

# CNO FINANCIAL GROUP, INC.

## FORM 8-K (Current report filing)

Filed 11/01/07 for the Period Ending 10/31/07

|             |   |
|-------------|---|
| Address     | 11825 N PENNSYLVANIA ST<br>CARMEL, IN 46032 |
| Telephone   | 3178176100                                  |
| CIK         | 0001224608                                  |
| Symbol      | CNO   |
| SIC Code    | 6321 - Accident and Health Insurance        |
| Industry    | Insurance (Life)                            |
| Sector      | Financial                                   |
| Fiscal Year | 12/31                                       |

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 8-K**

**CURRENT REPORT**

Pursuant to Section 13 or 15 (d) of  
the Securities Exchange Act of 1934

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Date of Report (Date of earliest event reported): October 31, 2007

**CONSECO, INC.**

(Exact name of registrant as specified in its charter)

|   |   |  |
|---|---|--|
| Delaware<br>-----<br>(State or other<br>jurisdiction of<br>organization)                                | 001-31792<br>-----<br>(Commission<br>File Number) | 75-3108137<br>-----<br>(I.R.S. Employer<br>Identification No.) |
| 11825 North Pennsylvania Street<br>Carmel, Indiana<br>-----<br>(Address of principal executive offices) |   | 46032<br>-----<br>(Zip Code)                                   |

(317) 817-6100

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address,  
if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act  
(17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02. Results of Operations and Financial Condition.**

On October 31, 2007, the Company issued: (i) a press release announcing its financial results for the quarter ended September 30, 2007, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference; and  
(ii) additional financial information related to the Company's financial and operating results for the quarter ended September 30, 2007, a copy of which is attached hereto as Exhibit 99.2 and is incorporated herein by reference.

The information contained under Item 2.02 in this Current Report on Form 8-K (including Exhibits 99.1 and 99.2) is being furnished and shall not be deemed "filed" for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section. The information contained in this Current Report on Form 8-K shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in any such filing.

**Item 9.01(d). Financial Statements and Exhibits.**

The following materials are furnished as exhibits to this Current Report on Form 8-K:

99.1 Press release dated October 31, 2007 related to financial results for the quarter ended September 30, 2007.

99.2 Third Quarter 2007 Financial and Operating Results for the period ended September 30, 2007.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

**CONSECO, INC.**

November 1, 2007

By: */s/ John R. Kline*

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*John R. Kline*  
*Senior Vice President and*  
*Chief Accounting Officer*

**NEWS**

**For Release Immediate**

Contacts (News Media) Jim Rosensteele, Corporate Communications 317.817.6363 (Investors) Joe Clarke, Investor Relations 317.817.2893

**Conseco Reports Third Quarter Results**

Carmel, Ind., October 31, 2007 - Conseco, Inc. (NYSE: CNO) today reported results for the third quarter of 2007.

"Third Quarter results reflect a number of significant events, as progress on our program to position Conseco for future profitability and growth is increasingly evident," CEO Jim Prieur said. "We saw continued strong growth in both our Bankers Life and Colonial Penn businesses, while Conseco Insurance Group, even with a decline in sales during the quarter, produced new business expected to be more profitable. Importantly, continued progress also was evident on the turnaround in our run-off long-term care block, with our claims reserve volatility reduced this quarter following the reserve strengthening of the previous quarter. With only a small loss in the quarter, we are on target for that block to become profitable next year."

"The majority of our organizational realignment is now complete as well, with all of our customer service calls now being handled in our Carmel, Indiana offices," Prieur said.

"Our just announced agreement in which we will invest \$63 million to recapture a block of Colonial Penn life insurance business comprising approximately \$50 million annual premium that had been ceded in 2002 to a subsidiary of Swiss Re, is a significant investment in the growth of this high-return core business," said Chief Financial Officer Ed Bonach. "This transaction is expected to be immediately accretive to earnings and return on equity. Our October 12, 2007, announcement that we completed the 100% coinsurance of an older block of fixed and equity-indexed annuities is another important step in improving Conseco's performance."

"Conseco also further executed on its share repurchase program in the third quarter," Bonach said, "with the purchase of 2.4 million shares at an average price of \$14.22 per share, for a total of \$34.7 million."

Third quarter 2007 results:

- o Net operating income (loss) (1): \$(25.6) million, compared to \$52.8 million in 3Q06
- o Net operating income (loss) per diluted share: (14) cents, compared to 35 cents in 3Q06
- o Net income (loss) applicable to common stock: \$(53.7) million, compared to \$38.9 million in 3Q06 (including \$28.1 million of net realized investment losses in 3Q07 vs. \$13.9 million of net realized investment losses in 3Q06)
- o Net income (loss) per diluted share: (29) cents, compared to 26 cents in 3Q06 (including 15 cents of net realized investment losses in 3Q07 vs. 9 cents of net realized investment losses in 3Q06)
- o Income (loss) before net realized investment losses, corporate interest and taxes ("EBIT") (2): \$(23.4) million, compared to \$110.4 million in 3Q06
- o Sales (3): \$86.0 million, down 7% from 3Q06

Nine-month 2007 results:

- o Net operating income (loss) (1): \$(65.4) million, compared to \$76.9 million in the first nine months of 2006
- o Net operating income (loss) per diluted share: (39) cents, compared to 50 cents in the first nine months of 2006
- o Net income (loss) applicable to common stock: \$(117.3) million, compared to \$62.2 million in the first nine months of 2006
- o Net income (loss) per diluted share: (69) cents, compared to 41 cents in the first nine months of 2006
- o EBIT (2): \$(30.3) million, compared to \$202.3 million in the first nine months of 2006
- o Sales (4): \$328.2 million, up 5% over the first nine months of 2006

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Financial strength at September 30, 2007:

- o Book value per common share, excluding accumulated other comprehensive income (loss) (4), was \$24.79, compared to \$27.06 at December 31, 2006
- o Book value per diluted share, excluding accumulated other comprehensive income (loss) (4), was \$24.77, compared to \$25.64 at December 31, 2006
- o Debt-to-total capital ratio, excluding accumulated other comprehensive income (loss) (4), was 20.6%, compared to 17.3% at December 31, 2006

Operating results

Our segments reflect the addition of Colonial Penn as a separate segment. All prior period segment disclosures have been restated to conform to our new presentation. Results by segment for the quarter were as follows (\$ in millions, except per share data):

|   | Three Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|
|   | 2007                                | 2006    |
|   | ----                                | ----    |
| EBIT (2), excluding costs related to a litigation settlement and loss related to a coinsurance transaction: |                                     |         |
| Bankers Life.....   | \$ 66.3                             | \$ 68.4 |
| Conseco Insurance Group.....  | (.4)                                | 58.5    |
| Colonial Penn.....  | 7.0                                 | 4.6     |
| Other Business in Run-off.....  | (2.9)                               | (13.0)  |
| Corporate Operations, excluding corporate interest expense.....   | (.5)                                | (8.1)   |
|   | -----                               | -----   |
| EBIT, excluding costs related to a litigation settlement and loss related to a coinsurance transaction..... | 69.5                                | 110.4   |
| Costs related to a litigation settlement.....   | (16.4)                              | -       |
| Loss related to a coinsurance transaction.....  | (76.5)                              | -       |
|   | -----                               | -----   |
| Total EBIT.....   | (23.4)                              | 110.4   |
| Corporate interest expense.....   | (20.2)                              | (12.5)  |
|   | -----                               | -----   |
| Income (loss) before net realized investment losses and taxes.....  | (43.6)                              | 97.9    |
| Tax expense (benefit).....  | (18.0)                              | 35.6    |
|   | -----                               | -----   |
| Net income (loss) before net realized investment losses.....  | (25.6)                              | 62.3    |
| Preferred stock dividends:  |                                     |         |
| 5.50% Class B mandatorily convertible preferred stock.....  | -                                   | (9.5)   |
|   | -----                               | -----   |
| Net operating income (loss).....  | (25.6)                              | 52.8    |
| Net realized investment losses, net of related amortization and taxes.....                                  | (28.1)                              | (13.9)  |
|   | -----                               | -----   |
| Net income (loss) applicable to common stock.....   | \$ (53.7)                           | \$ 38.9 |
|   | =====                               | =====   |
| Per diluted share:  |                                     |         |
| Net operating income (loss).....  | \$ (.14)                            | \$ .35  |
| Net realized investment losses, net of related amortization and taxes.....                                  | (.15)                               | (.09)   |
|   | -----                               | -----   |
| Net income (loss) applicable to common stock.....   | \$ (.29)                            | \$ .26  |
|   | =====                               | =====   |

In our Bankers Life segment, pre-tax operating earnings were \$66.3 million in the third quarter of 2007, compared to \$68.4 million in the third quarter of 2006. The slight decrease in earnings is driven by lower margins in our long-term care business, partially offset by improved spreads in our life and annuity business and higher income from our marketing and quota-share agreements with Coventry Health Care.

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Conseco (3) October 31, 2007

In our Conseco Insurance Group segment, pre-tax operating loss was \$0.4 million in the third quarter of 2007, compared to earnings of \$58.5 million in the third quarter of 2006. Significant factors affecting the segment's earnings in these periods included:

- o An \$11 million reduction in universal life earnings in the third quarter of 2007. This block has experienced adverse mortality and we are projecting break-even earnings in the future.
- o An \$18.3 million out-of-period reduction in specified disease earnings identified by our material control weakness remediation procedures.
- o An \$11 million reduction in earnings for charges related to operational initiatives and consolidation activities.

Our Colonial Penn segment achieved pre-tax operating earnings of \$7.0 million in the third quarter of 2007, compared to \$4.6 million in the third quarter of 2006.

In our Other Business in Run-off segment, we recognized a pre-tax operating loss of \$2.9 million in the third quarter of 2007, compared to a loss of \$13 million in the third quarter of 2006. Results in the third quarter of 2007 were positively impacted by a net \$6.6 million reserve reduction (reflecting an out-of-period release of active life reserves of \$20.1 million identified by remediation procedures and \$13.5 million reserve increase due to changes to certain actuarial estimates).

The Corporate Operations segment includes our investment advisory subsidiary and corporate expenses.

Net realized losses of \$28.1 million (net of taxes) in the third quarter of 2007 consisted of losses from market value declines on the assets transferred pursuant to our 100% annuity coinsurance transaction, and from sales of mortgage-backed securities collateralized by sub-prime residential mortgage loans. In the third quarter of 2007, we recorded a charge of approximately \$76.5 million related to the coinsurance transaction. The results from the third quarter of 2007 reflect additional pre-tax costs of \$16.4 million related to the litigation settlement we entered into in the second quarter of 2006.

#### Sales results

In addition to the sales of proprietary products, Bankers Life, through a partnership with Coventry, distributes risk-share Medicare PDP and private-fee-for-service plan (PFFS) through their career agents.

At Bankers Life (career distribution), total sales in 3Q07 were \$56.5 million, down 2% from 3Q06. Bankers' sales were up 11% for the first nine months of 2007.

At Conseco Insurance Group (independent distribution), total sales, including sales of PDP through Coventry, in 3Q07 were \$18.1 million, down 31% from 3Q06, with strong gains in specified disease sales offset by decreases in Medicare supplement and annuities.

At Colonial Penn (direct distribution), total 3Q07 sales were \$11.4 million, up 38% over 3Q06 as we continue to benefit from our investment in marketing.

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#### Conference Call

The company will host a conference call to discuss results at 10:00 a.m. Eastern Daylight Time on November 1, 2007. The webcast can be accessed through the Investors section of the company's website as follows:

<http://investor.conseco.com>. Listeners should go to the website at least 15 minutes before the event to register and download any necessary audio software. During the call, we will be referring to a presentation that will be available Thursday morning through the investors section of the company's website.

#### About Conseco

Conseco, Inc.'s insurance companies help protect working American families and seniors from financial adversity: Medicare supplement, long-term care, cancer, heart/stroke and accident policies protect people against major unplanned expenses; annuities and life insurance products help people plan for their financial futures. For more information, visit Conseco's web site at [www.conseco.com](http://www.conseco.com).

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(1) Management believes that an analysis of Net Income (Loss) applicable to common stock before net realized investment gains or losses, net of related amortization and income taxes, ("Net Operating Income," a non-GAAP financial measure) is important to evaluate the financial performance of the company, and is a key measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized investment gains or losses can be affected by events that are unrelated to the company's underlying fundamentals. A reconciliation of Net Operating Income to Net Income applicable to common stock is provided in the tables on page 2 and 8. Additional information concerning this non-GAAP measure is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investor - SEC Filings" section of Conseco's website, [www.conseco.com](http://www.conseco.com).

(2) Management believes that an analysis of earnings or loss before net realized investment gains (losses), corporate interest and taxes ("EBIT," a non-GAAP financial measure) provides a clearer comparison of the operating results of the company quarter-over-quarter because it excludes: (i) corporate interest expense; and (ii) net realized investment gains (losses) that are unrelated to the company's underlying fundamentals. A reconciliation of EBIT to Net Income applicable to common stock is provided in the tables on page 2 and 8.

(3) Measured by new annualized premium, which includes 6% of annuity and 10% of single premium whole life deposits and 100% of all other premiums, PDP sales equal \$310 per enrolled policy, PFFS sales equal \$2,100 per enrolled policy.

(4) The calculation of this non-GAAP measure differs from the corresponding GAAP measure because accumulated other comprehensive income (loss) has been excluded from the value of capital used to determine this measure. Management believes this non-GAAP measure is useful because it removes the volatility that arises from changes in the unrealized appreciation (depreciation) of our investments. The corresponding GAAP measures for debt-to-total capital and book value per common share were 21.7% and \$23.10, respectively, at September 30, 2007, and 17.5% and \$26.58, respectively, at December 31, 2006.

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Cautionary Statement Regarding Forward-Looking Statements. Our statements, trend analyses and other information contained in this press release relative to markets for Conseco's products and trends in Conseco's operations or financial results, as well as other statements, contain forward-looking statements within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified by the use of terms such as "anticipate," "believe," "plan," "estimate," "expect," "project," "intend," "may," "will," "would," "contemplate," "possible," "attempt," "seek," "should," "could," "goal," "target," "on track," "comfortable with," "optimistic" and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words carefully because they describe our expectations, plans, strategies and goals and our beliefs concerning future business conditions, our results of operations, financial position, and our business outlook or they state other "forward-looking" information based on currently available information. Assumptions and other important factors that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, among other things: (i) our ability to obtain adequate and timely rate increases on our supplemental health products including our long-term care business; (ii) mortality, morbidity, usage of health care services, persistency, the adequacy of our previous reserve estimates and other factors which may affect the profitability of our insurance products; (iii) changes in our assumptions related to the cost of policies produced or the value of policies in force at the Effective Date; (iv) our ability to achieve anticipated expense reductions and levels of operational efficiencies including improvements in claims adjudication and continued automation and rationalization of operating systems; (v) performance of our investments; (vi) our ability to identify products and markets in which we can compete effectively against competitors with greater market share, higher ratings, greater financial resources and stronger brand recognition; (vii) the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject; (viii) our ability to remediate the material weakness in internal controls over the actuarial reporting process that we identified at year-end 2006 and to maintain effective controls over financial reporting; (ix) our ability to continue to recruit and retain productive agents and distribution partners and customer response to new products, distribution channels and marketing initiatives; (x) our ability to achieve an upgrade of the financial strength ratings of our insurance company subsidiaries as well as the potential impact of rating downgrades on our business; (xi) the risk factors or uncertainties listed from time to time in our filings with the Securities and Exchange Commission; (xii) regulatory changes or actions, including those relating to regulation of the financial affairs of our insurance companies, such as the payment of dividends to us, regulation of financial services affecting (among other things) bank sales and underwriting of insurance products, regulation of the sale, underwriting and pricing of products, and health care regulation affecting health insurance products; (xiii) general economic conditions and other factors, including prevailing interest rate levels, stock and credit market performance and health care inflation, which may affect (among other things) our ability to sell products and access capital on acceptable terms, the returns on and the market value of our investments, and the lapse rate and profitability of policies; and (xiv) changes in the Federal income tax laws and regulations which may affect or eliminate the relative tax advantages of some of our products.

Other factors and assumptions not identified above are also relevant to the forward-looking statements, and if they prove incorrect, could also cause actual results to differ materially from those projected. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statement. Our forward-looking statements speak only as of the date made. We assume no obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements.

**- Tables Follow -**

**CONSECO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Dollars in millions)

|   | September 30,<br>2007<br>---- | December 31,<br>2006<br>---- |
|---|-------------------------------|------------------------------|
|   | (unaudited)                   |                              |
| <b>ASSETS</b>   |                               |                              |
| Investments:  |                               |                              |
| Actively managed fixed maturities at fair value (amortized cost:<br>September 30, 2007 - \$21,073.6; December 31, 2006 - \$22,946.9).....                               | \$20,511.7                    | \$22,802.9                   |
| Investments to be transferred pursuant to annuity coinsurance transaction.....  | 2,585.1                       | -                            |
| Equity securities at fair value (cost: September 30, 2007 - \$34.3;<br>December 31, 2006 - \$23.9).....   | 35.5                          | 24.8                         |
| Mortgage loans.....   | 1,914.3                       | 1,642.2                      |
| Policy loans.....   | 368.5                         | 412.5                        |
| Trading securities.....   | 691.2                         | 675.2                        |
| Other invested assets .....   | 180.5                         | 178.8                        |
|   | -----                         | -----                        |
| Total investments.....  | 26,286.8                      | 25,736.4                     |
| Cash and cash equivalents:  |                               |                              |
| Unrestricted.....   | 392.3                         | 385.9                        |
| Restricted.....   | 25.8                          | 24.0                         |
| Accrued investment income.....  | 346.3                         | 344.5                        |
| Value of policies inforce at the Effective Date.....  | 1,740.2                       | 2,137.2                      |
| Cost of policies produced.....  | 1,359.4                       | 1,106.7                      |
| Reinsurance receivables.....  | 3,666.2                       | 850.8                        |
| Income tax assets, net.....   | 1,992.3                       | 1,786.9                      |
| Assets held in separate accounts.....   | 28.3                          | 28.9                         |
| Other assets.....   | 324.0                         | 316.0                        |
|   | -----                         | -----                        |
| Total assets.....   | \$36,161.6                    | \$32,717.3                   |
|   | =====                         | =====                        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                               |                              |
| Liabilities:  |                               |                              |
| Liabilities for insurance products:   |                               |                              |
| Interest-sensitive products.....  | \$13,214.0                    | \$13,018.0                   |
| Traditional products.....   | 12,445.1                      | 12,094.1                     |
| Claims payable and other policyholder funds.....  | 901.4                         | 832.3                        |
| Liabilities related to separate accounts.....   | 28.3                          | 28.9                         |
| Liability for assets to be transferred pursuant to annuity coinsurance transaction....  | 2,594.1                       | -                            |
| Other liabilities.....  | 565.6                         | 611.8                        |
| Investment borrowings.....  | 913.7                         | 418.3                        |
| Notes payable - direct corporate obligations.....   | 1,195.7                       | 1,000.8                      |
|   | -----                         | -----                        |
| Total liabilities.....  | 31,857.9                      | 28,004.2                     |
|   | -----                         | -----                        |
| Commitments and Contingencies   |                               |                              |
| Shareholders' equity:   |                               |                              |
| Preferred stock.....  | -                             | 667.8                        |
| Common stock (\$0.01 par value, 8,000,000,000 shares authorized, shares issued<br>and outstanding: September 30, 2007 - 186,345,515; December 31, 2006 - 152,165,108).. | 1.9                           | 1.5                          |
| Additional paid-in capital.....   | 4,094.6                       | 3,473.2                      |
| Accumulated other comprehensive loss.....   | (316.0)                       | (72.6)                       |
| Retained earnings.....  | 523.2                         | 643.2                        |
|   | -----                         | -----                        |
| Total shareholders' equity.....   | 4,303.7                       | 4,713.1                      |
|   | -----                         | -----                        |
| Total liabilities and shareholders' equity.....   | \$36,161.6                    | \$32,717.3                   |
|   | =====                         | =====                        |

**CONSECO, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
(Dollars in millions, except per share data)

|  | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2007                                | 2006        | 2007                               | 2006        |
| Revenues:  |                                     |             |                                    |             |
| Insurance policy income.....   | \$ 822.0                            | \$ 748.5    | \$2,352.6                          | \$2,242.9   |
| Net investment income:   |                                     |             |                                    |             |
| General account assets.....  | 392.6                               | 360.6       | 1,152.7                            | 1,069.2     |
| Policyholder and reinsurer accounts and other<br>special-purpose portfolios..... | 3.2                                 | 26.2        | 50.4                               | 26.6        |
| Net realized investment losses.....  | (51.1)                              | (21.8)      | (114.3)                            | (28.6)      |
| Fee revenue and other income.....  | 8.5                                 | 4.8         | 17.5                               | 14.0        |
|  | -----                               | -----       | -----                              | -----       |
| Total revenues.....  | 1,175.2                             | 1,118.3     | 3,458.9                            | 3,324.1     |
|  | -----                               | -----       | -----                              | -----       |
| Benefits and expenses:   |                                     |             |                                    |             |
| Insurance policy benefits.....   | 888.8                               | 772.6       | 2,621.0                            | 2,204.6     |
| Interest expense.....  | 33.3                                | 17.8        | 84.8                               | 51.3        |
| Amortization.....  | 93.3                                | 104.2       | 325.8                              | 320.4       |
| Costs related to a litigation settlement.....                                    | 16.4                                | -           | 64.4                               | 174.7       |
| Loss related to coinsurance transaction.....                                     | 76.5                                | -           | 76.5                               | -           |
| Other operating costs and expenses.....  | 153.7                               | 147.0       | 449.7                              | 430.2       |
|  | -----                               | -----       | -----                              | -----       |
| Total benefits and expenses.....   | 1,262.0                             | 1,041.6     | 3,622.2                            | 3,181.2     |
|  | -----                               | -----       | -----                              | -----       |
| Income (loss) before income taxes.....   | (86.8)                              | 76.7        | (163.3)                            | 142.9       |
| Income tax expense (benefit) on period income.....                               | (33.1)                              | 28.3        | (60.1)                             | 52.2        |
|  | -----                               | -----       | -----                              | -----       |
| Net income (loss).....   | (53.7)                              | 48.4        | (103.2)                            | 90.7        |
| Preferred stock dividends.....   | -                                   | 9.5         | 14.1                               | 28.5        |
|  | -----                               | -----       | -----                              | -----       |
| Net income (loss) applicable to common stock.....                                | \$ (53.7)                           | \$ 38.9     | \$ (117.3)                         | \$ 62.2     |
|  | =====                               | =====       | =====                              | =====       |
| Earnings per common share:   |                                     |             |                                    |             |
| Basic:   |                                     |             |                                    |             |
| Weighted average shares outstanding.....   | 187,733,000                         | 151,663,000 | 169,270,000                        | 151,566,000 |
|  | =====                               | =====       | =====                              | =====       |
| Net income (loss).....   | \$ (.29)                            | \$.26       | \$ (.69)                           | \$.41       |
|  | =====                               | =====       | =====                              | =====       |
| Diluted:   |                                     |             |                                    |             |
| Weighted average shares outstanding.....   | 187,733,000                         | 152,529,000 | 169,270,000                        | 152,547,000 |
|  | =====                               | =====       | =====                              | =====       |
| Net income (loss).....   | \$ (.29)                            | \$.26       | \$ (.69)                           | \$.41       |
|  | =====                               | =====       | =====                              | =====       |

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**CONSECO, INC. AND SUBSIDIARIES  
OPERATING RESULTS**

Results by segment for the nine months ended September 30 were as follows (\$ in millions, except per share data):

|   | Nine Months Ended<br>September 30, |          |
|---|------------------------------------|----------|
|   | 2007                               | 2006     |
|   | -----                              | -----    |
| EBIT (2), excluding costs related to a litigation settlement and loss related to a coinsurance transaction:   |                                    |          |
| Bankers Life.....   | \$ 174.6                           | \$ 189.3 |
| Conseco Insurance Group.....  | 101.4                              | 173.9    |
| Colonial Penn.....  | 18.3                               | 16.2     |
| Other Business in Run-off.....  | (167.0)                            | 15.4     |
| Corporate Operations, excluding corporate interest expense.....   | (16.7)                             | (17.8)   |
|   | -----                              | -----    |
| EBIT, excluding costs related to a litigation settlement and a loss related to a coinsurance transaction..... | 110.6                              | 377.0    |
| Costs related to the proposed litigation settlement.....  | (64.4)                             | (174.7)  |
| Loss related to a coinsurance transaction.....  | (76.5)                             | -        |
|   | -----                              | -----    |
| Total EBIT.....   | (30.3)                             | 202.3    |
| Corporate interest expense.....   | (53.2)                             | (36.9)   |
|   | -----                              | -----    |
| Income (loss) before net realized investment losses and taxes.....  | (83.5)                             | 165.4    |
| Tax expense (benefit).....  | (32.2)                             | 60.0     |
|   | -----                              | -----    |
| Net income (loss) before net realized investment losses.....  | (51.3)                             | 105.4    |
| Preferred stock dividends:  |                                    |          |
| 5.50% Class B mandatorily convertible preferred stock.....  | (14.1)                             | (28.5)   |
|   | -----                              | -----    |
| Net operating income (loss).....  | (65.4)                             | 76.9     |
| Net realized investment losses, net of related amortization and taxes.....                                    | (51.9)                             | (14.7)   |
|   | -----                              | -----    |
| Net income (loss) applicable to common stock.....   | \$ (117.3)                         | \$ 62.2  |
|   | =====                              | =====    |
| Per diluted share:  |                                    |          |
| Net operating income (loss).....  | \$ (.39)                           | \$ .50   |
| Net realized investment losses, net of related amortization and taxes.....                                    | (.30)                              | (.09)    |
|   | -----                              | -----    |
| Net income (loss) applicable to common stock.....   | \$ (.69)                           | \$ .41   |
|   | =====                              | =====    |

- more -

**CONSECO, INC. AND SUBSIDIARIES  
COLLECTED PREMIUMS  
(Dollars in millions)**

|                                    | Three months ended<br>September 30, |         |
|------------------------------------|-------------------------------------|---------|
|                                    | 2007                                | 2006    |
| Bankers Life segment:              |                                     |         |
| Annuity.....                       | \$250.9                             | \$278.2 |
| Supplemental health.....           | 402.8                               | 315.1   |
| Life.....                          | 49.1                                | 47.8    |
| Total collected premiums.....      | \$702.8                             | \$641.1 |
|                                    | =====                               | =====   |
| Conseco Insurance Group segment:   |                                     |         |
| Annuity.....                       | \$ 77.5                             | \$182.8 |
| Supplemental health.....           | 145.6                               | 145.5   |
| Life.....                          | 71.3                                | 78.3    |
| Total collected premiums.....      | \$294.4                             | \$406.6 |
|                                    | =====                               | =====   |
| Colonial Penn segment:             |                                     |         |
| Life.....                          | \$ 29.3                             | \$ 25.4 |
| Supplemental health.....           | 2.6                                 | 3.0     |
| Total collected premiums.....      | \$ 31.9                             | \$ 28.4 |
|                                    | =====                               | =====   |
| Other Business in Run-off segment: |                                     |         |
| Long-term care.....                | \$ 75.2                             | \$ 79.6 |
| Major medical.....                 | .5                                  | .8      |
| Total collected premiums.....      | \$ 75.7                             | \$ 80.4 |
|                                    | =====                               | =====   |

**BENEFIT RATIOS ON MAJOR SUPPLEMENTAL HEALTH LINES OF BUSINESS**

|  | Three Months Ended<br>September 30, |               |
|--|-------------------------------------|---------------|
|  | 2007                                | 2006          |
| Bankers Life segment:  |                                     |               |
| Medicare Supplement:   |                                     |               |
| Earned premium.....  | \$160 million                       | \$162 million |
| Benefit ratio(a).....  | 69.4%                               | 65.6%         |
| PDP and PFFS:  |                                     |               |
| Earned premium.....  | \$97 million                        | \$22 million  |
| Benefit ratio(a).....  | 85.4%                               | 82.1%         |
| Long-Term Care:  |                                     |               |
| Earned premium.....  | \$156 million                       | \$151 million |
| Benefit ratio(a).....  | 105.8%                              | 98.2%         |
| Interest-adjusted benefit ratio (a non-GAAP measure)(b)..... | 74.5%                               | 68.8%         |
| Conseco Insurance Group (CIG) segment:                       |                                     |               |
| Medicare Supplement:   |                                     |               |
| Earned premium.....  | \$57 million                        | \$62 million  |
| Benefit ratio(a).....  | 68.6%                               | 66.8%         |
| Specified Disease:   |                                     |               |
| Earned premium.....  | \$90 million                        | \$89 million  |
| Benefit ratio(a).....  | 103.2%                              | 73.6%         |
| Interest-adjusted benefit ratio (a non-GAAP measure)(b)..... | 70.3%                               | 41.2%         |
| Other Business in Run-off segment:                           |                                     |               |
| Earned premium.....  | \$77 million                        | \$83 million  |
| Benefit ratio(a).....  | 137.4%                              | 136.0%        |
| Interest-adjusted benefit ratio (a non-GAAP measure)(b)..... | 75.1%                               | 83.1%         |

(a) The benefit ratio is calculated by dividing the related product's insurance policy benefits by insurance policy income.

(b) The interest-adjusted benefit ratio (a non-GAAP measure) is calculated by dividing the product's insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by insurance policy income. Interest income is an important factor in measuring the performance of longer duration health products. The net cash flows generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases), which will be paid out as benefits in later policy years (accounted for

as reserve decreases). Accordingly, as the policies age, the benefit ratio will typically increase, but the increase in the change in reserve will be partially offset by interest income earned on the accumulated assets. The interest-adjusted benefit ratio reflects the interest income offset. Since interest income is an important factor in measuring the performance of these products, management believes a benefit ratio, which includes the effect of interest income, is useful in analyzing product performance. Additional information concerning this non-GAAP measure is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investor - SEC Filings" section of Conseco's website, [www.conseco.com](http://www.conseco.com).





CONSECO®

**Third Quarter 2007**  
Financial and Operating Results  
For the period ended September 30, 2007

Conseco, Inc.

## Forward-Looking Statements

**Cautionary Statement Regarding Forward-Looking Statements.** Our statements, trend analyses and other information contained in these materials relative to markets for Consecos products and trends in Consecos operations or financial results, as well as other statements, contain forward-looking statements within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified by the use of terms such as "anticipate," "believe," "plan," "estimate," "expect," "project," "intend," "may," "will," "would," "contemplate," "possible," "attempt," "seek," "should," "could," "goal," "target," "on track," "comfortable with," "optimistic" and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words carefully because they describe our expectations, plans, strategies and goals and our beliefs concerning future business conditions, our results of operations, financial position, and our business outlook or they state other "forward-looking" information based on currently available information. Assumptions and other important factors that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, among other things: (i) our ability to obtain adequate and timely rate increases on our supplemental health products including our long-term care business; (ii) mortality, morbidity, usage of health care services, persistency, the adequacy of our previous reserve estimates and other factors which may affect the profitability of our insurance products; (iii) changes in our assumptions related to the cost of policies produced or the value of policies in force at the Effective Date; (iv) our ability to achieve anticipated expense reductions and levels of operational efficiencies including improvements in claims adjudication and continued automation and rationalization of operating systems; (v) performance of our investments; (vi) our ability to identify products and markets in which we can compete effectively against competitors with greater market share, higher ratings, greater financial resources and stronger brand recognition; (vii) the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject; (viii) our ability to remediate the material weakness in internal controls over the actuarial reporting process that we identified at year-end 2006 and to maintain effective controls over financial reporting; (ix) our ability to continue to recruit and retain productive agents and distribution partners and customer response to new products, distribution channels and marketing initiatives; (x) our ability to achieve an upgrade of the financial strength ratings of our insurance company subsidiaries as well as the potential impact of rating downgrades on our business; (xi) the risk factors or uncertainties listed from time to time in our filings with the Securities and Exchange Commission; (xii) regulatory changes or actions, including those relating to regulation of the financial affairs of our insurance companies, such as the payment of dividends to us, regulation of financial services affecting (among other things) bank sales and underwriting of insurance products, regulation of the sale, underwriting and pricing of products, and health care regulation affecting health insurance products; (xiii) general economic conditions and other factors, including prevailing interest rate levels, stock and credit market performance and health care inflation, which may affect (among other things) our ability to sell products and access capital on acceptable terms, the returns on and the market value of our investments, and the lapse rate and profitability of policies; and (xiv) changes in the Federal income tax laws and regulations which may affect or eliminate the relative tax advantages of some of our products. Other factors and assumptions not identified above are also relevant to the forward-looking statements, and if they prove incorrect, could also cause actual results to differ materially from those projected. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by the foregoing cautionary statement. Our forward-looking statements speak only as of the date made. We assume no obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements.

## Non-GAAP Measures

This presentation contains the following financial measures that differ from the comparable measures under Generally Accepted Accounting Principles (GAAP): operating earnings measures; book value excluding accumulated other comprehensive income (loss) per diluted share; operating return measures; earnings before net realized investment gains (losses) and corporate interest and taxes; debt to capital ratios, excluding accumulated other comprehensive income (loss); and interest-adjusted benefit ratios. Reconciliations between those non-GAAP measures and the comparable GAAP measures are included in the Appendix, or on the page such measure is presented.

While management believes these measures are useful to enhance understanding and comparability of our financial results, these non-GAAP measures should not be considered substitutes for the most directly comparable GAAP measures.

Additional information concerning non-GAAP measures is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investor – SEC Filings" section of Consec's website, [www.conseco.com](http://www.conseco.com).

## Q3 2007 Summary

## CNO

|   | <u>Pre-Tax</u><br><u>(mils.)</u> | <u>After Tax</u><br><u>(mils.)</u> | <u>EPS</u>      |
|---|----------------------------------|------------------------------------|-----------------|
| Operating earnings before litigation settlement and loss on coinsurance transaction | \$49.3                           | \$34.7                             | \$0.18          |
| Litigation settlement   | (16.4)                           | (10.6)                             | (0.06)          |
| Loss on coinsurance transaction   | (76.5)                           | (49.7)                             | (0.26)          |
| Operating losses  | (43.6)                           | (25.6)                             | (0.14)          |
| Net realized investment losses  | (43.2)                           | (28.1)                             | (0.15)          |
| Q3 2007 net loss  | <u>\$(86.8)</u>                  | <u>\$(53.7)</u>                    | <u>\$(0.29)</u> |

# Q3 2007

## Operating Earnings by Segment

CNO

(Pre-tax earnings in millions)

|                                 |                      |
|---------------------------------|----------------------|
| <b>Bankers Life</b>             | <b>\$66.3</b>        |
| <b>Colonial Penn</b>            | <b>7.0</b>           |
| <b>Conseco Insurance Group*</b> | <b>(0.4)</b>         |
| <b>LTC Closed Block**</b>       | <b><u>(2.9)</u></b>  |
|                                 | <b><u>\$70.0</u></b> |

\*Unfavorably impacted by \$18.3 million from remediation procedures related to material control weakness and \$11 million of expenses related to operational initiatives and consolidation activities.

\*\*Favorably impacted by \$6.6 million decrease to our active life reserves (including \$20.1 million of adjustments identified by our remediation procedures, net of \$13.5 million change to certain actuarial estimates).

The pre-tax operating earnings presented above are non-GAAP financial measures. The chart on Page 9 reconciles the non-GAAP measures to the GAAP measures.

- **BLC and CP continue to have strong results**
- **CIG results negatively affected by accounting remediation activities and expenses related to operations consolidation**
- **LTC Run-off block approaching breakeven; stability achieved as result of Q2 2007 reserving activities**
- **Sale of annuity block closed 10/12/07 (effective date 1/1/07)**
  - Loss on sale consistent with previous communications
- **Agreement to recapture Colonial Penn block (effective 10/1/07)**
  - \$63 million investment; traditional life business
- **Share repurchases**
  - Q3 2007: \$34.7 million (2.4 million shares at average price of \$14.22/share)

# New Business Volumes (NAP)

# CNO Consolidated

(\$ millions)

|                                | <u>Q3 06</u>  | <u>Q3 07</u>  | <u>YTD 06</u>  | <u>YTD 07</u>  |
|--------------------------------|---------------|---------------|----------------|----------------|
| <b>Bankers</b>                 | \$58.0        | \$56.5        | \$212.3        | \$236.1        |
| <b>Colonial Penn</b>           | 8.3           | 11.4          | 25.8           | 33.0           |
| <b>Conseco Insurance Group</b> | <u>26.3</u>   | <u>18.1</u>   | <u>75.1</u>    | <u>59.1</u>    |
| <b>Total</b>                   | <u>\$92.6</u> | <u>\$86.0</u> | <u>\$313.2</u> | <u>\$328.2</u> |

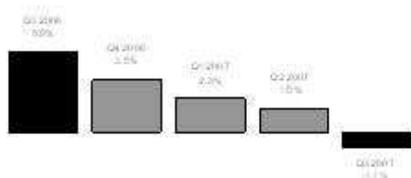
New business volumes are measured by new annualized premium, which includes 6% of annuity premiums, 10% of single-premium whole life deposits, and 100% of all other premiums. Prescription drug sales (PDP) NAP equal to \$310 per enrolled policy and private-fee-for-service (PFFS) NAP equal to \$2,100 per enrolled policy.

# Operating ROE

CNO

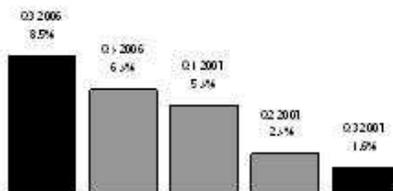
- Conseco has set a long-term goal of improving its Operating ROE – after-tax earnings divided by equity (excluding our NOL deferred tax asset from equity and other adjustments below) – to 11% in 2009

Operating ROE\*, Trailing 4 Quarters



\*Operating return excludes net realized investment gains (losses). Equity excludes accumulated other comprehensive income (loss) and the value of net operating loss carryforwards, and assumes conversion of preferred stock. See Appendix for corresponding GAAP measure.

Operating ROE (excl. litigation settlement charges and coinsurance transaction)\*\* , Trailing 4 Quarters



\*\*Operating return, as calculated and defined on the left side of this page, but before: (1) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (2) Q3 2007 charge related to a coinsurance transaction. See Appendix for corresponding GAAP measure.

## Q3 Earnings

## CNO Consolidated

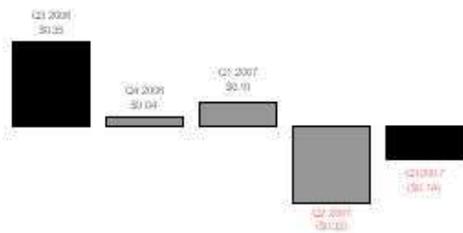
| (\$ millions)   | Q3 2006 | Q3 2007  |
|---|---------|----------|
| Bankers Life  | \$68.4  | \$66.3   |
| Conseco Insurance Group   | 58.5    | (0.4)    |
| Colonial Penn   | 4.6     | 7.0      |
| Other Business in Run-Off   | (13.0)  | (2.9)    |
| Corporate operations, excluding interest expense  | (8.1)   | (0.5)    |
| EBIT, excluding costs related to the litigation settlement<br>and the loss related to a coinsurance transaction | 110.4   | 69.5     |
| Costs related to the litigation settlement  | 0.0     | (16.4)   |
| Loss related to coinsurance transaction   | 0.0     | (76.5)   |
| Total EBIT*   | 110.4   | (23.4)   |
| Corporate interest expense  | (12.5)  | (20.2)   |
| Income (loss) before net realized investment losses and taxes   | 97.9    | (43.6)   |
| Tax expense (benefit)   | 35.6    | (18.0)   |
| Net income (loss) before net realized investment losses   | 62.3    | (25.6)   |
| Preferred stock dividends   | 9.5     | 0.0      |
| Net operating income (loss)   | 52.8    | (25.6)   |
| Net realized investment losses, net of related amortization and taxes   | (13.9)  | (28.1)   |
| Net income (loss) applicable to common stock  | \$38.9  | (\$53.7) |

\*Management believes that an analysis of earnings before net realized investment gains (losses) and corporate interest and taxes ("EBIT," a non-GAAP financial measure) provides an alternative measure to compare the operating results of the company quarter-over-quarter because it excludes: (1) corporate interest expense; and (2) net realized gains (losses) that are unrelated to the company's underlying fundamentals. The chart above provides a reconciliation of EBIT to net income applicable to common stock.

# Operating EPS (Diluted)

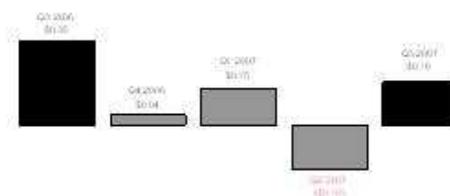
CNO

Operating EPS\*



\*Operating earnings per share exclude net realized investment gains (losses). See Appendix for corresponding GAAP measure.

Operating EPS, Before Litigation Settlement Charges and Coinsurance Transaction\*\*



\*\*Operating earnings per share, before: (1) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (2) Q3 2007 charge related to a coinsurance transaction. See Appendix for corresponding GAAP measure.

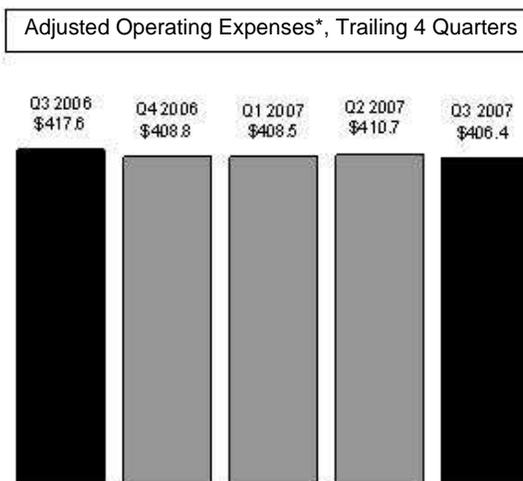
# Expenses

CNO

(\$ millions)

▪ **Back-office consolidation on track to produce annual cost savings of more than \$30 million beginning in 2008**

- Bankers Life policyholder service now managed in Carmel
- Additional savings resulting from CIG Sales and Marketing restructuring



\*Adjusted operating expenses excluding primarily acquisition costs, capitalization of software development costs and costs related to the R-factor litigation settlement. This measure is used by the Company to evaluate its progress in reducing operating expenses.

- **Book value per diluted share (excluding accumulated other comprehensive loss)**
  - \$24.77 at 9/30/07 vs \$25.81 a year earlier and \$25.64 at YE 2006
- **Debt and preferred stock to total capital ratio (excluding accumulated other comprehensive loss)**
  - 20.6% at 9/30/07 vs 26.4% a year earlier and 28.8% at YE 2006
- **Consolidated RBC ratio**
  - 330% at 9/30/07 (estimated) vs 324% a year earlier and 357% at YE 2006
- **Investments**
  - \$389.9 million of investment income in Q3 2007 vs \$359.5 million in Q3 2006
  - Earned yield of 5.88% in Q3 2007 vs 5.72% in Q3 2006
  - 94% of bonds investment grade at 9/30/07 vs 95% at 12/31/06 and 97% at 9/30/06\*\*
  - During Q3 2007, significantly reduced exposure to sub-prime market
- **Corporate liquidity**
  - Available liquidity exceeds \$150 million at 9/30/07, excluding \$80 million revolver

\*See appendix for detail on these indicators, including notes describing non-GAAP measures.

\*\*Excludes investments from consolidated variable interest entity.

# Colonial Penn Recapture: Transaction Overview

CNO

- Increase core business (\$50 million annual life premium)
- Grow enterprise value
- Eliminate reinsurance accounting and administration
- Recapture fee (purchase price): \$63 million
- Effective date: 10/1/07 (expected to close by 12/31/07)
- Accretive to earnings and ROE:

|                         | <u>2007</u> | <u>2008</u> |
|-------------------------|-------------|-------------|
| Pretax Operating Income | +\$2 mil.   | +\$7 mil.   |
| ROE                     | +0.1%       | +0.3%       |

## Q3 2007 Summary

## Bankers

- **Sales of \$56.5 million, up 11% YTD, 2% below Q3 2006**
  - Sales of PFFS voluntarily suspended in June by seven largest health plans; resumed in September
- **Slightly lower earnings (vs Q3 2006) driven by:**
  - Lower LTC margins, offset by
  - Improved spreads and higher PDP/PFFS income
- **Effective July 1, 2007, entered into a quota-share reinsurance agreement related to certain group PFFS business sold by Coventry**
  - Adding \$2.5 million of pretax earnings quarterly

## Q3 Earnings

## Bankers

(\$ millions)

|  | <u>Q3 2006</u> | <u>Q3 2007</u> |
|--|----------------|----------------|
| Insurance policy income  | \$390.1        | \$473.6        |
| Net investment income  | 134.4          | 144.2          |
| Fee revenue and other income   | <u>1.4</u>     | <u>3.8</u>     |
| Total revenues   | 525.9          | 621.6          |
| Insurance policy benefits  | 313.3          | 404.6          |
| Amounts added to policyholder account balances   | 51.7           | 54.9           |
| Amortization related to operations   | 52.4           | 49.3           |
| Other operating costs and expenses   | 40.1           | 46.5           |
| Total benefits and expenses  | 457.5          | 555.3          |
| Income before net realized investment gains (losses), net of related amortization and income taxes | <u>\$68.4</u>  | <u>\$66.3</u>  |

*2007 YTD Return on Equity (before realized investment gains/(losses): 10.4%*

Management believes that an analysis of income (loss) before net realized investment gains (losses), net of related amortization (a non-GAAP financial measure), is important to evaluate the financial performance of our business, and is a measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized gains or losses can be affected by events that are unrelated to a company's underlying fundamentals. The chart on Page 9 reconciles the non-GAAP measure to the corresponding GAAP measure. See Appendix for a reconciliation of the return on equity measure to the corresponding GAAP measure.

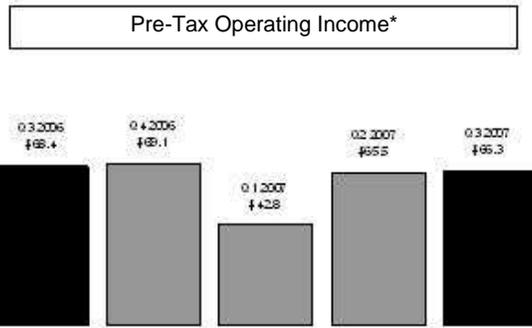
# Segment Performance

# Bankers

(\$ millions)

■ **Higher earnings driven by:**

- Higher margins on Medicare-related products, primarily driven by PFFS
- LTC margins negatively impacted by higher persistency and lower claim terminations



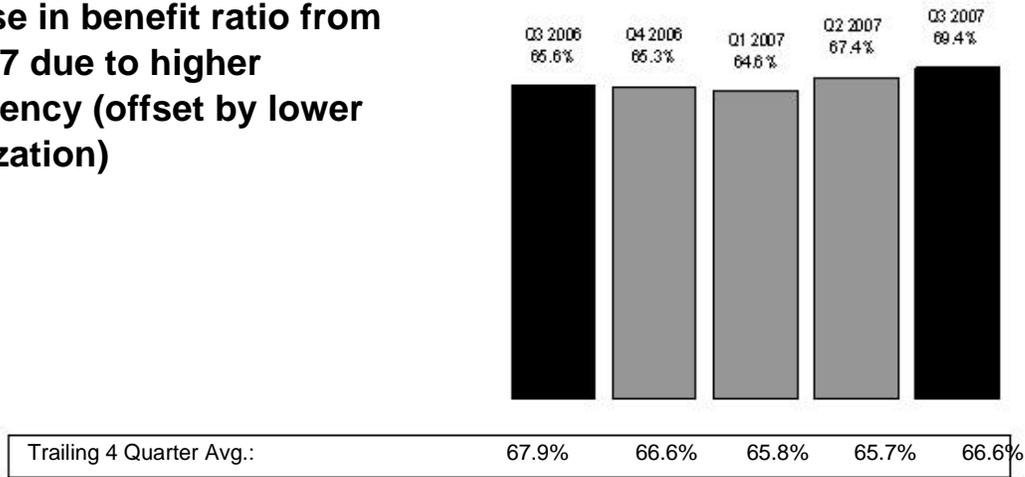
|                           |           |           |           |           |           |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| PTOI-Trailing 4 Quarters: | \$252.8   | \$258.4   | \$244.0   | \$245.8   | \$243.7   |
| Revenues-Quarterly:       | \$525.9   | \$534.3   | \$554.1   | \$581.8   | \$621.6   |
| Revenues -Tr. 4 Quarters: | \$2,019.8 | \$2,077.1 | \$2,123.3 | \$2,196.1 | \$2,291.8 |

\*Operating earnings exclude net realized gains (losses). See Appendix for corresponding GAAP measure of our consolidated results of operations.

# Benefit Ratio\* – Medicare Supplement

## Bankers

- Increase in benefit ratio from Q2 2007 due to higher persistency (offset by lower amortization)

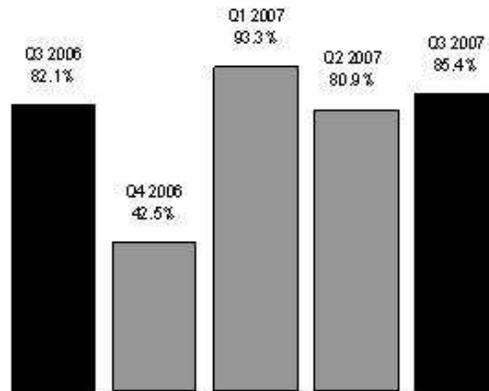


\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.

# Benefit Ratio\* – PDP and PFFS Business

## Bankers

- PDP and PFFS continue to trend as expected
- Seasonality drives fluctuations

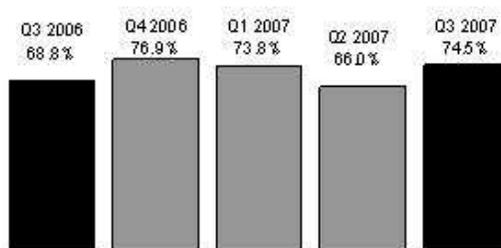


\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.

# Interest-Adjusted Benefit Ratio\* – Long Term Care

## Bankers

- **Q3 2007 negatively impacted by:**
  - Fewer claims closed compared to prior periods
  - Higher persistency compared to Q2 2007
- **Began implementation of premium re-rates in Q3 2007 on more recent business not previously re-rated; expected \$25-30 million additional annual revenue**



|                           |       |        |        |       |        |
|---------------------------|-------|--------|--------|-------|--------|
| Trailing 4 Quarter Avg.:  | 67.4% | 69.9%  | 71.6%  | 71.4% | 72.8%  |
| Qtrly. non-int. adjusted: | 98.2% | 106.7% | 104.3% | 96.8% | 105.8% |

\*We calculate interest-adjusted benefit ratios by dividing insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by insurance policy income.

## Q3 Earnings

## Colonial Penn

(\$ millions)

|   | <u>Q3 2006</u> | <u>Q3 2007</u> |
|---|----------------|----------------|
| Insurance policy income   | \$29.1         | \$32.5         |
| Net investment income   | 9.2            | 9.4            |
| Fee revenue and other income  | 0.1            | 0.2            |
| Total revenues  | <u>38.4</u>    | <u>42.1</u>    |
| Insurance policy benefits   | 25.2           | 26.3           |
| Amounts added to policyholder account balances  | 0.4            | 0.3            |
| Amortization related to operations  | 4.4            | 5.1            |
| Other operating costs and expenses  | 3.8            | 3.4            |
| Total benefits and expenses   | <u>33.8</u>    | <u>35.1</u>    |
| Income before net realized investment gains (losses) and income taxes,<br>net of related amortization | <u>\$4.6</u>   | <u>\$7.0</u>   |

2007 YTD Return on Equity (before realized investment gains/(losses): 13.8%

Management believes that an analysis of income (loss) before net realized investment gains (losses), net of related amortization (a non-GAAP financial measure), is important to evaluate the financial performance of our business, and is a measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized gains or losses can be affected by events that are unrelated to a company's underlying fundamentals. The chart on Page 9 reconciles the non-GAAP measure to the corresponding GAAP measure. See Appendix for a reconciliation of the return on equity measure to the corresponding GAAP measure.

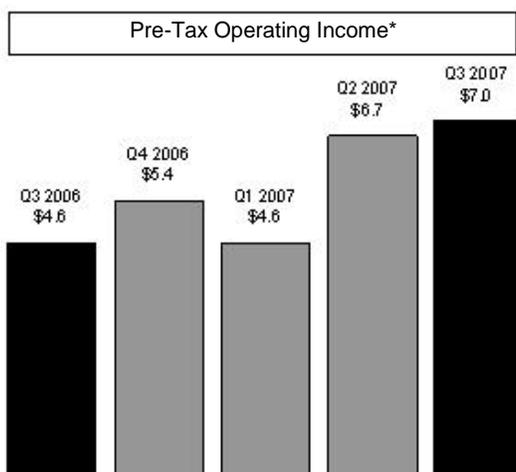
# Segment Performance

# Colonial Penn

(\$ millions)

■ **Consistent and favorable trends:**

- Sales
- Mortality
- Expenses
- Amortization of DAC/VOBA
- Earnings



|                           |         |         |         |         |         |
|---------------------------|---------|---------|---------|---------|---------|
| PTOI-Trailing 4 Quarters: | \$19.5  | \$21.6  | \$21.1  | \$21.3  | \$23.7  |
| Revenues-Quarterly:       | \$38.4  | \$41.4  | \$39.0  | \$38.9  | \$42.1  |
| Revenues -Tr. 4 Quarters: | \$147.9 | \$150.9 | \$153.7 | \$157.7 | \$161.4 |

\*Operating earnings exclude net realized gains (losses). See Appendix for corresponding GAAP measure of our consolidated results of operations.

### ▪ Sales down 31% from Q3 2006

- Higher value from new business compared to Q3 2006, despite lower sales
- Strong sales gains in specified disease, up 35% from Q3 2006
- Decreases in Medicare supplement and annuities, consistent with CIG's focus on more profitable business

### ▪ Lower earnings (vs Q3 2006) driven by:

- Increase in death claims and amortization expense on interest-sensitive life products
- Specified disease reserve correction
- Expenses related to operational savings and marketing restructuring

### ▪ Annuity coinsurance transaction closed in October

- After tax charge of \$49.7 million excluded from CIG's earnings

## Q3 Earnings

## CIG

(\$ millions)

|  | <u>Q3 2006</u> | <u>Q3 2007</u> |
|--|----------------|----------------|
| Insurance policy income  | \$245.9        | \$238.7        |
| Net investment income  | 189.3          | 181.2          |
| Fee revenue and other income   | <u>0.8</u>     | <u>0.1</u>     |
| Total revenues   | <u>436.0</u>   | <u>420.0</u>   |
| Insurance policy benefits  | 184.1          | 220.3          |
| Amounts added to policyholder account balances   | 84.5           | 76.4           |
| Amortization related to operations   | 42.3           | 41.2           |
| Other operating costs and expenses   | <u>66.6</u>    | <u>82.5</u>    |
| Total benefits and expenses  | 377.5          | 420.4          |
| Income (loss) before net realized investment gains (losses),<br>net of related amortization and income taxes, excluding<br>costs related to the litigation settlement and the loss<br>related to a coinsurance transaction | <u>\$58.5</u>  | <u>(\$0.4)</u> |

*2007 YTD Return on Equity (before realized investment gains/(losses): 3.7%*

Management believes that an analysis of income (loss) before net realized investment gains (losses), net of related amortization (a non-GAAP financial measure), is important to evaluate the financial performance of our business, and is a measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized gains or losses can be affected by events that are unrelated to a company's underlying fundamentals. The chart on Page 9 reconciles the non-GAAP measure to the corresponding GAAP measure. See Appendix for a reconciliation of the return on equity measure to the corresponding GAAP measure.

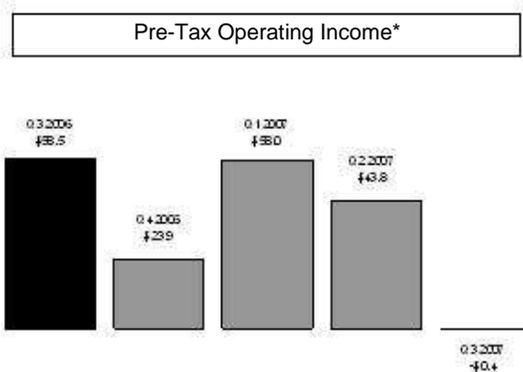
# Segment Performance

CIG

(\$ millions)

■ **Q3 2007 includes:**

- Specified disease reserve correction of \$18.3 million
- \$11 million of expenses related to operational savings or consolidation activity
- \$11 million reduction (vs Q3 2006) in interest-sensitive life earnings from adverse mortality experience



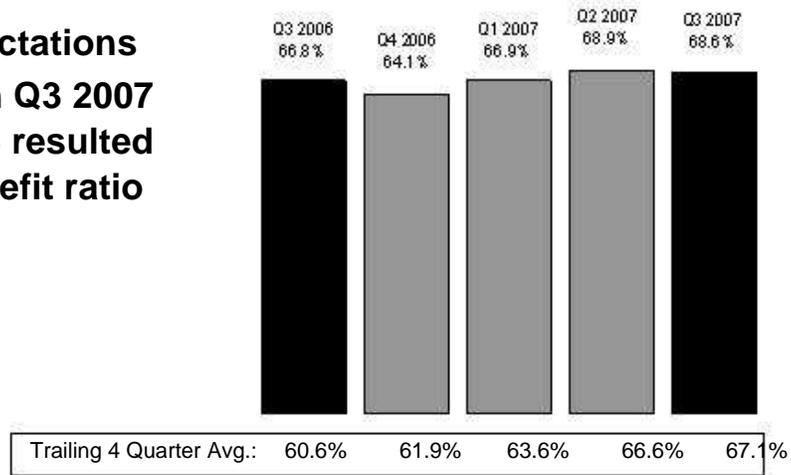
|                           |           |           |           |           |           |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| PTOI-Trailing 4 Quarters: | \$224.2   | \$189.0   | \$205.1   | \$184.2   | \$125.3   |
| Revenues-Quarterly:       | \$436.0   | \$445.7   | \$417.6   | \$438.9   | \$420.0   |
| Revenues-Tr. 4 Quarters:  | \$1,714.8 | \$1,729.1 | \$1,707.9 | \$1,738.2 | \$1,722.2 |

\*Operating earnings exclude: (1) net realized gains (losses); (2) the Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (3) the Q3 2007 charge related to a coinsurance transaction. See Appendix for corresponding GAAP measure of our consolidated results of operations.

# Benefit Ratio\* – Medicare Supplement

CIG

- Consistent with expectations
- Higher persistency in Q3 2007 compared to Q3 2006 resulted in slightly higher benefit ratio



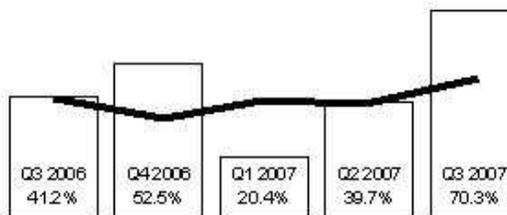
\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.

# Interest-Adjusted Benefit Ratio\* – Specified Disease

CIG

▪ **Reserve corrections have affected benefit ratios in several periods:**

- Loss ratio would have been 50.1% in Q3 2007 without \$18.3 million adjustment, 41.8% in Q1 2007 without \$19.3 million adjustment, and 37.7% in Q4 2006 without \$13.3 million adjustment
- Solid line indicates loss ratios without these adjustments



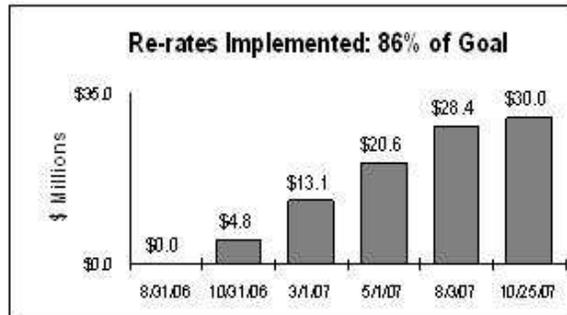
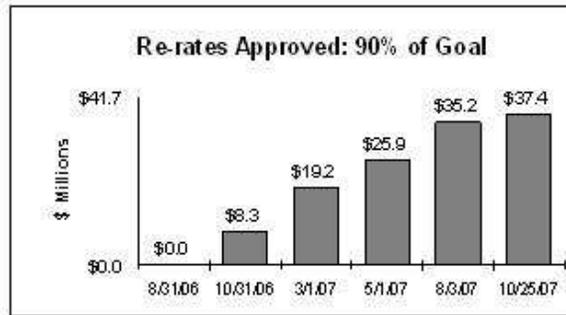
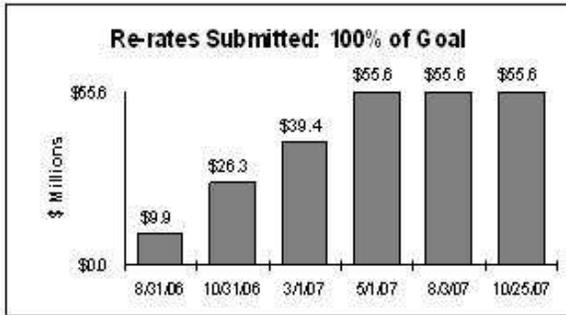
|                           |       |       |       |       |        |
|---------------------------|-------|-------|-------|-------|--------|
| Trailing 4 Quarter Avg.:  | 45.9% | 47.0% | 40.6% | 38.4% | 45.7%  |
| Qtrly. non-int. adjusted: | 73.6% | 84.9% | 53.2% | 72.5% | 103.2% |

\*We calculate interest-adjusted benefit ratios by dividing insurance policy benefits, less interest income on the accumulated assets backing the insurance liabilities, by insurance policy income.

- **Financial results reflect prior-quarter reserve strengthening and improving business fundamentals**
- **Program for improvement initiatives providing a real impact**
  - Completed implementation of \$30 million in approved Round 1 rate increases; \$21 million expected in Round 2
  - Improved claims management processes driving better business fundamentals and customer experience
  - Expect decision in Q4 2007 on sourcing of system and select claim functions to recognized industry leader
- **Working proactively with government leaders and regulators**

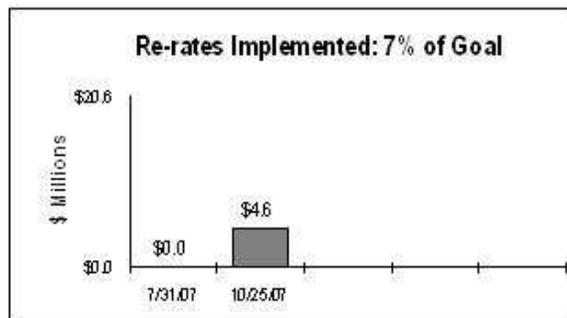
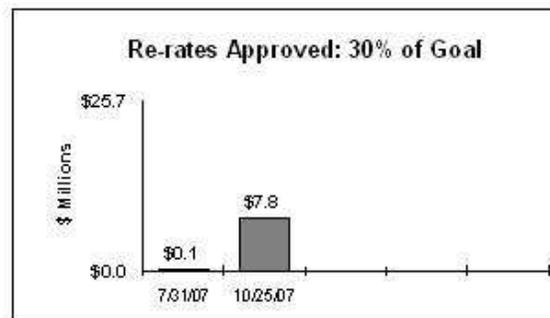
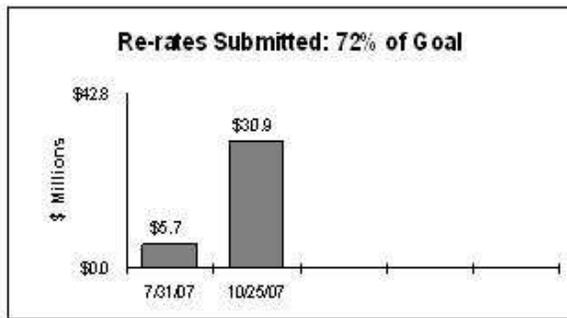
# Premium Re-rates Round 1

# LTC Closed Block



# Premium Re-rates Round 2

# LTC Closed Block



## Q3 Earnings

## LTC Closed Block

(\$ millions)

|   | <u>Q3 2006</u>  | <u>Q3 2007</u> |
|---|-----------------|----------------|
| Insurance policy income   | \$83.4          | \$77.2         |
| Net investment income   | 44.6            | 48.8           |
| Fee revenue and other income  | <u>0.1</u>      | <u>0.1</u>     |
| Total revenues  | <u>128.1</u>    | <u>126.1</u>   |
| Insurance policy benefits   | 113.4           | 106.0          |
| Amortization related to operations                                  | 5.6             | 5.6            |
| Other operating costs and expenses                                  | <u>22.1</u>     | <u>17.4</u>    |
| Total benefits and expenses   | <u>141.1</u>    | <u>129.0</u>   |
| Loss before net realized investment gains (losses) and income taxes | <u>(\$13.0)</u> | <u>(\$2.9)</u> |

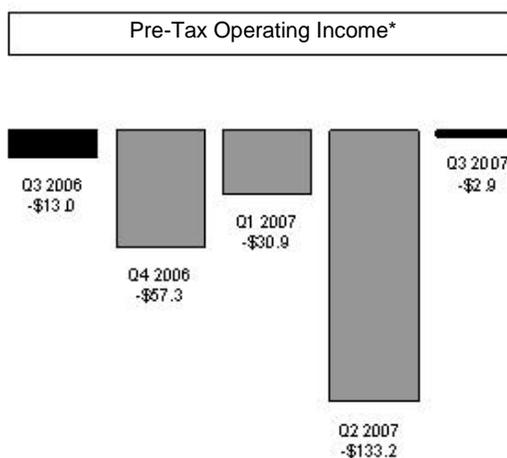
Management believes that an analysis of income (loss) before net realized investment gains (losses), net of related amortization (a non-GAAP financial measure), is important to evaluate the financial performance of our business, and is a measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized gains or losses can be affected by events that are unrelated to a company's underlying fundamentals. The chart on Page 9 reconciles the non-GAAP measure to the corresponding GAAP measure. See Appendix for a reconciliation of the return on equity measure to the corresponding GAAP measure.

## Segment Performance

(\$ millions)

- Stable prior-period claim development
- Meaningful impact from improvement initiatives
- Net \$6.6 million favorable adjustments to reserve for future benefits

## LTC Closed Block



|                               |         |          |          |           |           |
|-------------------------------|---------|----------|----------|-----------|-----------|
| PTOI-Trailing 4 Quarters:     | \$33.3  | (\$41.9) | (\$96.8) | (\$234.4) | (\$224.3) |
| Revenues-Quarterly:           | \$128.1 | \$127.9  | \$126.6  | \$125.8   | \$126.1   |
| Revenues -Tr. 4 Quarters:     | \$519.6 | \$516.5  | \$509.4  | \$508.4   | \$506.4   |
| Collected Premiums-Quarterly: | \$80.4  | \$76.6   | \$81.2   | \$76.2    | \$75.7    |

\*Operating earnings exclude net realized gains (losses). See Appendix for corresponding GAAP measure of our consolidated results of operations.

# Benefit Detail

# LTC Closed Block

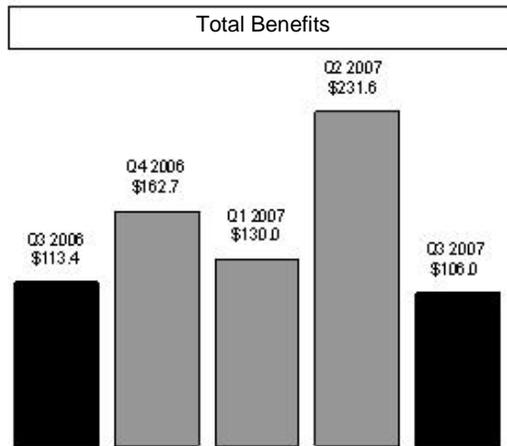
(\$ millions)

▪ **Q3 2007 incurred claims reflect:**

- Stable claim reserve development
- Verified basis consistent with prior periods

▪ **Q3 2007 increase in reserves:**

- \$(20.1) million decrease related to prior-period deaths and terminations
- \$13.5 million increase for reserve estimate refinements
- Reserve pivot for rate increases



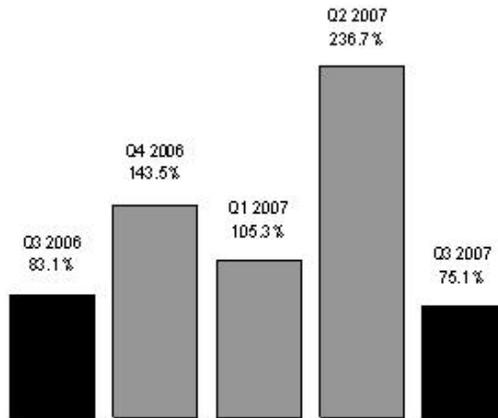
|  |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| Incurred Claims                          | \$113.5 | \$164.0 | \$130.5 | \$234.9 | \$112.9 |
| Increase in Reserves for Future Benefits | \$(0.1) | \$(1.3) | \$(0.5) | \$(3.3) | \$(6.9) |
| Verified Basis Incurred Claims           | \$116.5 | \$124.4 | \$114.3 | \$116.4 | \$116.2 |

Total benefits equal incurred claims plus increase in reserve for future benefits. Verified basis incurred claims adjust all periods for claim reserve redundancies and deficiencies.

# Interest-Adjusted Benefit Ratio\*

## LTC Closed Block

- Benefit reserve adjustments favorably impacted Q3 2007 by 8.5%



|  |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
| Trailing 4 Quarter Avg.:                 | 60.1%  | 83.2%  | 99.0%  | 141.0% | 140.2% |
| Qtrly. non-int. adjusted:                | 136.0% | 198.2% | 163.5% | 296.7% | 137.4% |
| Qtrly. Verified Basis non-int. adjusted: | 143.5% | 147.6% | 148.1% | 145.1% | 150.7% |

\*We calculate interest-adjusted benefit ratios by dividing insurance policy benefits less interest income on the accumulated assets backing the insurance liabilities by insurance policy income.

# Balance Sheet Detail

# LTC Closed Block

(\$ millions)

|  |
|--|
| <b>Insurance Liabilities and Intangible Assets, Net of Reinsurance</b> |
|--|

|                                    | <u>Q3 2006</u>   | <u>Q4 2006</u>   | <u>Q1 2007</u>   | <u>Q2 2007</u>   | <u>Q3 2007</u>   |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Reserve for Future Benefits</b> | \$2,413.6        | \$2,412.6        | \$2,412.2        | \$2,409.0        | \$2,402.3        |
| <b>Claim Reserve</b>               | 752.3            | 815.6            | 829.1            | 952.6            | 954.3            |
| <b>Insurance Acquisition Costs</b> | <u>(176.2)</u>   | <u>(170.9)</u>   | <u>(165.2)</u>   | <u>(159.5)</u>   | <u>(153.9)</u>   |
| <b>Net Liability</b>               | <u>\$2,989.7</u> | <u>\$3,057.3</u> | <u>\$3,076.1</u> | <u>\$3,202.1</u> | <u>\$3,202.7</u> |
| <b>Percent Change</b>              | 0.2%             | 2.3%             | 0.6%             | 4.1%             | 0.0%             |

- All balances reflect stability from Q2 2007 to Q3 2007

# Verified Incurred Development\*

# LTC Closed Block

| (\$ millions)                               | <u>Developed Deficiencies in Periods Prior to 2004</u> | <u>2004</u>   | <u>2005</u>   | <u>2006</u>   | <u>Q1 2007</u> | <u>Q2 2007</u> | <u>Q3 2007</u> |
|---|--|---------------|---------------|---------------|----------------|----------------|----------------|
| <b>Reported Claims</b>                      | \$0.0  | \$370.8       | \$396.0       | \$433.4       | \$119.7        | \$212.0        | \$100.7        |
| <b>Prior Period Development</b>             | <u>0</u>   | <u>(44.1)</u> | <u>(58.7)</u> | <u>(71.9)</u> | <u>(34.9)</u>  | <u>(109.7)</u> | <u>3.3</u>     |
| <b>Verified Claims as of Reporting Date</b> | <u>0</u>   | <u>326.7</u>  | <u>337.3</u>  | <u>361.5</u>  | <u>84.8</u>    | <u>102.3</u>   | <u>104.0</u>   |
| <b>Verified Claims Developed through:</b>   |  |               |               |               |                |                |                |
| <b>12/31/04</b>                             | 44.1   | 326.7         |               |               |                |                |                |
| <b>12/31/05</b>                             | 103.5  | 326.1         | 337.3         |               |                |                |                |
| <b>12/31/06</b>                             | 136.1  | 337.6         | 365.0         | 361.5         |                |                |                |
| <b>3/31/07</b>                              | 146.7  | 344.1         | 368.8         | 375.5         | 84.8           |                |                |
| <b>6/30/07</b>                              | 160.9  | 356.2         | 388.9         | 418.1         | 104.2          | 102.3          |                |
| <b>9/30/07</b>                              | 162.0  | 356.5         | 388.8         | 414.7         | 103.5          | 103.1          | 104.0          |

- Q2 2007 claims reserving actions generated stability in Q3 2007:
  - Favorable prior-period development of \$3.3 million
  - Verified claims for all periods stable from 6/30/07 to 9/30/07

\*Excludes waiver-of-premium and return-of-premium benefits.

## Operating Data

## LTC Closed Block

|                               | <u>Q3 2005</u> | <u>Q4 2005</u> | <u>Q1 2006</u> | <u>Q2 2006</u> | <u>Q3 2006</u> | <u>Q4 2006</u> | <u>Q1 2007</u> | <u>Q2 2007</u> | <u>Q3 2007</u> |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Claims Paid (mils.)</b>    | \$107.4        | \$83.1         | \$90.4         | \$101.2        | \$96.1         | \$81.64        | \$102.0        | \$96.8         | \$99.1         |
| <b>Open Claimant Counts</b>   | 12,449         | 12,290         | 11,805         | 12,536         | 12,228         | 12,048         | 11,870         | 12,424         | 12,121         |
| <b>In Force Policy Counts</b> | 202,804        | 201,649        | 197,585        | 194,080        | 190,134        | 187,123        | 183,655        | 179,952        | 175,141        |
| <b>Ann. Termination Rates</b> | 10.7%          | 2.3%           | 7.8%           | 6.9%           | 7.9%           | 6.2%           | 7.2%           | 7.8%           | 10.3%          |

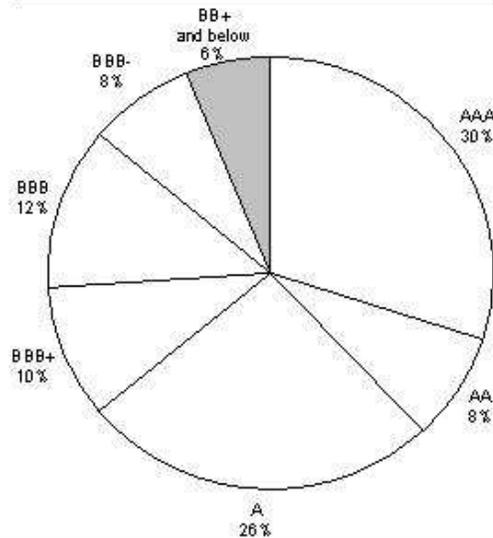
- Claimant count estimates remain around 12,000, with paid claims near \$100 million (before inventory adjustments)
- Q3 2007 termination rate reflects prior-period deaths and terminations

# High-Quality Assets

CNO

- Only 6% of total portfolio is in below-investment grade securities
- Excludes investments from variable interest entity we are required to consolidate for GAAP financial reporting (such assets and the related liabilities are legally isolated)

Actively Managed Fixed Maturities by Rating at 9/30/07 (Market Value)

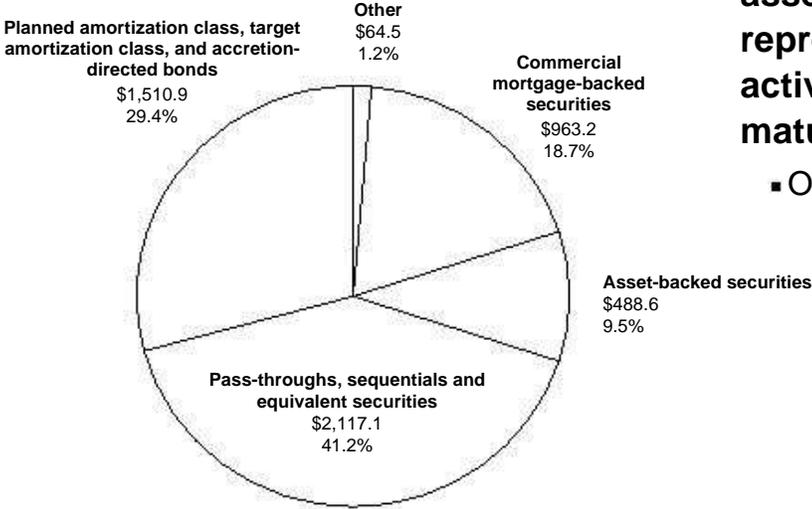


|  | 9/30/06 | 12/31/06 | 3/31/07 | 6/30/07 | 9/30/07 |
|--|---------|----------|---------|---------|---------|
| % of Bonds which are Investment Grade: | 97%     | 95%      | 95%     | 94%     | 94%     |

# Structured Securities at 9/30/07

CNO

(Market value in millions)

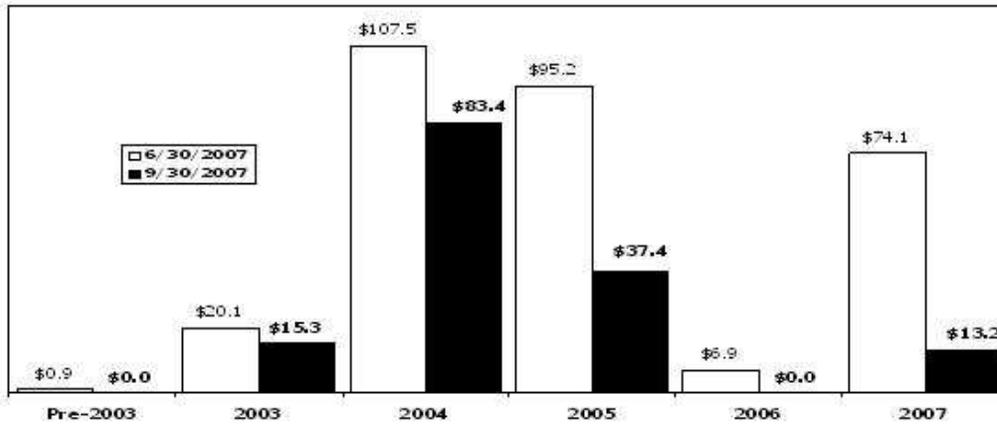


- **Structured securities and asset-backed securities represent 25% of total actively managed fixed maturity securities**
  - Over 87% “AAA” rated

# Sub-Prime Home Equity ABS

CNO

Exposure by Vintage Year (Market Value in millions)



- Over 40% reduction of sub-prime exposure during Q3 2007, including 82% of 2007 vintage and 100% of 2006 vintage
- As of 9/30/07, 0.57% of invested assets, compared to 1.2% at 6/30/07
- Reduction in exposure reflects dispositions of \$116 million of securities (at a loss of \$38 million) and decline in market value of \$25 million for securities held at quarter-end

# Sub-Prime Home Equity ABS at 9/30/07

CNO

| <u>Rating</u> | <u>Market Value (mil.)</u> | <u>Book Value (mil.)</u> | <u>% of Subprime*</u> | <u>Avg. FICO</u> | <u>Avg. Support</u> | <u>Avg. 60+ Delinq.</u> | <u>% of Portfolio*</u> |
|---------------|----------------------------|--------------------------|-----------------------|------------------|---------------------|-------------------------|------------------------|
| AAA           | \$32.2                     | \$32.9                   | 21.6%                 | 646              | 47.6%               | 8.2%                    | 0.12%                  |
| AA            | \$44.9                     | \$49.7                   | 30.0%                 | 640              | 28.4%               | 7.5%                    | 0.17%                  |
| A             | \$62.7                     | \$76.7                   | 42.0%                 | 641              | 19.2%               | 6.6%                    | 0.24%                  |
| <=BBB         | \$9.5                      | \$21.9                   | 6.4%                  | 609              | 5.9%                | 3.3%                    | 0.04%                  |
| <b>Total</b>  | \$149.3                    | \$181.2                  | 100.0%                | 640              | 27.2%               | 7.0%                    | 0.57%                  |

- 0.57% of invested assets
- No exposure to “affordability products” – negative amortization, option ARM collateral, etc.
- Only \$9.5 million (market value) rated lower than A category
- Current support in structures meets original expectations
- Remaining portfolio generally reflects substantial margin for adverse development

\*% of market value.

# **Sub-Prime Home Equity ABS and Structured Credit**

**CNO**

- **Through Q3 2007, total of four downgraded sub-prime ABS securities – par amount \$17 million**
- **No ABS CDO investments**
- **No hedge fund investments**
- **No exposure to substandard servicers**
- **Nominal (<\$10 million par) third-party CLO/structured credit exposure**
- **Highly developed cashflow and default analytic models, along with rigorous management oversight processes**
- **No “mark to model” structured securities**

## CNO Recap

### ▪ Core businesses

- Bankers Life and Colonial Penn – great results, focused on growth
- CIG
  - Greater focus on distinctive capabilities
  - Producing more economic value from lower sales

### ▪ Runoff LTC block

- Claims reserve volatility reduced
- Run rate now at a small loss per quarter, expect profitability next year
- Continued progress on turnaround, increasingly visible

## CNO Recap

### ▪ Changing the portfolios of the business

- Annuity coinsurance deal with Swiss Re closed; releases capital from low-return business
- Recapture of Colonial Penn life block from Swiss Re; higher-return core business for CNO

### ▪ Operations

- Bulk of organizational realignment completed – Carmel now handling all customer service calls
- Real estate realignment to occur mostly in Q1 2008 – expect to record pre-tax losses of approximately \$20 million
- Annual expense savings will exceed \$30 million



## Questions and Answers



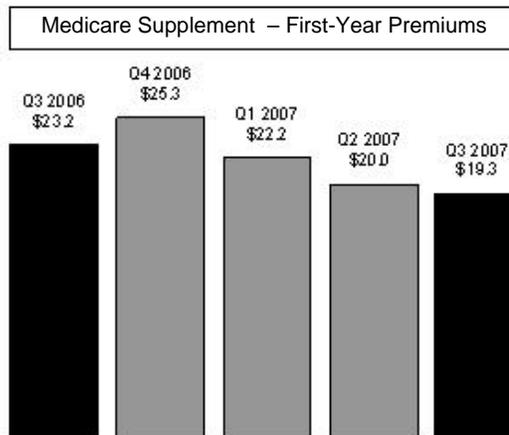
## Appendix

# Premiums – Medicare Supplement

# Bankers

(in millions)

- First-year premiums continue downward trend, reflecting migration to PFFS plans



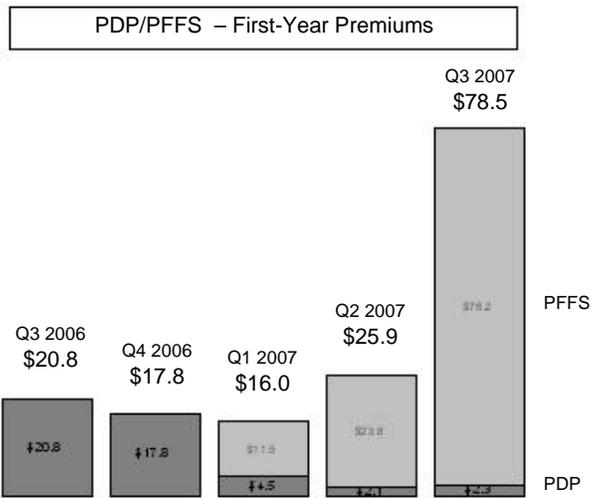
|   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| Med. Supp. First-Year Preams.-Tr. 4 Qtrs: | \$93.1  | \$97.8  | \$95.2  | \$90.7  | \$86.8  |
| Med. Supp. Total Premiums-Quarterly:      | \$146.7 | \$157.2 | \$167.0 | \$153.8 | \$152.9 |
| Med. Supp. NAP-Quarterly:                 | \$15.3  | \$18.4  | \$14.7  | \$14.7  | \$16.1  |
| Med. Supp. NAP-Trailing 4 Quarters:       | \$76.2  | \$72.8  | \$66.8  | \$63.1  | \$63.9  |

# Premiums – PDP/PFFS

# Bankers

(in millions)

- Significant increase in PDP/PFFS premiums as result of expansion of partnership with Coventry



|                     |       |       |        |        |         |
|---------------------|-------|-------|--------|--------|---------|
| PDP NAP-Quarterly:  | \$0.7 | \$0.5 | \$4.3  | \$0.7  | \$0.8   |
| PFFS NAP-Quarterly: | -     | -     | \$46.8 | \$22.2 | \$(0.9) |

# Premiums – Long-Term Care

# Bankers

(\$ millions)

- Sales have stabilized
- Increases in total premiums as result of higher persistency and rate increases

Long-Term Care – First-Year Premiums



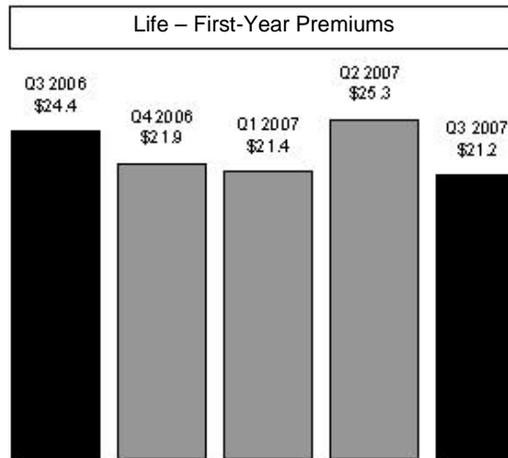
|                               |         |         |         |         |         |
|-------------------------------|---------|---------|---------|---------|---------|
| First-Year Prems.-Tr. 4 Qtrs: | \$54.6  | \$51.2  | \$48.6  | \$47.7  | \$47.4  |
| Total Premiums-Quarterly:     | \$145.0 | \$150.2 | \$158.2 | \$155.4 | \$154.5 |
| NAP-Quarterly:                | \$12.5  | \$11.0  | \$11.7  | \$12.7  | \$11.7  |
| NAP-Trailing 4 Quarters:      | \$50.4  | \$47.6  | \$47.9  | \$47.9  | \$47.1  |

# Premiums – Life Insurance

# Bankers

(\$ millions)

- First-year premiums declined from Q2 2007 due to lower single-premium sales
- Trailing 4-quarter sales continue to increase



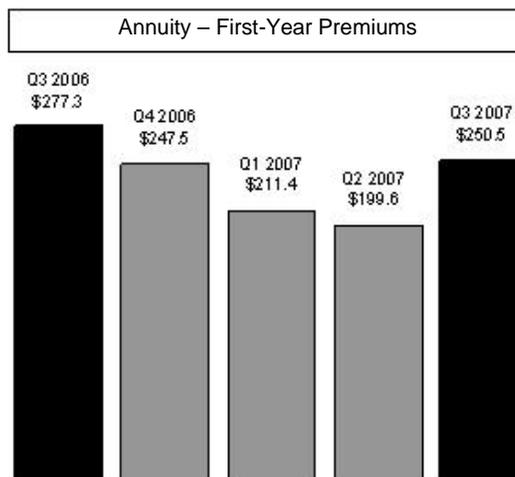
|                               |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|
| First-Year Prems.-Tr. 4 Qtrs: | \$90.4 | \$90.3 | \$91.0 | \$93.0 | \$89.8 |
| Total Premiums-Quarterly:     | \$47.8 | \$46.6 | \$48.1 | \$52.1 | \$49.1 |
| NAP-Quarterly:                | \$12.9 | \$11.4 | \$12.7 | \$14.5 | \$13.8 |
| NAP-Trailing 4 Quarters:      | \$44.7 | \$46.3 | \$48.1 | \$51.5 | \$52.4 |

# Premiums – Annuity

# Bankers

(\$ millions)

- Increase over Q2 2007 in first-year premiums reflects higher sales
- Total trailing 4-quarter premiums declined due to higher terminations as result of difficult interest rate environment



|                               |           |         |         |         |         |
|-------------------------------|-----------|---------|---------|---------|---------|
| First-Year Prens.-Tr. 4 Qtrs: | \$1,010.7 | \$994.6 | \$973.5 | \$935.8 | \$909.0 |
| Total Premiums-Quarterly:     | \$278.2   | \$247.6 | \$212.2 | \$200.5 | \$250.9 |

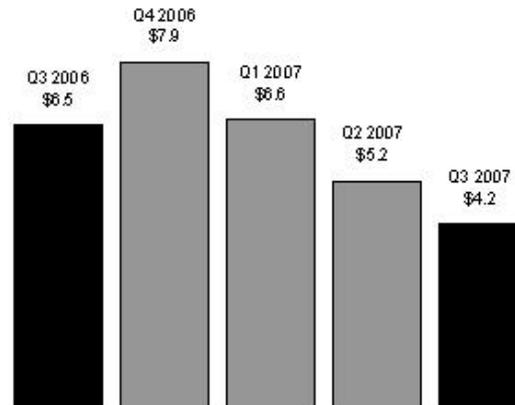
# Premiums - Medicare Supplement

CIG

(\$ millions)

- **Sales down 70% from Q3 2006:**
  - Pursuing smaller, more profitable block of Medicare supplement

Medicare Supplement – First-Year Premiums



|                               |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|
| First-Year Prems.-Tr. 4 Qtrs: | \$28.0 | \$30.6 | \$28.9 | \$26.2 | \$23.9 |
| Total Premiums-Quarterly:     | \$54.6 | \$61.8 | \$59.8 | \$56.1 | \$54.8 |
| NAP-Quarterly:                | \$6.2  | \$6.4  | \$4.9  | \$2.9  | \$1.9  |
| NAP-Trailing 4 Quarters:      | \$33.9 | \$32.1 | \$26.5 | \$20.4 | \$16.1 |

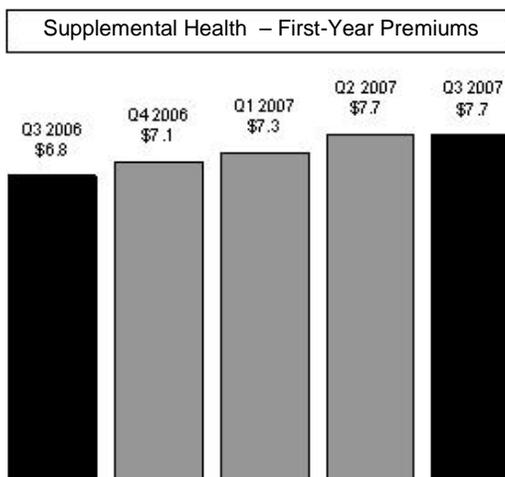
# Premiums – Specified Disease

**CIG**

(\$ millions)

■ **Sales up 35% from Q3 2006:**

- New products
- Increased focus within PMA
- Recruitment of Health IMOs



|                               |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|
| First-Year Prems.-Tr. 4 Qtrs: | \$28.4 | \$28.1 | \$28.2 | \$28.9 | \$29.8 |
| Total Premiums-Quarterly:     | \$88.1 | \$89.4 | \$92.1 | \$89.1 | \$88.7 |
| NAP-Quarterly:                | \$7.7  | \$8.6  | \$7.8  | \$9.6  | \$10.3 |
| NAP-Trailing 4 Quarters:      | \$28.5 | \$29.8 | \$31.4 | \$33.7 | \$36.3 |

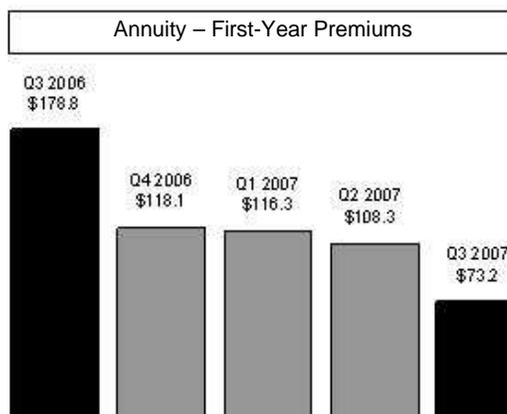
# Premiums – Annuity

CIG

(\$ millions)

■ **Sales down 59% from Q3 2006:**

- Impact of ratings downgrade
- Discontinuance of products due to coinsurance transaction
- Greater focus on profitability



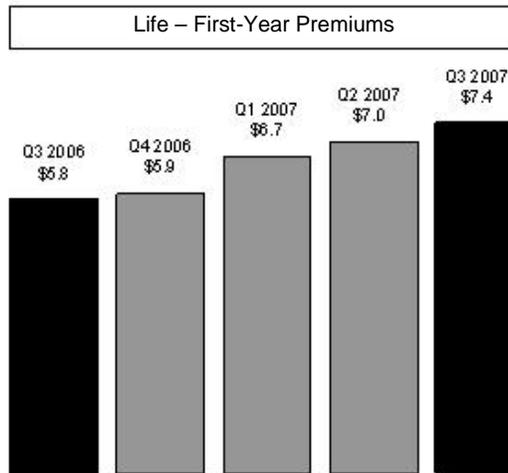
|                               |         |         |         |         |         |
|-------------------------------|---------|---------|---------|---------|---------|
| First-Year Prems.-Tr. 4 Qtrs: | \$358.1 | \$415.5 | \$500.2 | \$521.5 | \$415.9 |
| Total Premiums-Quarterly:     | \$182.8 | \$121.9 | \$120.1 | \$113.0 | \$77.5  |

# Premiums – Life Insurance

# Colonial Penn

(\$ millions)

- **Continued strong year-over-year sales growth**
- **Comparing the trailing four quarters data:**
  - NAP and first-year premium both grew 23%
  - First-year premium consistently grew 4-6% each quarter

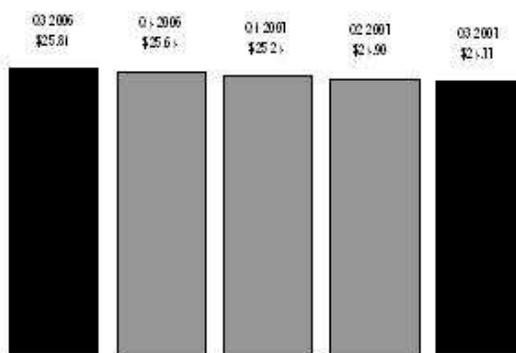


|                               |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|
| First-Year Prems.-Tr. 4 Qtrs: | \$22.0 | \$22.9 | \$24.1 | \$25.4 | \$27.0 |
| Total Premiums-Quarterly:     | \$25.4 | \$26.8 | \$26.7 | \$26.0 | \$29.3 |
| NAP-Quarterly:                | \$8.3  | \$7.5  | \$10.4 | \$11.2 | \$11.4 |
| NAP-Trailing 4 Quarters:      | \$33.0 | \$33.3 | \$35.3 | \$37.4 | \$40.5 |

# Book Value Per Diluted Share \*

# CNO

- Decrease in Q3 2007 reflects net loss for quarter, offset by common share repurchases

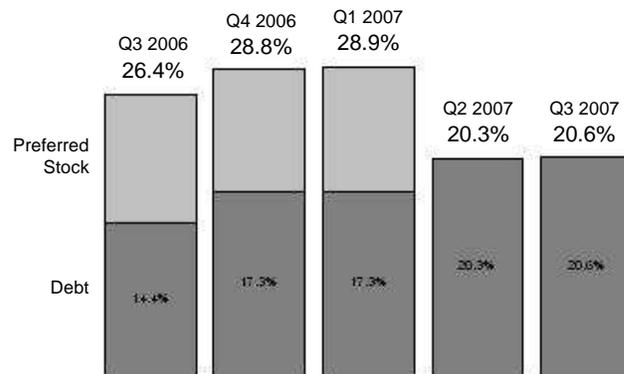


\*Book value excludes accumulated other comprehensive income (loss). Shares outstanding assumes: (1) conversion of convertible securities; and (2) the exercise of outstanding stock options and vesting of restricted stock (each calculated using the treasury stock method). See Appendix for corresponding GAAP measure.

# Debt and Preferred Stock to Total Capital Ratio\*

CNO

- **Increase in Q3 2007 reflects net loss for quarter and effect of common share repurchases**

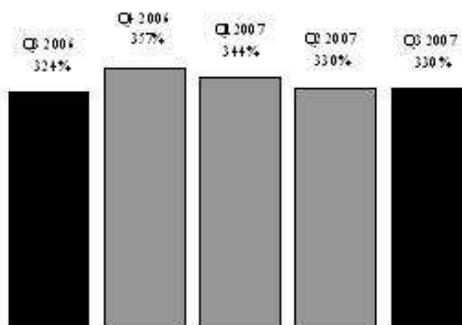


\*Excludes accumulated other comprehensive income (loss). See Appendix for corresponding GAAP measure.

# Consolidated RBC Ratio\*

CNO

- Continued strong RBC



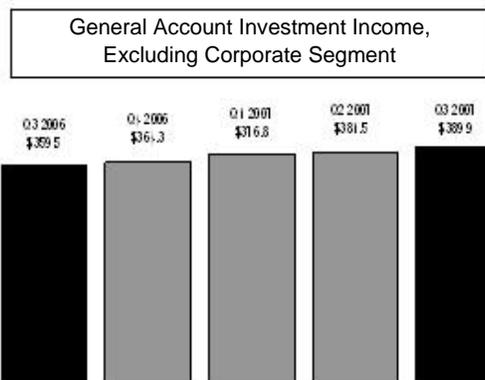
\*Risk-Based Capital ("RBC") requirements provide a tool for insurance regulators to determine the levels of statutory capital and surplus an insurer must maintain in relation to its insurance and investment risks. The RBC ratio is the ratio of the statutory consolidated adjusted capital of our insurance subsidiaries to RBC.

# Net Investment Income

CNO

(\$ millions)

- Yield up 16 bps from Q3 2006



|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Net investment income from the prepayment of securities: | \$0.5 | \$1.0 | \$5.0 | \$1.1 | \$0.6 |
| Yield:   | 5.72% | 5.72% | 5.83% | 5.83% | 5.88% |

## Information Related to Certain Non-GAAP Financial Measures

The following provides additional information regarding certain non-GAAP measures used in this presentation. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. While management believes these measures are useful to enhance understanding and comparability of our financial results, these non-GAAP measures should not be considered as substitutes for the most directly comparable GAAP measures. Additional information concerning non-GAAP measures is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investor – SEC Filings" section of Consec's website, [www.conseco.com](http://www.conseco.com).

### Operating earnings measures

Management believes that an analysis of net income applicable to common stock before net realized gains or losses ("net operating income", a non-GAAP financial measure) is important to evaluate the performance of the Company and is a key measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized investment gains or losses can be affected by events that are unrelated to the Company's underlying fundamentals.

In addition, our results were affected by unusual and significant charges related to: (i) a litigation settlement in Q2 2006 and refinements to such estimates recognized in subsequent periods; and (ii) a Q3 2007 charge related to a coinsurance transaction. Management does not believe that similar charges are likely to recur within two years, and there were no similar charges recognized within the prior two years. Management believes an analysis of operating earnings before these charges is important to evaluate the performance of the Company prior to the effect of these unusual and significant charges.

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of net income applicable to common stock to the net operating income, excluding: (i) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (ii) a Q3 2007 charge related to a coinsurance transaction (and related per share amounts) is as follows (dollars in millions, except per share amounts):

|   | <u>Q3 06</u>   | <u>Q4 06</u>   | <u>Q1 07</u>   | <u>Q2 07</u>     | <u>Q3 07</u>   |
|---|----------------|----------------|----------------|------------------|----------------|
| <b>Net income (loss) applicable to common stock</b>   | \$ 38.9        | \$ (3.7)       | \$ 0.9         | \$ (64.5)        | \$ (53.7)      |
| Net realized investment losses, net of related amortization and taxes   | 13.9           | 9.4            | 13.7           | 10.1             | 28.1           |
| <b>Net operating income (loss) (a non-GAAP financial measure)</b>   | <u>52.8</u>    | <u>5.7</u>     | <u>14.6</u>    | <u>(54.4)</u>    | <u>(25.6)</u>  |
| Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, net of taxes  | -              | -              | 8.5            | 22.8             | 10.6           |
| Q3 2007 charge related to a coinsurance transaction, net of taxes   | -              | -              | -              | -                | 49.7           |
| <b>Net operating income before: (i) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (ii) a Q3 2007 charge related to a coinsurance transaction (a non-GAAP financial measure)</b> | <u>\$ 52.8</u> | <u>\$ 5.7</u>  | <u>\$ 23.1</u> | <u>\$ (31.6)</u> | <u>\$ 34.7</u> |
| <b>Per diluted share:</b>   |                |                |                |                  |                |
| <b>Net income (loss)</b>  | \$ 0.26        | \$ (0.02)      | \$ 0.01        | \$ (0.38)        | \$ (0.29)      |
| Net realized investment losses, net of related amortization and taxes   | 0.09           | 0.06           | 0.09           | 0.06             | 0.15           |
| <b>Net operating income (loss) (a non-GAAP financial measure)</b>   | <u>0.35</u>    | <u>0.04</u>    | <u>0.10</u>    | <u>(0.32)</u>    | <u>(0.14)</u>  |
| Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, net of taxes  | -              | -              | 0.05           | 0.13             | 0.06           |
| Q3 2007 charge related to a coinsurance transaction, net of taxes   | -              | -              | -              | -                | 0.26           |
| <b>Net operating income before: (i) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (ii) a Q3 2007 charge related to a coinsurance transaction (a non-GAAP financial measure)</b> | <u>\$ 0.35</u> | <u>\$ 0.04</u> | <u>\$ 0.15</u> | <u>\$ (0.19)</u> | <u>\$ 0.18</u> |

## Information Related to Certain Non-GAAP Financial Measures

### Book value, excluding accumulated other comprehensive income, per diluted share

This non-GAAP financial measure differs from book value per diluted share because accumulated other comprehensive income has been excluded from the book value used to determine the measure. Management believes this non-GAAP financial measure is useful because it removes the volatility that arises from changes in accumulated other comprehensive income. Such volatility is often caused by changes in the estimated fair value of our investment portfolio resulting from changes in general market interest rates rather than the business decisions made by management.

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation from book value per diluted share to book value per diluted share, excluding accumulated other comprehensive income (loss) is as follows (dollars in millions, except per share amounts):

|  | Q3 06             | Q4 06             | Q1 07             | Q2 07             | Q3 07             |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Total shareholders' equity</b>  | \$ 4,712.7        | \$ 4,713.1        | \$ 4,724.0        | \$ 4,375.3        | \$ 4,303.7        |
| Less accumulated other comprehensive income (loss)   | (71.8)            | (72.6)            | (41.8)            | (329.9)           | (316.0)           |
| <b>Total shareholders' equity excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)</b>     | <u>\$ 4,784.5</u> | <u>\$ 4,785.7</u> | <u>\$ 4,765.8</u> | <u>\$ 4,705.2</u> | <u>\$ 4,619.7</u> |
| Diluted shares outstanding for the period  | 185,354,251       | 186,665,776       | 188,784,663       | 188,962,041       | 186,472,069       |
| <b>Book value per diluted share</b>  | \$ 25.43          | \$ 25.25          | \$ 25.02          | \$ 23.15          | \$ 23.08          |
| Less accumulated other comprehensive income (loss)   | (0.38)            | (0.39)            | (0.22)            | (1.75)            | 1.69              |
| <b>Book value, excluding accumulated other comprehensive income (loss), per diluted share (a non-GAAP financial measure)</b> | <u>\$ 25.81</u>   | <u>\$ 25.64</u>   | <u>\$ 25.24</u>   | <u>\$ 24.90</u>   | <u>\$ 24.77</u>   |

## Information Related to Certain Non-GAAP Financial Measures

### Operating return measures

Management believes that an analysis of return before net realized gains or losses ("net operating income", a non-GAAP financial measure) is important to evaluate the performance of the Company and is a key measure commonly used in the life insurance industry. Management uses this measure to evaluate performance because realized investment gains or losses can be affected by events that are unrelated to the Company's underlying fundamentals.

In addition, our returns were affected by unusual and significant charges related to: (i) the litigation settlement in Q2 2006 and refinements to such estimates recognized in subsequent periods; and (ii) a Q3 2007 charge related to a coinsurance transaction. Management does not believe that similar charges are likely to recur within two years, and there were no similar charges recognized within the prior two years. Management believes an analysis of return before these charges and subsequent refinements is important to evaluate the performance of the Company prior to the effect of these unusual and significant charges.

This non-GAAP financial measure also differs from return on equity because accumulated other comprehensive income (loss) has been excluded from the value of equity used to determine this ratio. Management believes this non-GAAP financial measure is useful because it removes the volatility that arises from changes in accumulated other comprehensive income (loss). Such volatility is often caused by changes in the estimated fair value of our investment portfolio resulting from changes in general market interest rates rather than the business decisions made by management.

In addition, our equity includes the value of significant net operating loss carryforwards (included in income tax assets). In accordance with GAAP, these assets are not discounted, and accordingly will not provide a return to shareholders (until after it is realized as a reduction to taxes that would otherwise be paid). Management believes that excluding this value from the equity component of this measure enhances the understanding of the effect these non-discounted assets have on operating returns and the comparability of these measures from period-to-period. Equity in all periods assumes the conversion of our 5.5% Class B Mandatorily Convertible Preferred Stock (which occurred in May 2007). Operating return measures are used in measuring the performance of our business units and are used as a basis for incentive compensation.

All references to segment operating return measures assume a 25% debt to total capital ratio at the segment level. Additionally, corporate expenses have been allocated to the segments.

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of return on common equity to operating return (less: (i) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (ii) a Q3 2007 charge related to a coinsurance transaction) on common equity (excluding accumulated other comprehensive income (loss) and net operating loss carryforwards) is as follows (dollars in millions, except per share amounts):

|   | <u>Q3 06</u>   | <u>Q4 06</u>   | <u>Q1 07</u>   | <u>Q2 07</u>     | <u>Q3 07</u>   |
|---|----------------|----------------|----------------|------------------|----------------|
| <b>Net income (loss) applicable to common stock</b>   | \$ 38.9        | \$ (3.7)       | \$ 0.9         | \$ (64.5)        | \$ (53.7)      |
| Net realized investment (gains) losses, net of related amortization and taxes   | 13.9           | 9.4            | 13.7           | 10.1             | 28.1           |
| <b>Net operating income (loss) (a non-GAAP financial measure)</b>   | <b>52.8</b>    | <b>5.7</b>     | <b>14.6</b>    | <b>(54.4)</b>    | <b>(25.6)</b>  |
| Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, net of taxes  | -              | -              | 8.5            | 22.8             | 10.6           |
| Q3 2007 charge related to a coinsurance transaction, net of taxes   | -              | -              | -              | -                | 49.7           |
| Add preferred stock dividends, assuming conversion  | 9.5            | 9.5            | 9.5            | 4.6              | -              |
| <b>Net operating income before: (i) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (ii) a Q3 2007 charge related to a coinsurance transaction (a non-GAAP financial measure)</b> | <b>\$ 62.3</b> | <b>\$ 15.2</b> | <b>\$ 32.6</b> | <b>\$ (27.0)</b> | <b>\$ 34.7</b> |
| Total shareholders' equity  | \$ 4,712.7     | \$ 4,713.1     | \$ 4,724.0     | \$ 4,375.3       | \$ 4,303.7     |
| Less preferred stock  | 667.8          | 667.8          | 667.8          | -                | -              |
| Common shareholders' equity   | 4,044.9        | 4,045.3        | 4,056.2        | 4,375.3          | 4,303.7        |
| Add preferred stock, assuming conversion  | 667.8          | 667.8          | 667.8          | -                | -              |
| Less accumulated other comprehensive income (loss)  | (71.8)         | (72.6)         | (41.8)         | (329.9)          | (316.0)        |
| Common shareholder's equity, excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)   | 4,784.5        | 4,785.7        | 4,765.8        | 4,705.2          | 4,619.7        |
| Add Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods  | 102.1          | 102.1          | 110.6          | 133.4            | 144.0          |
| Add Q3 2007 charge related to a coinsurance transaction, net of taxes   | -              | -              | -              | -                | 49.7           |
| Less net operating loss carryforwards   | 1,346.7        | 1,340.0        | 1,334.1        | 1,349.8          | 1,386.7        |
| Common shareholders' equity, excluding accumulated other comprehensive income (loss) and refinements to such estimates recognized in subsequent periods and net operating loss carryforwards (a non-GAAP financial measure)                                   | \$ 3,539.9     | \$ 3,547.8     | \$ 3,542.3     | \$ 3,488.8       | \$ 3,426.7     |

(continued on next page)

## Information Related to Certain Non-GAAP Financial Measures

(continued from previous page)

|   | <u>Q3 06</u> | <u>Q4 06</u> | <u>Q1 07</u> | <u>Q2 07</u> | <u>Q3 07</u> |
|---|--------------|--------------|--------------|--------------|--------------|
| Average common shareholders' equity   | 3,836.9      | 4,045.1      | 4,050.8      | 4,215.8      | 4,339.5      |
| Average common shareholder's equity, excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)   | 4,763.4      | 4,785.1      | 4,775.8      | 4,735.5      | 4,662.5      |
| Average common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, the Q3 2007 charge related to a coinsurance transaction, and net operating loss carryforwards (a non-GAAP financial measure)              | 3,518.8      | 3,543.9      | 3,545.1      | 3,515.6      | 3,457.8      |
| <b>Return on equity ratios:</b>   |              |              |              |              |              |
| Return on common equity   | 4.1%         | -0.4%        | 0.1%         | -6.1%        | -4.9%        |
| Operating return (less: (i) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (ii) the Q3 2007 charge related to a coinsurance transaction) on common equity, excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)                                      | 5.2%         | 1.3%         | 2.7%         | -2.3%        | 3.0%         |
| Operating return (less: (i) Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods; and (ii) the Q3 2007 charge related to a coinsurance transaction) on common equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure) | 7.1%         | 1.7%         | 3.7%         | -3.1%        | 4.0%         |

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of pretax operating earnings (a non-GAAP financial measure) to segment operating income (loss) and consolidated net income (loss) for the nine months ended Sept. 30, 2007, is as follows (dollars in millions):

|   | CIG            | Bankers         | Colonial Penn  | Other Business<br>in Run-off | Corporate     | Total             |
|---|----------------|-----------------|----------------|------------------------------|---------------|-------------------|
| Pretax operating earnings (a non-GAAP financial measure)                              | \$ 101.4       | \$ 174.6        | \$ 18.3        | \$ (167.0)                   | \$ (69.9)     | \$ 57.4           |
| Allocation of interest expense, excess capital and corporate expenses                 | (36.3)         | (29.8)          | (2.4)          | (6.8)                        | 75.3          | -                 |
| Income tax (expense) benefit  | (19.5)         | (43.2)          | (4.7)          | 51.9                         | (1.6)         | (17.1)            |
| Segment operating income (loss)   | <u>\$ 45.6</u> | <u>\$ 101.6</u> | <u>\$ 11.2</u> | <u>\$ (121.9)</u>            | <u>\$ 3.8</u> | 40.3              |
| Refinements made to Q2 2006 charge related to the litigation settlement, net of taxes |                |                 |                |                              |               | (41.9)            |
| Q3 2007 charge related to a coinsurance transaction, net of taxes                     |                |                 |                |                              |               | (49.7)            |
| Net realized investment losses, net of related amortization and taxes                 |                |                 |                |                              |               | <u>(51.9)</u>     |
| Net loss  |                |                 |                |                              |               | <u>\$ (103.2)</u> |

(Continued on next page)

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, the Q3 2007 charge related to a coinsurance transaction, and less income tax assets and assuming conversion of the convertible preferred stock (a non-GAAP financial measure) to common shareholders' equity is as follows (dollars in millions):

|   | CIG               | Bankers           | Colonial Penn   | Other Business<br>in Run-off | Corporate         | Total             |
|---|-------------------|-------------------|-----------------|------------------------------|-------------------|-------------------|
| (Continued from previous page)  |                   |                   |                 |                              |                   |                   |
| <b>December 31, 2006</b>  |                   |                   |                 |                              |                   |                   |
| Common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, and less income tax assets representing net operating loss carryforwards and assuming conversion of convertible preferred stock (a non-GAAP financial measure)  | \$ 1,623.1        | \$ 1,274.3        | \$ 103.6        | \$ 290.3                     | \$ 256.5          | \$ 3,547.8        |
| Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods  | (102.1)           | -                 | -               | -                            | -                 | (102.1)           |
| Net operating loss carryforwards  | 1,340.0           | -                 | -               | -                            | -                 | 1,340.0           |
| Accumulated other comprehensive income (loss)   | (25.6)            | (41.6)            | (1.2)           | (7.3)                        | 3.1               | (72.6)            |
| Allocation of capital   | 541.0             | 424.8             | 34.6            | 96.8                         | (1,097.2)         | -                 |
| Total shareholders' equity  | <u>\$ 3,376.4</u> | <u>\$ 1,657.5</u> | <u>\$ 137.0</u> | <u>\$ 379.8</u>              | <u>\$ (837.6)</u> | <u>4,713.1</u>    |
| Less preferred stock  |                   |                   |                 |                              |                   | 667.8             |
| Common shareholders' equity   |                   |                   |                 |                              |                   | <u>\$ 4,045.3</u> |
| <b>September 30, 2007</b>   |                   |                   |                 |                              |                   |                   |
| Common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, the Q3 2007 charge related to a coinsurance transaction, and less income tax assets representing net operating loss carryforwards and assuming conversion of convertible preferred stock (a non-GAAP financial measure) | \$ 1,608.0        | \$ 1,325.1        | \$ 113.5        | \$ 203.3                     | \$ 176.8          | \$ 3,426.7        |
| Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods  | (123.1)           | -                 | -               | -                            | (20.9)            | (144.0)           |
| Q3 2007 charge related to a coinsurance transaction   | (49.7)            | -                 | -               | -                            | -                 | (49.7)            |
| Net operating loss carryforwards  | 1,386.7           | -                 | -               | -                            | -                 | 1,386.7           |
| Accumulated other comprehensive income (loss)   | (127.6)           | (123.7)           | (5.2)           | (49.6)                       | (9.9)             | (316.0)           |
| Allocation of capital   | 536.0             | 441.7             | 37.8            | 67.8                         | (1,083.3)         | -                 |
| Total shareholders' equity  | <u>\$ 3,230.3</u> | <u>\$ 1,643.1</u> | <u>\$ 146.1</u> | <u>\$ 221.5</u>              | <u>\$ (937.3)</u> | <u>4,303.7</u>    |
| Less preferred stock  |                   |                   |                 |                              |                   | -                 |
| Common shareholders' equity   |                   |                   |                 |                              |                   | <u>\$ 4,303.7</u> |

(Continued on next page)

## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of average common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, the Q3 2007 charge related to a coinsurance transaction, and less income tax assets and assuming conversion of the convertible preferred stock (a non-GAAP financial measure) to average common shareholders' equity at September 30, 2007, is as follows (dollars in millions):

(Continued from previous page)

|   | <u>CIG</u> | <u>Bankers</u> | <u>Colonial Penn</u> | <u>Other Business<br/>in Run-off</u> | <u>Corporate</u> | <u>Total</u> |
|---|------------|----------------|----------------------|--------------------------------------|------------------|--------------|
| Average common shareholders' equity, excluding accumulated other comprehensive income (loss), the Q2 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, the Q3 2007 charge related to a coinsurance transaction, and less income tax assets representing net operating loss carryforwards and assuming conversion of convertible preferred stock (a non-GAAP financial measure) | \$ 1,639.0 | \$ 1,305.8     | \$ 107.9             | \$ 242.9                             | \$ 210.6         | \$ 3,506.2   |
| Average litigation settlement charges and refinements to such estimates recognized in subsequent periods  |            |                |                      |                                      |                  | (122.4)      |
| Average charge related to a coinsurance transaction   |            |                |                      |                                      |                  | (8.3)        |
| Average net operating loss carryforwards  |            |                |                      |                                      |                  | 1,349.1      |
| Average accumulated other comprehensive income (loss)   |            |                |                      |                                      |                  | (188.7)      |
| Average total shareholders' equity  |            |                |                      |                                      |                  | 4,535.9      |
| Average preferred stock   |            |                |                      |                                      |                  | (333.9)      |
| Average common shareholders' equity   |            |                |                      |                                      |                  | \$ 4,202.0   |
| Return on equity ratios:  |            |                |                      |                                      |                  |              |
| Return on equity  |            |                |                      |                                      |                  | 0.0%         |
| Operating return on equity, excluding accumulated other comprehensive income (loss), the 2Q 2006 charge related to the litigation settlement and refinements to such estimates recognized in subsequent periods, the Q3 2007 charge related to a coinsurance transaction, and less income tax assets representing net operating loss carryforwards and assuming conversion of convertible preferred stock (a non-GAAP financial measure)          | 3.7%       | 10.4%          | 13.8%                | -66.9%                               | 2.4%             | 1.5%         |

## Information Related to Certain Non-GAAP Financial Measures

### Debt to capital ratio, excluding accumulated other comprehensive income (loss)

This non-GAAP financial measure differs from the debt to capital ratio because accumulated other comprehensive income has been excluded from the value of capital used to determine this measure. Management believes this non-GAAP financial measure is useful because it removes the volatility that arises from changes in accumulated other comprehensive income. Such volatility is often caused by changes in the estimated fair value of our investment portfolio resulting from changes in general market interest rates rather than the business decisions made by management.

## Information Related to Certain Non-GAAP Financial Measures

Reconciliations of the: (i) debt to capital ratio to debt to capital, excluding accumulated other comprehensive loss; and (ii) debt and preferred stock to capital ratio to debt and preferred stock to capital, excluding accumulated other comprehensive loss, are as follows (dollars in millions):

|   | <u>Q3 06</u>      | <u>Q4 06</u>      | <u>Q1 07</u>      | <u>Q2 07</u>      | <u>Q3 07</u>      |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Corporate notes payable   | \$ 805.6          | \$ 1,000.8        | \$ 999.3          | \$ 1,197.8        | \$ 1,195.7        |
| Total shareholders' equity  | 4,712.7           | 4,713.1           | 4,724.0           | 4,375.3           | 4,303.7           |
| Total capital   | 5,518.3           | 5,713.9           | 5,723.3           | 5,573.1           | 5,499.4           |
| Less accumulated other comprehensive loss   | 71.8              | 72.6              | 41.8              | 329.9             | 316.0             |
| Total capital, excluding accumulated other comprehensive loss<br>(a non-GAAP financial measure)   | <u>\$ 5,590.1</u> | <u>\$ 5,786.5</u> | <u>\$ 5,765.1</u> | <u>\$ 5,903.0</u> | <u>\$ 5,815.4</u> |
| Corporate notes payable   | \$ 805.6          | \$ 1,000.8        | \$ 999.3          | \$ 1,197.8        | \$ 1,195.7        |
| Preferred stock   | 667.8             | 667.8             | 667.8             | -                 | -                 |
| Total notes payable and preferred stock   | <u>\$ 1,473.4</u> | <u>\$ 1,668.6</u> | <u>\$ 1,667.1</u> | <u>\$ 1,197.8</u> | <u>\$ 1,195.7</u> |
| <b>Corporate notes payable to capital ratios:</b>   |                   |                   |                   |                   |                   |
| <b>Corporate debt to total capital</b>  | 14.6%             | 17.5%             | 17.5%             | 21.5%             | 21.7%             |
| <b>Corporate debt to total capital, excluding accumulated other comprehensive loss (a non-GAAP financial measure)</b>                     | 14.4%             | 17.3%             | 17.3%             | 20.3%             | 20.6%             |
| <b>Corporate debt and preferred stock to total capital</b>  | 26.7%             | 29.2%             | 29.1%             | 21.5%             | 21.7%             |
| <b>Corporate debt and preferred stock to total capital, excluding accumulated other comprehensive loss (a non-GAAP financial measure)</b> | 26.4%             | 28.8%             | 28.9%             | 20.3%             | 20.6%             |