132,259	.51% (c)	1.36% (c)	7.5% (c)	.0452
Year Ended December 31, 1996	13.79	12.51%	99,612	.52%	1.61%	2.0%	.0401
1995	12.43	25.62%	42,708	.58%	2.08%	6.9%	N/A
Period Ended December 31, 1994 (f)	10.10	5.42%(b)	13,086	.75% (c)	2.39% (c)	0.9% (c)	N/A

PRINCIPAL HIGH YIELD FUND, INC.

Six Months Ended June 30, 1997	9.18	5.36%(b)	14,525	.69% (c)	8.64% (c)	45.7% (c)	N/A
Year Ended December 31, 1996	8.72	13.13%	13,740	.70%	9.21%	32.0%	N/A
1995	8.39	16.08%	11,830	.73%	9.09%	35.1%	N/A
1994	7.91	.62%	9,697	.73%	9.02%	30.6%	N/A
1993	8.62	12.31%	9,576	.74%	8.80%	28.7%	N/A
Six Months Ended December 31, 1992 (e)	8.38	4.06%(b)	8,924	.77% (c)	10.33% (c)	20.6% (c)	N/A
Year Ended June 30, 1992	8.93	20.70%	8,556	.77%	11.00%	31.3%	N/A

PRINCIPAL MONEY MARKET FUND, INC.

Six Months Ended June 30, 1997	1.000	2.50%(b)	43,688	.55% (c)	5.06% (c)	N/A	N/A
Year Ended December 31, 1996	1.000	5.07%	46,244	.56%	5.00%	N/A	N/A
1995	1.000	5.59%	32,670	.58%	5.32%	N/A	N/A
1994	1.000	3.76%	29,372	.60%	3.81%	N/A	N/A
1993	1.000	2.69%	22,753	.60%	2.64%	N/A	N/A
Six Months Ended December 31, 1992 (e)	1.000	1.54%(b)	27,680	.59% (c)	3.10% (c)	N/A	N/A
Year Ended June 30, 1992	1.000	4.64%	25,194	.57%	4.54%	N/A	N/A

PRINCIPAL WORLD FUND, INC.

Six Months Ended June 30, 1997	15.18	16.98%(b)	107,095	.84% (c)	2.92% (c)	25.4% (c)	.0186
Year Ended December 31, 1996	13.02	25.09%	71,682	.90%	2.28%	12.5%	.0120
1995	10.72	14.17%	30,566	.95%	2.26%	15.6%	N/A
Period Ended December 31, 1994 (f)	9.56	(3.37)%(b)	13,746	1.24% (c)	1.31% (c)	14.4% (c)	N/A

See accompanying notes.

</TABLE>

- (a) Due to the timing of dividend distributions and the differences in accounting for income and realized gains (losses) for financial statement and federal income tax purposes, the fiscal year in which amounts are distributed may differ from the year in which the income and realized gains (losses) are recorded for financial statement purposes by the fund. The differences between the income and gains distributed on a book versus tax basis are shown in the Financial Highlights as excess distributions from net investment income and from capital gains.
- (b) Total return amounts have not been annualized.
- (c) Computed on an annualized basis.
- (d) Period from June 1, 1994, date shares first offered to public, through December 31, 1994. Net investment income, aggregating \$.01 per share for Principal Aggressive Growth Fund, Inc. and \$.01 per share for Principal Asset Allocation Fund, Inc. for the period from the initial purchase of shares on May 23, 1994 through May 31, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, Principal Aggressive Growth Fund, Inc. and Principal Asset Allocation Fund, Inc. incurred unrealized losses on investments of \$.09 and \$.03 per share, respectively, during the initial interim period. This represented activities of each fund prior to the initial public offering of fund shares.
- (e) Effective July 1, 1992 the fund changed its fiscal year end from June 30 to December 31.
- (f) Period from May 1, 1994, date shares first offered to public, through December 31, 1994. Net investment income, aggregating \$.01 per share for Principal Growth Fund, Inc. and \$.04 per share for Principal World Fund, Inc. for the period from the initial purchase of shares on March 23, 1994 through April 30, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, Principal Growth Fund, Inc. and Principal World Fund, Inc. incurred unrealized losses on investments of \$.41 and \$.10 per share, respectively, during the initial interim period. This represented activities of each fund prior to the initial public offering of fund shares.

<TABLE> <S> <C>

<ARTICLE> 6

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1996
<PERIOD-END>	DEC-31-1996
<INVESTMENTS-AT-COST>	84420596
<INVESTMENTS-AT-VALUE>	93206906
<RECEIVABLES>	965811
<ASSETS-OTHER>	0
<OTHER-ITEMS-ASSETS>	10351
<TOTAL-ASSETS>	94183068
<PAYABLE-FOR-SECURITIES>	0
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	1025399
<TOTAL-LIABILITIES>	1025399
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	84304877
<SHARES-COMMON-STOCK>	6452156
<SHARES-COMMON-PRIOR>	3251073
<ACCUMULATED-NII-CURRENT>	23644
<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	42838
<OVERDISTRIBUTION-GAINS>	0
<ACCUM-APPREC-OR-DEPREC>	8786310
<NET-ASSETS>	93157669
<DIVIDEND-INCOME>	934378
<INTEREST-INCOME>	1923042
<OTHER-INCOME>	0
<EXPENSES-NET>	(440753)
<NET-INVESTMENT-INCOME>	2416667
<REALIZED-GAINS-CURRENT>	4291386
<APPREC-INCREASE-CURRENT>	3030866
<NET-CHANGE-FROM-OPS>	9738919
<EQUALIZATION>	0
<DISTRIBUTIONS-OF-INCOME>	(2404163)
<DISTRIBUTIONS-OF-GAINS>	(5078241)
<DISTRIBUTIONS-OTHER>	0
<NUMBER-OF-SHARES-SOLD>	3602550
<NUMBER-OF-SHARES-REDEEMED>	(825489)
<SHARES-REINVESTED>	424022
<NET-CHANGE-IN-ASSETS>	47754343
<ACCUMULATED-NII-PRIOR>	11765
<ACCUMULATED-GAINS-PRIOR>	829693
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	420010

<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	440753
<AVERAGE-NET-ASSETS>	70136413
<PER-SHARE-NAV-BEGIN>	13.97
<PER-SHARE-NII>	.40
<PER-SHARE-GAIN-APPREC>	1.41
<PER-SHARE-DIVIDEND>	(.40)
<PER-SHARE-DISTRIBUTIONS>	(.94)
<RETURNS-OF-CAPITAL>	0
<PER-SHARE-NAV-END>	14.44
<EXPENSE-RATIO>	.63
<AVG-DEBT-OUTSTANDING>	0
<AVG-DEBT-PER-SHARE>	0

</TABLE>