

# CNO FINANCIAL GROUP, INC.

## FORM 8-K (Current report filing)

Filed 08/05/09 for the Period Ending 06/30/09

Address	11825 N PENNSYLVANIA ST 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): August 5, 2009

**CONSECO, INC.**

(Exact name of registrant as specified in its charter)

Delaware ----- (State or other jurisdiction of organization)	001-31792 ----- (Commission File Number)	75-3108137 ----- (I.R.S. Employer Identification No.)
11825 North Pennsylvania Street Carmel, Indiana ----- (Address of principal executive offices)		46032 ----- (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 August 5, 2009, Conseco Inc. (the "Company") issued additional financial information related to the Company's financial and operating results for the quarter ended June 30, 2009, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The information contained under Item 2.02 in this Current Report on Form 8-K (including Exhibit 99.1) 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 Second Quarter 2009 Financial and Operating Results for the period ended June 30, 2009.

**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.**

August 5, 2009

By: */s/ John R. Kline*

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



CONSECO®

## Second Quarter 2009 Financial and Operating Results For the period ended June 30, 2009

Conseco, Inc.

August 5, 2009

### Forward-Looking Statements

**Cautionary Statement Regarding Forward-Looking Statements.** Our statements, trend analyses and other information contained in these materials 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) general economic, market and political conditions, including the performance and fluctuations of the financial markets which may affect our ability to raise capital or refinance existing indebtedness and the cost of doing so; (ii) our ability to continue to satisfy the financial ratio and balance requirements and other covenants of our debt agreements; (iii) our ability to generate sufficient liquidity to meet our debt service obligations and other cash needs; (iv) our ability to obtain adequate and timely rate increases on our supplemental health products including our long-term care business; (v) the receipt of required regulatory approvals for dividend and surplus debenture interest payments from our insurance subsidiaries; (vi) mortality, morbidity, the increased cost and 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; (vii) changes in our assumptions related to the cost of policies produced or the value of policies in force at the effective date of our emergence from bankruptcy; (viii) the recoverability of our deferred tax asset and the effect of potential ownership changes and tax rate changes on its value; (ix) changes in accounting principles and the interpretation thereof; (x) 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; (xi) performance and valuation of our investments, including the impact of realized losses (including other-than-temporary impairment charges); (xii) 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; (xiii) the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject; (xiv) our ability to complete the remediation of the material weakness in internal controls over our actuarial reporting process and to maintain effective controls over financial reporting; (xv) our ability to continue to recruit and retain productive agents and distribution partners and customer response to new products, distribution channels and marketing initiatives; (xvi) our ability to achieve eventual upgrades of the financial strength ratings of Conseco and our insurance company subsidiaries as well as the impact of rating downgrades on our business and our ability to access capital; (xvii) the risk factors or uncertainties listed from time to time in our filings with the Securities and Exchange Commission; (xviii) regulatory changes or actions, including those relating to regulation of the financial affairs of our insurance companies, such as the payment of dividends and surplus debenture interest 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; and (xix) 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 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).

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## Q2 2009 Summary

## CNO

- **Second consecutive profitable quarter**
  - **EBIT of \$86.7 million, up 47% over Q2 2008**
  - **Continued profitability in all three insurance segments**
  - **Net income of \$27.6 million**
- **Core sales\* of \$91.8 million, down 1% from Q2 2008**
- **Trailing four-quarter premium up 8% over a year ago**
- **Agent recruitment continues to be strong**

\*Excludes PFFS.



## Q2 2009 Summary

CNO

- **Net realized investment losses of \$13.2 million**
  - Total other-than-temporary impairment losses of \$53.7 million
    - \$36.6 million recorded in earnings
    - \$17.1 million recorded in accumulated other comprehensive loss
- **Accumulated other comprehensive loss improved by \$793.6 million, to \$(1,046.9) million**
- **Book value per share:**
  - Excluding accumulated other comprehensive loss\* rose to \$18.72 at 6/30/09 from \$18.41 at 12/31/08
  - Including accumulated other comprehensive loss rose to \$13.06 at 6/30/09 from \$8.82 at 12/31/08

\*See Appendix for corresponding GAAP measure.

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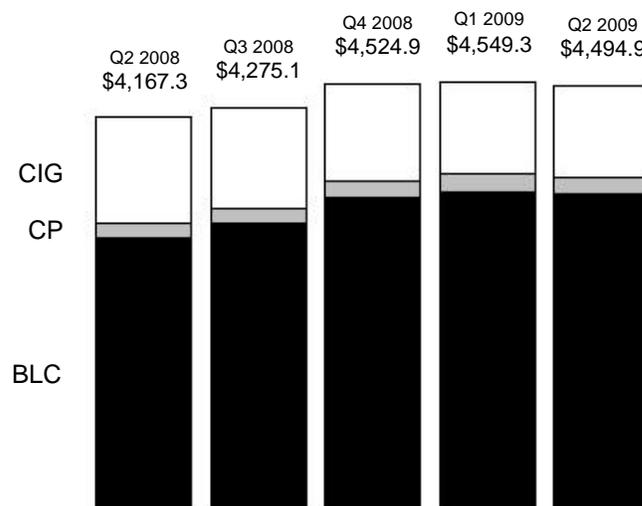
## Collected Premiums

CNO

(\$ millions)

Collected Premiums-Trailing 4 Quarters

- **Slight decline at Bankers due to termination of PFFS group quota share contracts**
- **Consistent growth at Colonial Penn**
- **Slight decline at CIG due to focus on more profitable business**





# Q2 2009 Summary of Results

## CNO

(\$ millions, except per-share amounts)

	Pre-Tax	After Tax	EPS
Bankers Life	\$63.3		
Colonial Penn	11.0		
Conseco Insurance Group	21.2		
Corporate operations and interest expense	<u>(32.7)</u>		
Income before net realized investment losses*	\$62.8	\$40.8	<b>\$0.22</b>
Net realized investment losses	<u>(13.2)</u>	<u>(13.2)</u>	<u>(0.07)</u> **
Total	<u>\$49.6</u>	<u>\$27.6</u>	<u>\$0.15</u>

\*Management believes that an analysis of earnings before net realized investment gains (losses) and increases to our valuation allowance for deferred tax assets (a non-GAAP financial measure) provides an alternative measure of the operating results of the company because such items are unrelated to the company's continuing operations. The table above provides a reconciliation to the corresponding GAAP measure.

\*\*See Appendix for a reconciliation to the corresponding GAAP measure.

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## Q2 Earnings

## CNO Consolidated

(\$ millions)

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Bankers Life	\$34.6	\$67.8	\$40.0	\$44.7	\$63.3
Colonial Penn	8.3	6.5	6.7	5.1	11.0
Conseco Insurance Group	32.3	34.2	31.5	31.2	21.2
Corporate operations, excluding interest expense	<u>(16.2)</u>	<u>(3.7)</u>	<u>(0.1)</u>	<u>(8.7)</u>	<u>(8.8)</u>
Total EBIT*	59.0	104.8	78.1	72.3	86.7
Corporate interest expense	(16.1)	(15.8)	(17.5)	(13.7)	(23.9)
Gain on extinguishment of debt	0.0	0.0	21.2	0.0	0.0
Expenses related to debt modification	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(9.5)</u>	<u>0.0</u>
Income before net realized investment losses, taxes and discontinued operations	42.9	89.0	81.8	49.1	62.8
Tax expense on period income	<u>17.7</u>	<u>30.7</u>	<u>34.6</u>	<u>17.7</u>	<u>22.0</u>
Net operating income	25.2	58.3	47.2	31.4	40.8
Net realized investment losses	<u>(17.4)</u>	<u>(84.2)</u>	<u>(88.0)</u>	<u>(6.9)</u>	<u>(13.2)</u>
Net income (loss) before valuation allowance for deferred tax assets and discontinued operations	7.8	(25.9)	(40.8)	24.5	27.6
Valuation allowance for deferred tax assets	(298.0)	0.0	(45.0)	0.0	0.0
Discontinued operations	<u>(198.3)</u>	<u>(157.4)</u>	<u>(367.5)</u>	<u>0.0</u>	<u>0.0</u>
Net income (loss)	<u>(\$488.5)</u>	<u>(\$183.3)</u>	<u>(\$453.3)</u>	<u>\$24.5</u>	<u>\$27.6</u>

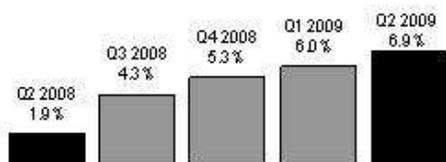
\*Management believes that an analysis of earnings before net realized investment gains (losses), losses related to the transfer of Senior Health to an independent trust (included in Discontinued Operations) and corporate interest and taxes ("EBIT," a non-GAAP financial measure) provides an alternative measure to compare the operating results of the company quarter-over-quarter because it excludes: (1) corporate interest expense; and (2) items that are unrelated to the company's continuing operations. The table above provides a reconciliation of EBIT to net income (loss).



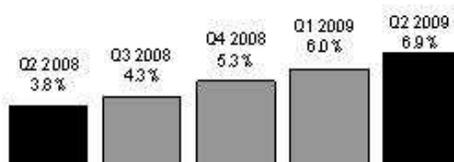
# Operating ROE

CNO

Operating ROE\*, Trailing 4 Quarters



Operating ROE (Before Annuity Coinsurance Transaction)\*\*, Trailing 4 Quarters

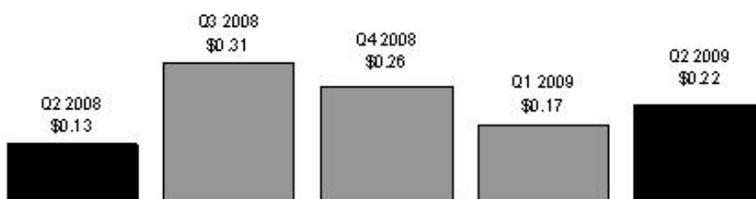


\*Operating return excludes net realized investment gains (losses), valuation allowance related to deferred tax assets and discontinued operations. Equity excludes accumulated other comprehensive income (loss) and the value of net operating loss carryforwards, and assumes conversion of preferred stock.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

\*\*Operating return, as calculated and defined on the left side of this page, but before a Q3 2007 charge related to an annuity coinsurance transaction. See Appendix for corresponding GAAP measure.

# Operating EPS\*

CNO



Seasonality of Operating EPS**	Q2	Q3	Q4	Q1	Q2
	20-25%	23-28%	26-31%	17-22%	20-25%

\*Operating earnings per share exclude net realized investment gains (losses), valuation allowance related to deferred tax assets and discontinued operations. See Appendix for corresponding GAAP measure.

\*\*Represents the expected ratio of quarterly Operating EPS to annual Operating EPS, based on historical experience.



## Key Debt Covenants

CNO

(\$ millions)

	<u>Q4 2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>	<u>Covenant Margins as of 6/30/09*</u>
<b>Bank Covenant Debt/Capital Ratio**</b>				
Covenant Maximum	30.0%	32.5%	32.5%	Reduction to shareholders' equity of approximately \$807 million or additional debt of \$389 million.
Actual	28.3%	27.9%	27.0%	
<b>Interest Coverage</b>				
Covenant Minimum	2.00X	1.50X	1.50X	Reduction in cash flows to the holding company of approximately \$102 million.
Actual	2.35X	3.07X	3.31X	
<b>Statutory Capital</b>				
Covenant Minimum	\$1,270	\$1,100	\$1,100	Reduction to combined statutory capital and surplus of approximately \$179 million.
Actual	\$1,366	\$1,301	\$1,279	
<b>RBC Ratio</b>				
Covenant Minimum	250%	200%	200%	Reduction to statutory capital and surplus of approximately \$242 million, or an increase to the risk-based capital of approximately \$121 million.
Actual	255%	230%	247%	

\*Reflects impact of modification to the covenants which are applicable from March 31, 2009 through June 30, 2010. Effective with the third quarter of 2010, the covenant margins return to Q4 2008 levels.

\*\*Excludes Accumulated Other Comprehensive Income (Loss).

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## Liquidity Projection For Remainder of 2009

CNO

(\$ millions)

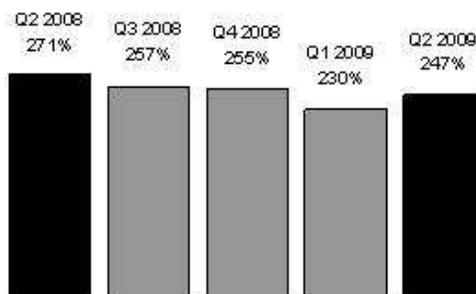
<b>Cash Balance 6/30/09</b>	<b>\$78.9</b>
Sources	
Dividends	\$25.0
Surplus Debenture Interest	17.5
Management and Investment Fees	<u>30.0</u>
Total Sources	<u>\$72.5</u>
Uses	
Interest	\$36.7
Debt Repayments:	
Senior Credit Facility	4.4
Senior Health Note	25.0
Holding Company Expenses	<u>18.4</u>
Total Uses	<u>\$84.5</u>
<b>Cash Balance 12/31/09</b>	<b><u>\$66.9</u></b>



# Consolidated RBC Ratio\*

CNO

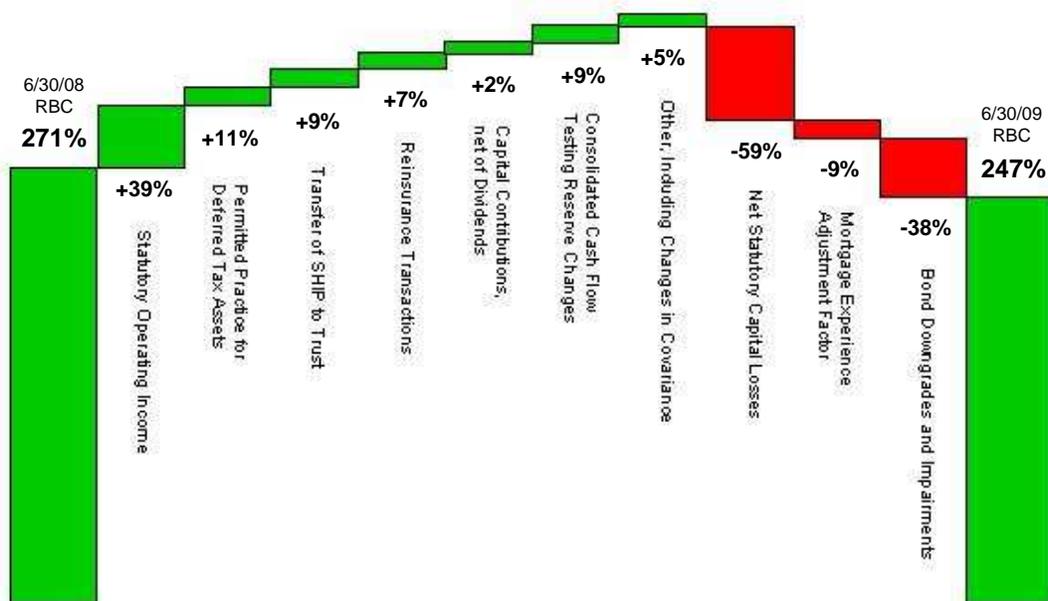
- **Q2 2009 positive impacts:**
  - Mortgage Experience Adjustment Factor relief (29 pts)
  - Statutory operating results (14 pts)
- **Q2 2009 negative impacts:**
  - Credit rating migration (20 pts)
  - Net statutory capital losses (7 pts)



\*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.

# Consolidated RBC Ratio – Changes Over Last Four Quarters

CNO





# Capital and Risk Management Initiatives

CNO

- Reinsure inforce business – Wilton Re – pro forma +8 pts RBC
- Reinsure new business (focus on Bankers)
  - Modified RGA agreement to increase Bankers LTC reinsurance to 70% on 2009 business
- Manage investment portfolio to mitigate RBC impact of ratings migration
- Terminate PFFS quota share agreements with Coventry at 12/31/09 – improves consolidated RBC by 5 pts in 2010
- Limit Bankers branch expansion
- Reduce direct marketing spending at Colonial Penn

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# Capital Structure

CNO

(\$ millions)

	<u>12/31/08</u>	<u>3/31/09</u>	<u>6/30/09</u>
Credit Facility (10/2013)	\$856.8	\$853.4	\$854.6
Revolving Credit Facility (6/2009)	55.0	55.0	0.0
6% Senior Note (\$25 million/year beginning 11/2009)	125.0	125.0	125.0
3.5% Convertible Debentures (9/2010)	293.0	293.0	293.0
Unamortized Discount on Convertible Debentures	<u>(18.3)</u>	<u>(15.9)</u>	<u>(13.3)</u>
Total Corporate Notes Payable	<u>\$1,311.5</u>	<u>\$1,310.5</u>	<u>\$1,259.3</u>
Common Stock	\$1.9	\$1.9	\$1.9
Additional Paid-in Capital	4,104.0	4,105.6	4,108.2
Accumulated Other Comprehensive Loss	(1,770.7)	(1,840.5)	(1,046.9)
Retained Earnings (Accumulated Deficit)	<u>(705.2)</u>	<u>(675.8)</u>	<u>(648.2)</u>
Total Shareholders' Equity	<u>\$1,630.0</u>	<u>\$1,591.2</u>	<u>\$2,415.0</u>
Total Capital	<u>\$2,941.5</u>	<u>\$2,901.7</u>	<u>\$3,674.3</u>



## Q2 Summary

## Bankers

- **Earnings of \$63.3 million, up 83% over Q2 2008:**
  - Higher LTC margins (+\$18 million)
  - Higher Medicare Supplement margins (+\$7 million)
    - Lower benefit ratio
    - Improved persistency
  - Increase in COLI surrender value (+\$4 million), plus death benefit recognized (+\$3 million)
- **Continued strong core sales and record agent recruiting**
  - 23% increase in new agents YTD

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## NAP Results

## Bankers

(\$ millions)

Quarterly Core NAP (Excludes PFFS)

- **Core NAP up 6% vs Q2 2008**
  - Strong sales of Annuities (+14%) and Med Supp (+13%), partially offset by lower sales of LTC (-8%) and flat Life sales
- **PFFS:**
  - Q2 2008 sales reflect chargebacks
  - YTD 2009 sales down 24% due to changes in consumer preferences



PFFS NAP-Quarterly*:	\$(6.4)	\$4.6	\$0.9	\$34.1**	\$6.3
NAP-Quarterly*:	\$53.4	\$65.8	\$72.8	\$94.5	\$69.4

\*Excludes group business not sold by Bankers agents.

\*\*Net of \$7 million reserve for anticipated chargebacks related to sales still within their 90-day disenrollment period.



## Q2 2009 Sales and Distribution Results

## Bankers

- **Continued growth in agent force**
  - Average agent count YTD 5,183, up 11% vs. first six months of 2008
- **Coventry's decision to exit PFFS for 2010 not expected to disrupt distribution**
  - During Q2 2009, announced strategic alliance with Humana to begin selling their Medicare Advantage plans
  - Bankers agents have relationship with PFFS members; able to offer these customers multiple solutions, including Med Supp

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## Medicare Advantage

## Bankers

- **As previously announced, Coventry is exiting PFFS business effective 12/31/09**
  - PFFS relationship terminates; affects approximately 55,000 Bankers-sold PFFS members, partially reinsured by Bankers
  - PDP relationship (distribution and reinsurance) remains unchanged
- **Entered distribution agreement with Humana**
  - Humana well positioned to compete in evolving Medicare Advantage space with network-based Medicare Advantage plans in most markets
  - For 2010 enrollment, expecting Bankers agents to be able to offer Medicare Advantage plans to approximately 95% of current PFFS members
  - Sales opportunity in 2010 to enroll existing PFFS members in either Humana Medicare Advantage plans or Bankers Medicare Supplement plans
  - Fee-only arrangement, while expected to produce slightly lower earnings, reduces both earnings volatility and statutory capital requirements (+5 pts in consolidated RBC ratio)

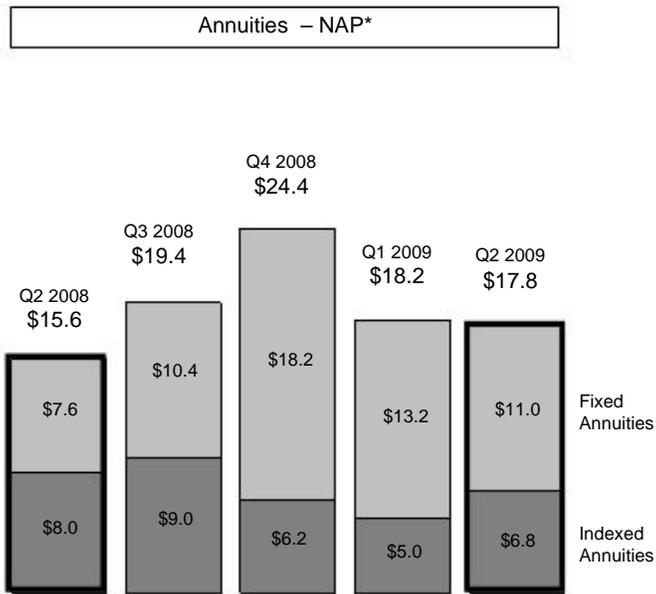


# Annuity Sales

(\$ millions)

- Annuity sales up 14% vs Q2 2008
- SEC designation of indexed annuities as securities (Rule 151A) not expected to significantly impact Bankers total annuity sales
- Majority of Bankers branch offices maintain one or more registered reps to assist clients with portfolio management and broker securities

# Bankers

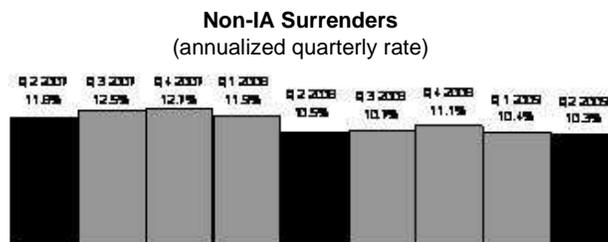
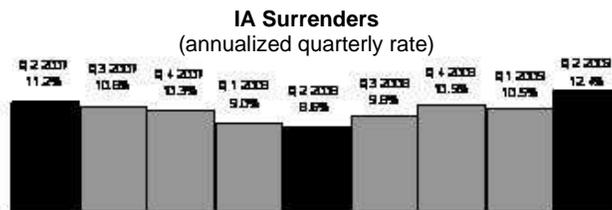


\*Calculated as 6% of annuity deposits.

# Annuity Surrenders

- Indexed Annuity surrenders higher
- Non-IA surrenders stable
- Average account value:
  - IAs - \$41,000
  - Non-IAs - \$35,000
- Over 89% of our annuities are still in surrender charge period:
  - IAs – 95%
  - Non-IAs – 87%

# Bankers





## LTC Update

## Bankers

- **Rate increases ahead of schedule (2008 round – policies issued prior to 2002); expect to exceed original goals**
  - Filed \$102.5 million of rate increases = 100% of original goal
  - As of 6/30/09:
    - Approvals = \$70.9 million, 100% of original goal
    - Projected financial impact = \$53.2 million, 100% of original goal
- **Continued focus on claims management/underwriting**
- **New products**
  - LTC/Annuity Combo product launched in June 2009
  - LTC product revision in Q3 2009, with rates reflecting current claim experience and in line with target profit margins

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## Q2 Earnings

## Bankers

(\$ millions)

	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>
Insurance policy income	\$543.4	\$537.7	\$531.8	\$491.5	\$497.6
Net investment income	135.2	138.3	155.4	142.2	163.6
Fee revenue and other income	2.1	3.1	4.2	1.4	1.6
Total revenues	<u>680.7</u>	<u>679.1</u>	<u>691.4</u>	<u>635.1</u>	<u>662.8</u>
Insurance policy benefits	497.2	470.3	477.5	429.6	422.9
Amounts added to policyholder account balances	37.2	46.2	82.3	37.6	64.2
Amortization related to operations	66.6	53.5	39.7	75.6	63.1
Other operating costs and expenses	45.1	41.3	51.9	47.6	49.3
Total benefits and expenses	<u>646.1</u>	<u>611.3</u>	<u>651.4</u>	<u>590.4</u>	<u>599.5</u>
Income before net realized investment gains (losses), net of related amortization and income taxes	<u>\$34.6</u>	<u>\$67.8</u>	<u>\$40.0</u>	<u>\$44.7</u>	<u>\$63.3</u>

*Trailing 4 Quarter Operating Return on Equity: 8.7%*

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 table on Page 8 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.



## Q2 Summary

## Colonial Penn

- **Earnings of \$11.0 million, up 33% over Q2 2008**
  - Increase primarily driven by distributions from a terminated reinsurance pool (+\$3 million)
- **Life sales of \$10.6 million, down 27% from Q2 2008**
  - Consistent with cost reductions undertaken earlier this year as part of our capital management efforts
  - YTD marketing costs associated with lead-based advertising and related fulfillment costs were reduced by \$9.3 million (38%)
- **YTD campaign productivity remains strong**

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## Q2 Earnings

## Colonial Penn

(\$ millions)

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Insurance policy income	\$47.5	\$46.4	\$46.5	\$47.1	\$52.7
Net investment income	10.1	10.1	10.2	9.8	9.8
Fee revenue and other income	0.5	0.5	0.5	0.2	0.2
Total revenues	<u>58.1</u>	<u>57.0</u>	<u>57.2</u>	<u>57.1</u>	<u>62.7</u>
Insurance policy benefits	35.5	33.9	33.8	36.1	36.0
Amounts added to policyholder account balances	0.3	0.3	0.3	0.3	0.2
Amortization related to operations	7.4	9.2	8.0	8.4	8.0
Other operating costs and expenses	6.6	7.1	8.4	7.2	7.5
Total benefits and expenses	<u>49.8</u>	<u>50.5</u>	<u>50.5</u>	<u>52.0</u>	<u>51.7</u>
Income (loss) before net realized investment gains (losses) and income taxes, net of related amortization	<u>\$8.3</u>	<u>\$6.5</u>	<u>\$6.7</u>	<u>\$5.1</u>	<u>\$11.0</u>

Trailing 4 Quarter Operating Return on Equity: 14.1%

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 table on Page 8 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.



## Q2 Summary

CIG

- **Earnings of \$21.2 million, down 34% vs Q2 2008:**
  - Lower Annuity results due to higher surrenders (-\$10 million)
  - Lower LTC margins (-\$4 million)
  - Lower Specified Disease margins (-\$2 million)
  - Partially offset by higher Life margins due to favorable mortality (+\$7 million)
- **Continued strong sales growth in Specified Disease products and strong agent recruiting**

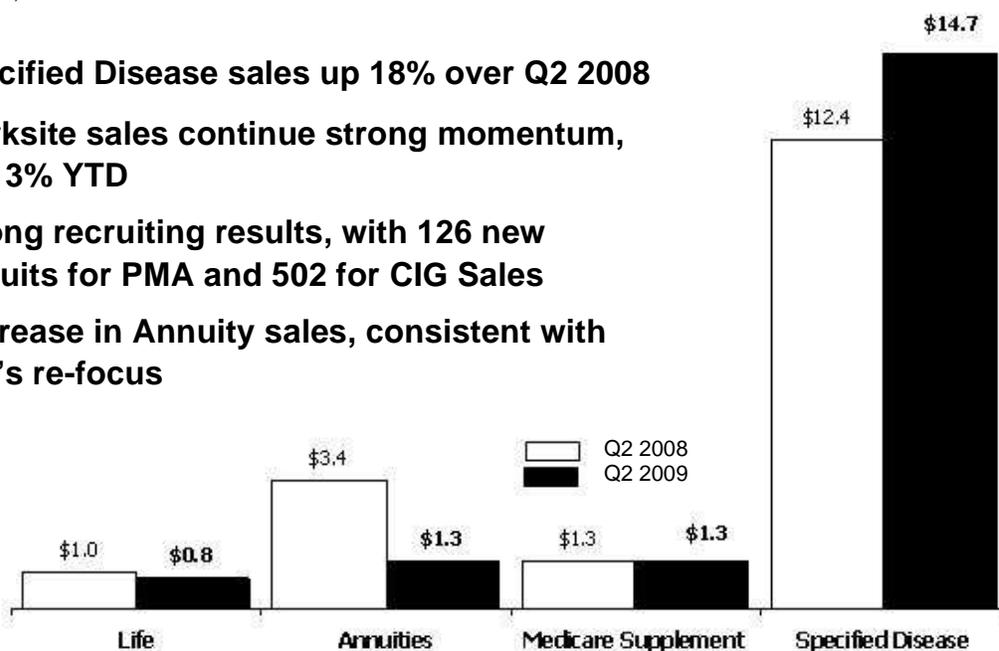
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## Q2 2009 Sales and Distribution Results

CIG

(\$ millions)

- **Specified Disease sales up 18% over Q2 2008**
- **Worksite sales continue strong momentum, up 13% YTD**
- **Strong recruiting results, with 126 new recruits for PMA and 502 for CIG Sales**
- **Decrease in Annuity sales, consistent with CIG's re-focus**

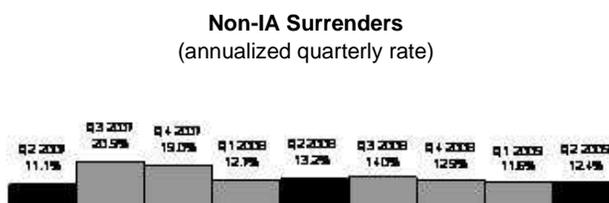
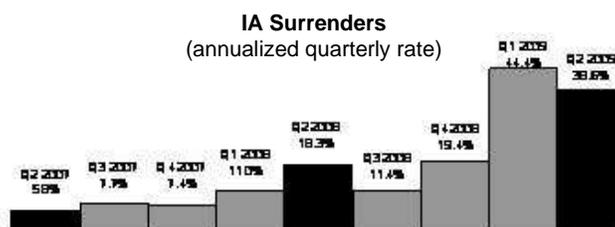




# Annuity Surrenders

CIG

- IA surrenders slightly down from Q1 2009, but up significantly over 2008 due to market value adjustment feature included in some products
- Non-IA surrenders stable
- Average account value:\*
  - IAs - \$44,700
  - Non-IAs - \$20,500
- 65% of our annuities are still in surrender charge period:\*
  - IAs – 99%
  - Non-IAs – 34%



\*Statistics based on account value and GAAP reserves.

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# Q2 Earnings

CIG

(\$ millions)

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Insurance policy income	\$239.1	\$237.7	\$238.4	\$244.2	\$241.0
Net investment income	138.7	134.0	143.7	134.3	141.1
Fee revenue and other income	0.5	0.1	0.3	0.7	0.4
Total revenues	<u>378.3</u>	<u>371.8</u>	<u>382.4</u>	<u>379.2</u>	<u>382.5</u>
Insurance policy benefits	208.6	203.6	199.6	214.1	215.1
Amounts added to policyholder account balances	37.1	42.7	38.4	35.8	42.7
Amortization related to operations	31.2	24.9	36.3	36.8	33.8
Interest expense on investment borrowings	5.5	5.6	5.5	5.2	5.2
Other operating costs and expenses	63.6	60.8	71.1	56.1	64.5
Total benefits and expenses	<u>346.0</u>	<u>337.6</u>	<u>350.9</u>	<u>348.0</u>	<u>361.3</u>
Income before net realized investment gains (losses), net of related amortization and income taxes, excluding costs related to the litigation settlement and the loss related to an annuity coinsurance transaction	<u>\$32.3</u>	<u>\$34.2</u>	<u>\$31.5</u>	<u>\$31.2</u>	<u>\$21.2</u>

Trailing 4 Quarter Operating Return on Equity: 2.2%

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 table on Page 8 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.



## Q2 2009 Net Realized Losses

CNO

(\$ millions)

	Gross Amounts	Amount Recognized through Accumulated Other Comprehensive Income	Amount Recognized through Net Income
Gains on sales	\$83.6	-	\$83.6
Losses on sales	(63.3)	-	(63.3)
Losses due to recognition of other- than-temporary impairments	(53.7)	\$(17.1)	(36.6)
Amortization adjustment to insurance intangibles	<u>5.0</u>	<u>1.9</u>	<u>3.1</u>
Net investment losses before tax	(28.4)	(15.2)	(13.2)
Tax benefit	(10.0)	(5.4)	(4.6)
Increase to tax valuation allowance	<u>4.6</u>	-	<u>4.6</u>
Net investment losses after tax	<u>\$(23.0)</u>	<u>\$(9.8)</u>	<u>\$(13.2)</u>

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## Q2 2009 Downgrades from Investment Grade to Below Investment Grade

CNO

(\$ millions)

Type	Statutory Book Value	# Issues	Effect of Downgrades on RBC Ratio*
IG Corporates	\$98.6	7	(0.9%)
Financials	81.7	6	(0.8%)
Alt-A	13.2	1	(0.1%)
Prime Jumbo	176.6	8	(5.4%)
Other	<u>46.6</u>	<u>2</u>	<u>(2.3%)</u>
Total	<u>\$416.7</u>	<u>24</u>	<u>(9.5%)</u>

\*Includes estimated effect of covariance and tax.



# Q2 2009 Impairment Losses

CNO

(\$ millions)

	Gross Amounts	Amount Recognized through Accumulated Other Comprehensive Income	Amount Recognized through Net Income
Below-Investment Grade Corporates	\$1.9	\$0.0	\$1.9
Financials*	17.3	0.0	17.3
Subprime	6.7	6.0	0.7
Alt-A	9.3	8.2	1.1
CMBS	1.7	1.6	0.1
Commercial Mortgages	14.8	0.0	14.8
Other	<u>2.0</u>	<u>1.3</u>	<u>0.7</u>
Total	<u>\$53.7</u>	<u>\$17.1</u>	<u>\$36.6</u>

\*Includes \$13.8 million of writedowns on CIT Group investment. Remaining market value was \$8.9 million.

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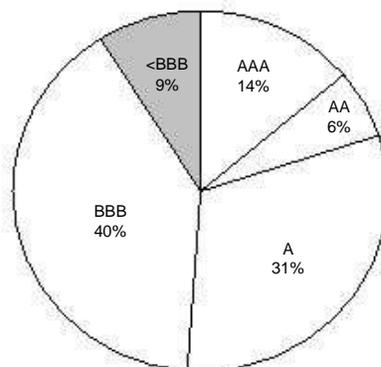
# Investment Quality: Fixed Maturities\*

CNO

▪ **Investment-grade bonds at 91%, unchanged from 3/31/09:**

- Sales of below investment-grade bonds offset the negative impact of credit cycle-related ratings migration

Actively Managed Fixed Maturities by Rating at 6/30/09 (Market Value)



	6/30/08	9/30/08	12/31/08	3/31/09	6/30/09
% of Bonds which are Investment Grade:	93%	93%	92%	91%	91%

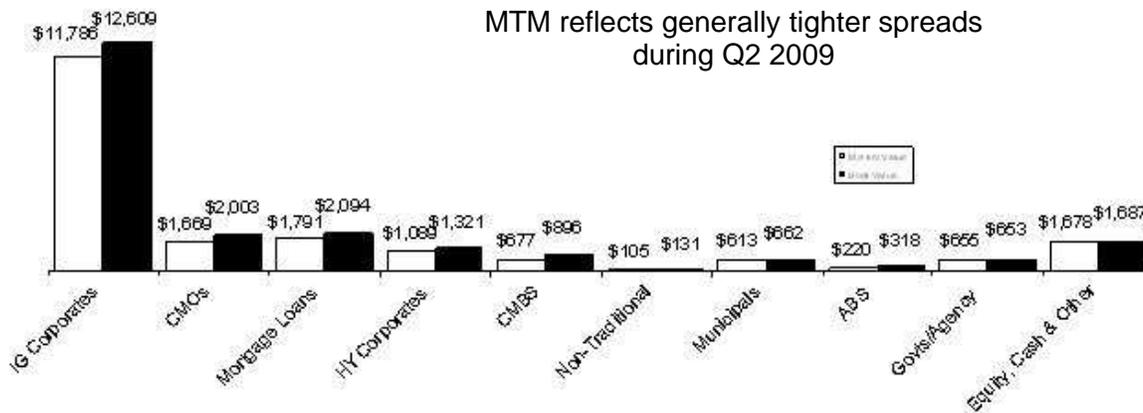
\*Excludes investments from a variable interest entity which we consolidate under GAAP (the related liabilities are non-recourse to Conseco).



# Asset Allocation at 6/30/09\*

CNO

(\$ millions)



\*Excludes investments from a variable interest entity which we consolidate under GAAP (the related liabilities are non-recourse to Conseco).

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# Alt-A at 6/30/09

CNO

(\$ millions)

Rating	Market Value (mil.)	Book Value (mil.)	% of Alt-A*	Avg. FICO	Avg. Support	Avg. 60+ Delinq.	Avg. Accum. Loss	% of Portfolio*
AAA	\$7.0	\$8.8	3.5%	691	12.8%	10.5%	0.07%	0.03%
AA	\$45.8	\$55.5	23.0%	729	8.9%	6.7%	0.41%	0.23%
A	\$6.7	\$10.0	3.3%	691	11.8%	13.3%	0.77%	0.03%
BBB	\$0.9	\$4.2	0.4%	694	18.7%	11.1%	4.02%	0.00%
<BBB	\$139.2	\$232.3	69.8%	712	6.8%	11.5%	1.08%	0.69%
<b>Total</b>	<b>\$199.6</b>	<b>\$310.8</b>	<b>100.00%</b>	<b>714</b>	<b>7.7%</b>	<b>10.4%</b>	<b>0.89%</b>	<b>0.98%</b>

- Allocation reduced by 36% (book value) from 12/31/08 to 6/30/09
- No exposure to “affordability products” – option ARMs, hybrid, neg-ams
- While delinquencies are higher than anticipated, collateral performing materially better than overall Alt-A market in terms of delinquency and average accumulated loss
- Adequate credit support inherent in structures relative to expected cumulative losses

\*% of market value



## Sub-Prime ABS at 6/30/09

CNO

(\$ millions)

Rating	Market Value (mil.)	Book Value (mil.)	% of Subprime*	Avg. FICO	Avg. Support	Avg. 60+ Delinq.	% of Portfolio*
AAA	\$15.6	\$21.9	40.3%	633	34.6%	16.2%	0.08%
AA	\$7.6	\$13.7	19.6%	632	23.5%	13.4%	0.04%
A	\$5.2	\$17.2	13.4%	662	21.8%	9.9%	0.03%
BBB	\$6.8	\$13.3	17.5%	684	23.3%	7.6%	0.03%
<BBB	\$3.5	\$9.3	9.2%	652	20.4%	30.1%	0.02%
<b>Total</b>	<b>\$38.7</b>	<b>\$75.4</b>	<b>100.0%</b>	<b>651</b>	<b>25.9%</b>	<b>14.5%</b>	<b>0.20%</b>

- Only \$23 million (book value) rated BBB or lower (0.05% of invested assets)
- No exposure to “affordability products” – negative amortization, option ARM collateral, etc.
- While delinquencies have increased, consistent with market conditions, portfolio generally reflects satisfactory margin for adverse collateral performance

\*% of market value

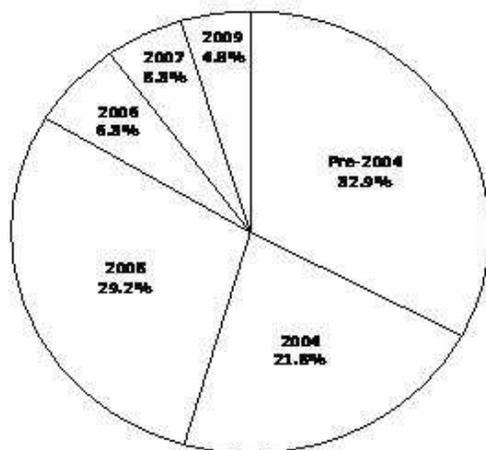
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## CMBS by Vintage at 6/30/09

CNO

(GAAP book value - \$ millions)

Our CMBS exposure is heavily weighted toward securities with high ratings and seasoned vintages with relatively stronger qualitative characteristics



	AAA	AA	A	BBB	<BBB
Pre-2004	\$206.6	\$34.2	\$42.3	\$12.0	\$0.0
2004	\$153.2	\$3.0	\$16.5	\$19.6	\$0.0
2005	\$150.2	\$2.2	\$31.9	\$75.1	\$1.9
2006	\$0.0	\$14.7	\$15.7	\$4.3	\$22.4
2007	\$47.1	\$0.0	\$0.0	\$0.0	\$0.0
2009	\$43.0	\$0.0	\$0.0	\$0.0	\$0.0
Total BV	\$600.1	\$54.1	\$106.4	\$111.0	\$24.3
Total MV	\$540.2	\$35.7	\$53.7	\$27.6	\$19.3



# CMBS at 6/30/09

CNO

(\$ millions)

Rating	Market Value (mil.)	Book Value (mil.)	% of CMBS*	Avg. Support	Avg. 60+ Del. & FCR	Avg. Cum. Loss	% of Portfolio*
AAA	\$540.2	\$600.1	79.9%	27.3%	1.2%	0.41%	2.71%
AA	\$35.7	\$54.1	5.3%	26.0%	0.4%	0.09%	0.13%
A	\$53.7	\$106.4	7.9%	6.9%	0.9%	0.11%	0.27%
BBB	\$27.6	\$111.0	4.1%	6.3%	0.9%	0.05%	0.14%
<BBB	\$19.3	\$24.3	2.8%	4.8%	0.0%	0.00%	0.09%
<b>Total</b>	<b>\$676.5</b>	<b>\$895.9</b>	<b>100.0%</b>	<b>24.1%</b>	<b>1.1%</b>	<b>0.35%</b>	<b>3.34%</b>

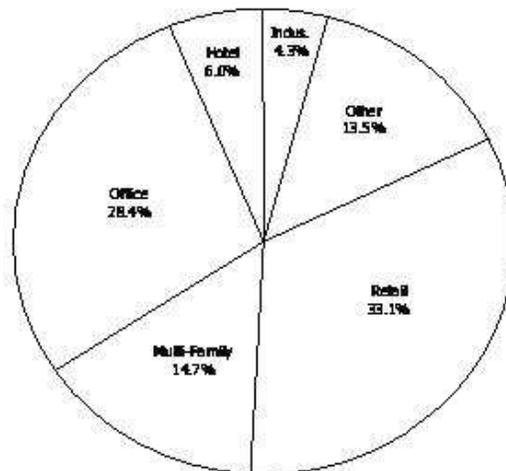
- Collateral performing materially better than overall CMBS market in terms of delinquency and cumulative loss
- Substantial credit support inherent in structures relative to expected cumulative losses

\*% of market value

# CMBS by Collateral Type at 6/30/09

CNO

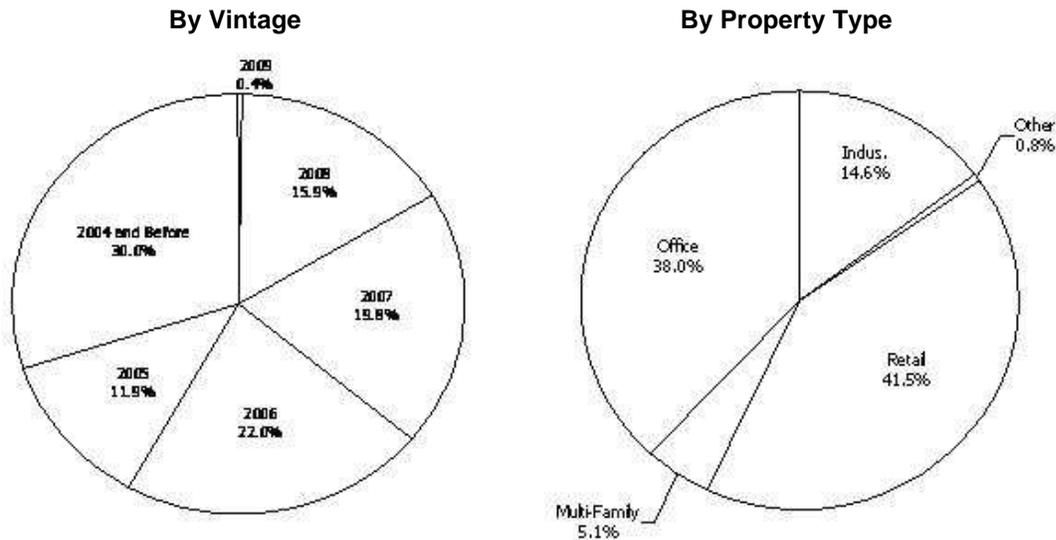
Our CMBS are backed by a diverse pool of underlying collateral – \$87 billion, from more than 7,900 commercial mortgage loans





# Commercial Mortgage Loans at 6/30/09

CNO



- LTV of approximately 64%
- Debt Service Coverage Ratio relatively stable at underwritten levels of approximately 1.45
- Emphasis on reducing overall allocation via prepayments, etc.

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## CNO Summary

CNO

- **Second consecutive quarter of net income**
  - Seasonality has historically produced stronger earnings in second half of year
- **Core sales continue to improve in declining market**
- **Capital and risk management remain our top priorities**
  - Convertible debentures due September 2010
  - Continue to evaluate reinsurance opportunities
  - Manage investments in effort to mitigate impact on RBC





## **Questions and Answers**



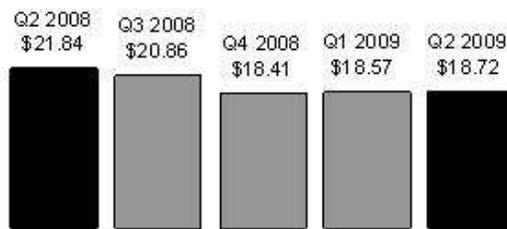
## **Appendix**



# Book Value Per Share \*

CNO

- Increase from Q1 2009 due to Q2 2009 net income



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

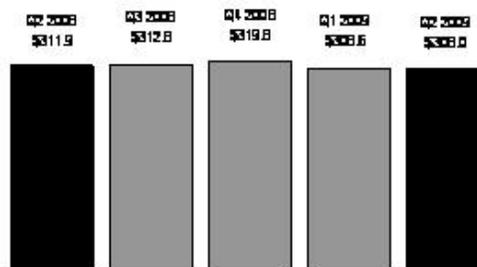
# Net Investment Income

CNO

(\$ millions)

General Account Investment Income

- Decreases in 2009 primarily due to increase in cash and short-term investment balances compared to prior periods



Yield:	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
	5.82%	5.91%	5.93%	5.67%	5.65%

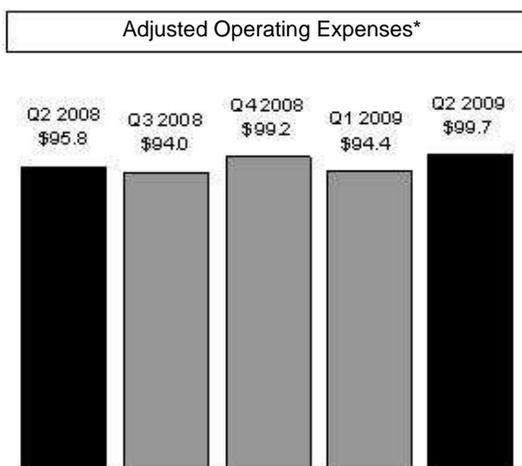


# Expenses

CNO

(\$ millions)

- Approximately \$20 million in savings from back-office consolidation realized in 2007 and 2008; remaining \$5 million expected in 2009
- Q4 2008 reflects increased investment in business growth at Bankers
- Q2 2009 reflects the impact of business growth, additional consulting expense, and the timing of insurance and premium tax payments



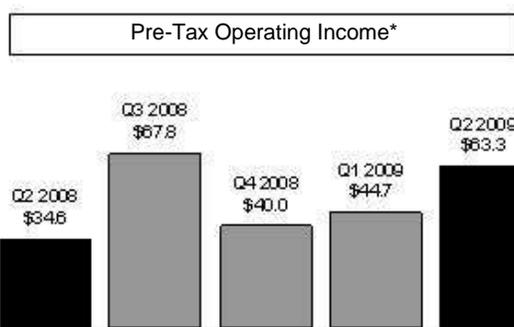
\*Adjusted operating expenses exclude primarily acquisition costs, capitalization of software development costs, initial PFFS marketing costs and contractual vacancy charges related to exiting the Merchandise Mart in Chicago. This measure is used by the Company to evaluate its progress in reducing operating expenses. Expenses have been restated for all periods to reflect the SHIP separation.

# Segment Performance

Bankers

(\$ millions)

- **Earnings up 83% vs Q2 2008**
- **Earnings positively affected by:**
  - Higher LTC margins
  - Higher Life margins
  - Higher Med Supp margins
- **Offset by:**
  - FAS 133 accounting



PTOI-Trailing 4 Quarters:	\$189.5	\$189.8	\$171.5	\$187.1	\$215.8
Revenues-Quarterly:	\$680.7	\$679.1	\$691.4	\$635.1	\$662.8
Revenues -Tr. 4 Quarters:	\$2,537.0	\$2,594.5	\$2,679.1	\$2,686.3	\$2,668.4

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

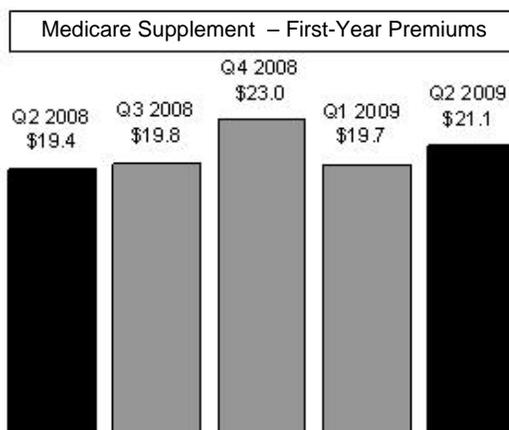


# Premiums – Medicare Supplement

Bankers

(\$ millions)

- First-year premiums up 9% vs Q2 2008



Med. Supp. First-Year Prems.-Tr. 4 Qtrs:	\$78.8	\$79.3	\$81.3	\$81.9	\$83.6
Med. Supp. Total Premiums-Quarterly:	\$150.6	\$153.8	\$172.3	\$155.8	\$155.2
Med. Supp. NAP-Quarterly:	\$17.0	\$16.6	\$27.9	\$18.4	\$19.2
Med. Supp. NAP-Trailing 4 Quarters:	\$73.2	\$73.7	\$78.6	\$79.9	\$82.1

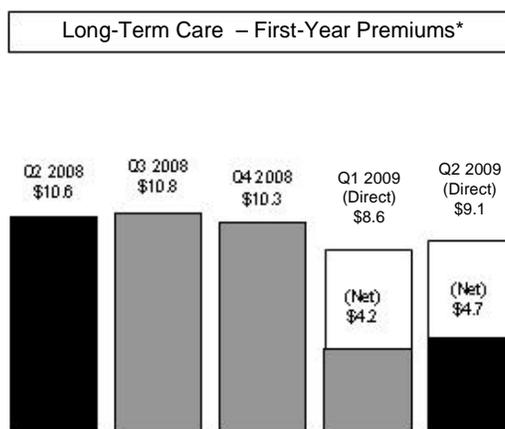
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# Premiums – Long-Term Care

Bankers

(\$ millions)

- Quarterly first-year premium declines due to new business reinsurance
- NAP decline attributable to three main factors:
  - Overall industry sales decline
  - Agent force shift toward other products
  - Tightened underwriting



First-Year Prems.-Tr. 4 Qtrs:	\$44.8	\$43.9	\$42.7	\$35.9	\$30.0
Total Premiums-Quarterly:	\$155.2	\$154.8	\$159.1	\$145.9	\$151.9
NAP-Quarterly:	\$10.7	\$11.4	\$7.9	\$7.5	\$9.8
NAP-Trailing 4 Quarters:	\$42.6	\$42.3	\$39.4	\$37.5	\$36.6

\*Includes \$4.4 million in both Q1 2009 and Q2 2009 of premiums ceded under new business reinsurance agreement.



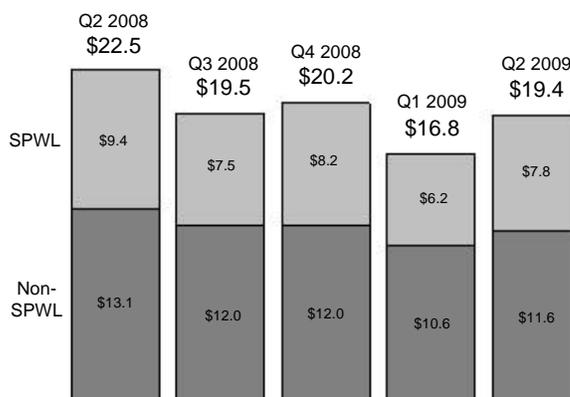
# Premiums – Life Insurance

## Bankers

(\$ millions)

- Fluctuations in first-year premiums primarily reflect variance in sales of single-premium policies
- Non-SPWL premiums down 11% vs Q2 2008

Life – First-Year Premiums



First-Year Prems.-Tr. 4 Qtrs:	\$83.5	\$81.8	\$80.7	\$79.0	\$75.9
Total Premiums-Quarterly:	\$53.8	\$51.9	\$55.7	\$48.9	\$55.3
NAP-Quarterly:	\$15.7	\$13.1	\$11.4	\$12.6	\$15.6
NAP-Trailing 4 Quarters:	\$54.3	\$53.6	\$51.9	\$52.8	\$52.7

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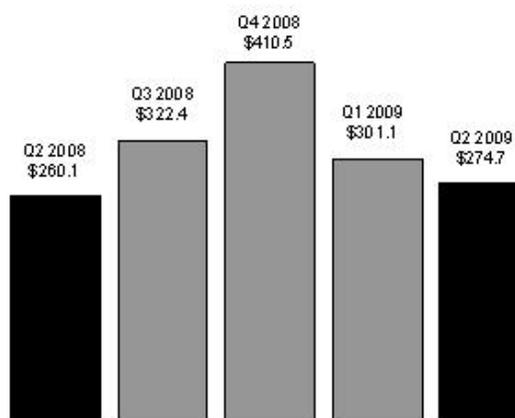
# Premiums – Annuity

## Bankers

(\$ millions)

- Annuity first-year premiums up 6% over Q2 2008

Annuity – First-Year Premiums



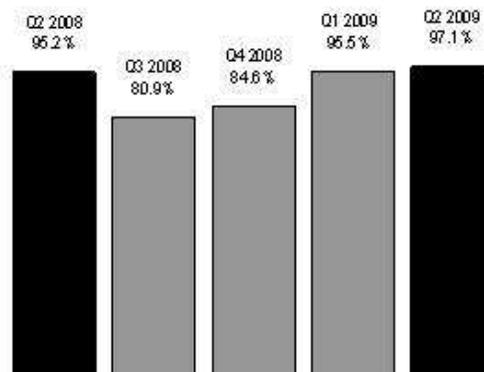
First-Year Prems.-Tr. 4 Qtrs:	\$959.4	\$1,031.3	\$1,220.6	\$1,294.1	\$1,308.7
Total Premiums-Quarterly:	\$261.1	\$323.1	\$411.2	\$302.1	\$275.4



## Benefit Ratio\* – PDP

## Bankers

- Up 2% vs Q2 2008
- Impacted by true-up to previous quarter estimate



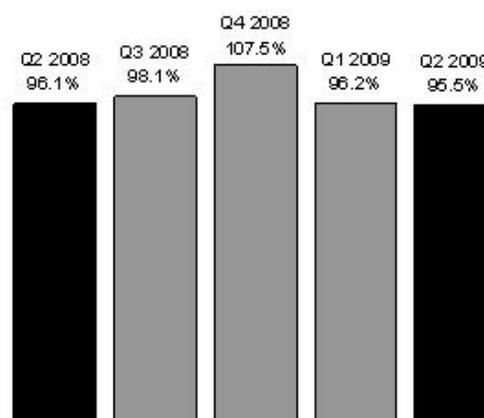
\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.

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## Benefit Ratio\* – PFFS Individual Business

## Bankers

- Q2 2009 vs Q2 2008 comparison impacted by prior-year IBNR strengthening



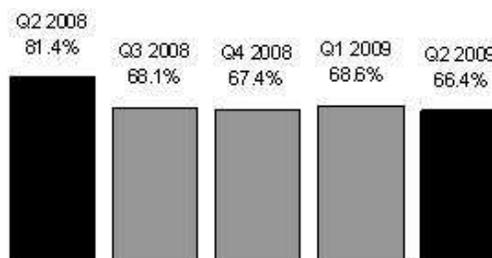
\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.



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

## Bankers

- Q2 2009 positively impacted by continued stabilization of incurred claims and excess terminations
- Completed Round Three re-rates on legacy block; expect \$50 million annual financial impact
- Began implementation of premium re-rates (Round Two) in Q3 2007 on more recent business not previously re-rated; expect additional \$10 million in in-force premium



Trailing 4 Quarter Avg.:	76.7%	74.9%	74.0%	71.4%	67.6%
Qtrly. non-int. adjusted:	114.7%	102.1%	102.2%	105.1%	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.

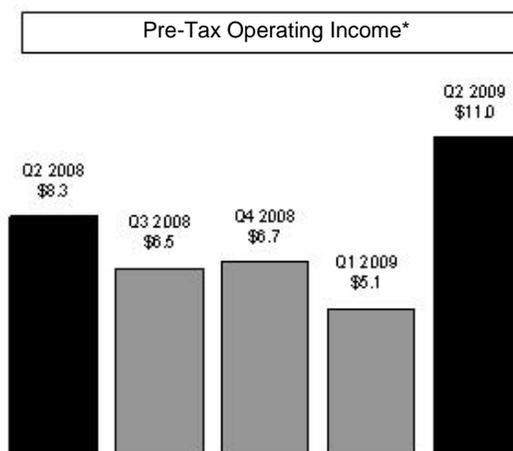
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# Segment Performance

## Colonial Penn

(\$ millions)

- Q2 2008 to Q2 2009 change affected by:
  - \$3 million reinsurance termination
- Q1 2009 to Q2 2009 change affected by:
  - \$3 million reinsurance termination
  - Favorable mortality rates on core life
  - Lower amortization costs due to favorable mortality rates



PTOI-Trailing 4 Quarters:	\$18.8	\$18.3	\$25.2	\$26.6	\$29.3
Revenues-Quarterly:	\$58.1	\$57.0	\$57.2	\$57.1	\$62.7
Revenues -Tr. 4 Quarters:	\$198.4	\$213.3	\$226.2	\$229.4	\$234.0

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

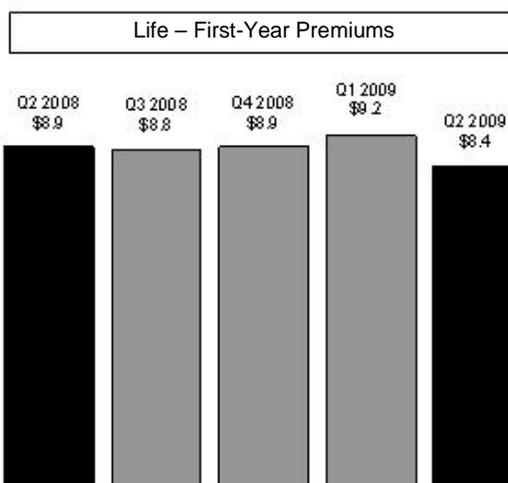


# Premiums – Life Insurance

# Colonial Penn

(\$ millions)

- **NAP:**
  - Trailing 4 quarters relatively flat
  - 2009 levels consistent with capital management efforts
- **Premium:**
  - Recent sales growth reflected in premium development



First-Year Prems.-Tr. 4 Qtrs:	\$32.3	\$33.7	\$35.0	\$35.8	\$35.8
Total Premiums-Quarterly:	\$43.8	\$43.6	\$43.8	\$47.0	\$45.8
NAP-Quarterly:	\$14.5	\$12.1	\$10.8	\$12.3	\$10.6
NAP-Trailing 4 Quarters:	\$47.9	\$48.6	\$50.1	\$49.7	\$45.8

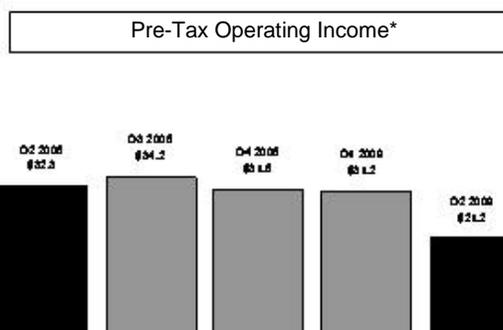
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# Segment Performance

# CIG

(\$ millions)

- **Lower Specified Disease margin due to higher incurred claims**
- **Lower Medicare Supplement margin driven by lower premium**
- **Lower LTC margin due to higher home health care costs**
- **Unlocking adjustment negatively impacting Indexed Annuity block due to excess terminations**
- **Partially offset by:**
  - Higher Life margin as universal life block emerges from loss recognition
  - Favorable universal life mortality



PTOI-Trailing 4 Quarters:	\$82.6	\$99.4	\$121.3	\$129.2	\$109.1
Revenues-Quarterly:	\$378.3	\$371.8	\$382.4	\$379.2	\$382.5
Revenues-Tr. 4 Quarters:	\$1,576.2	\$1,511.3	\$1,513.1	\$1,511.7	\$1,515.9

\*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 an annuity coinsurance transaction. See Appendix for corresponding GAAP measure of our consolidated results of operations.



# Premiums - Medicare Supplement

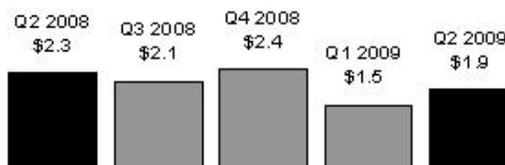
CIG

(\$ millions)

Medicare Supplement – First-Year Premiums

▪ **NAP lower vs Q2 2008:**

- Continue to focus on the sale of profitable product lines, rather than increasing overall sales



First-Year Prems.-Tr. 4 Qtrs:	\$12.7	\$10.6	\$9.6	\$8.3	\$7.9
Total Premiums-Quarterly:	\$49.6	\$48.5	\$52.6	\$42.8	\$44.4
NAP-Quarterly:	\$1.3	\$1.8	\$3.5	\$1.7	\$1.3
NAP-Trailing 4 Quarters:	\$9.0	\$8.9	\$8.9	\$8.3	\$8.3

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# Premiums – Specified Disease

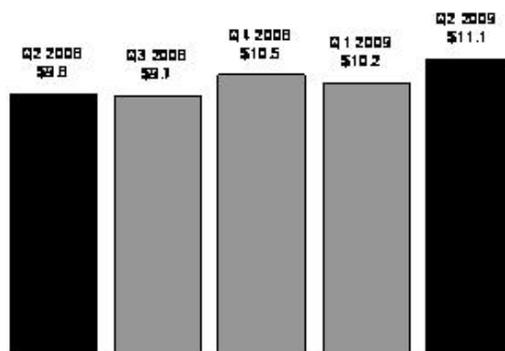
CIG

(\$ millions)

Specified Disease – First-Year Premiums

▪ **NAP up 18% from Q2 2008:**

- Increased PMA focus on Specified Disease products
- Increased recruitment of Health IMOs
- Momentum increasing in Worksite market



First-Year Prems.-Tr. 4 Qtrs:	\$35.6	\$37.6	\$39.4	\$40.2	\$41.5
Total Premiums-Quarterly:	\$92.5	\$92.3	\$95.6	\$93.0	\$95.1
NAP-Quarterly:	\$12.4	\$12.8	\$12.0	\$11.5	\$14.7
NAP-Trailing 4 Quarters:	\$43.6	\$46.1	\$46.8	\$48.7	\$51.0

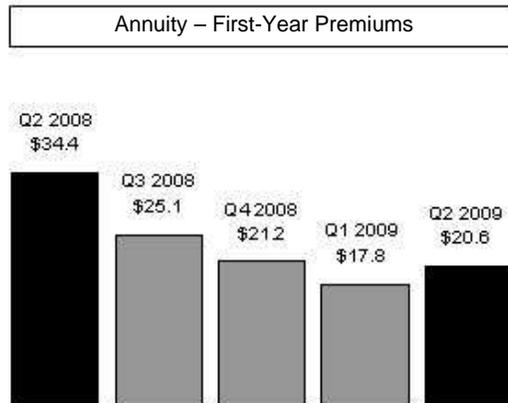


# Premiums – Annuity

CIG

(\$ millions)

- **First-year collections down 40% from Q2 2009:**
  - Discontinuance of products due to an annuity coinsurance transaction
  - Focus on profitable products (i.e., Specified Disease)



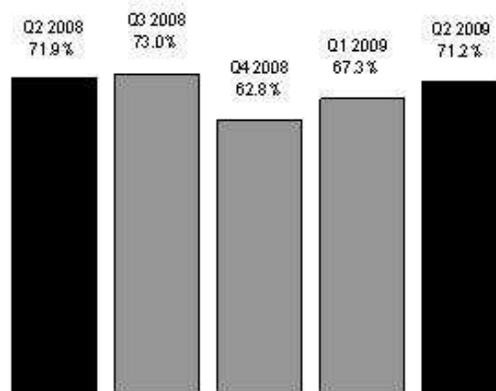
First-Year Prems.-Tr. 4 Qtrs:	\$203.4	\$155.3	\$119.9	\$98.5	\$84.7
Total Premiums-Quarterly:	\$37.1	\$27.4	\$23.7	\$19.5	\$22.3

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# Benefit Ratio\* – Medicare Supplement

CIG

- **In line with expectations and recent trends**
- **Stable persistency**



Trailing 4 Quarter Avg.:	68.0%	69.1%	68.4%	68.8%	68.6%
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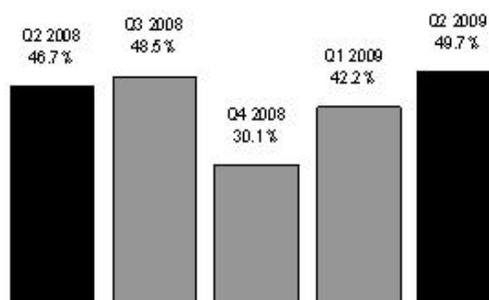
\*We calculate benefit ratios by dividing insurance policy benefits by insurance policy income.



# Interest-Adjusted Benefit Ratio\* – Specified Disease

CIG

- Q4 2008 included recognition of deferred ROP adjustment related to prior periods
- Q2 2009 recognized higher incurred claims



Trailing 4 Quarter Avg.:	47.6%	47.4%	43.3%	41.8%	42.6%
Qtrly. non-int. adjusted:	80.4%	82.6%	63.8%	76.0%	83.3%

\*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.

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## 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 Consecro'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, discontinued operations and increases to our valuation allowance for deferred tax assets ("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, discontinued operations and increases to our valuation allowance for deferred tax assets are unrelated to the Company's continuing operations.



## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of net income applicable to common stock to net operating income (and related per-share amounts) is as follows (dollars in millions, except per-share amounts):

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
<b>Net income (loss) applicable to common stock</b>	\$ (488.5)	\$ (183.3)	\$ (453.3)	\$ 24.5	\$ 27.6
Net realized investment losses, net of related amortization and taxes	17.4	84.2	88.0	6.9	13.2
Discontinued operations	198.3	157.4	367.5	-	-
Valuation allowance for deferred tax assets	298.0	-	45.0	-	-
<b>Net operating income (a non-GAAP financial measure)</b>	<u>\$ 25.2</u>	<u>\$ 58.3</u>	<u>\$ 47.2</u>	<u>\$ 31.4</u>	<u>\$ 40.8</u>
<b>Per diluted share:</b>					
<b>Net income (loss)</b>	\$ (2.65)	\$ (0.99)	\$ (2.45)	\$ 0.13	\$ 0.15
Net realized investment losses, net of related amortization and taxes	0.09	0.45	0.48	0.04	0.07
Discontinued operations	1.08	0.85	1.99	-	-
Valuation allowance for deferred tax assets	1.61	-	0.24	-	-
<b>Net operating income (a non-GAAP financial measure)</b>	<u>\$ 0.13</u>	<u>\$ 0.31</u>	<u>\$ 0.26</u>	<u>\$ 0.17</u>	<u>\$ 0.22</u>

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## Information Related to Certain Non-GAAP Financial Measures

### Book value, excluding accumulated other comprehensive income, per 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.

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

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
<b>Total shareholders' equity</b>	\$ 3,395.7	\$ 2,716.3	\$ 1,630.0	\$ 1,591.2	\$ 2,415.0
Less accumulated other comprehensive income (loss)	(639.2)	(1,137.7)	(1,770.7)	(1,840.5)	(1,046.9)
<b>Total shareholders' equity excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)</b>	<u>\$ 4,034.9</u>	<u>\$ 3,854.0</u>	<u>\$ 3,400.7</u>	<u>\$ 3,431.7</u>	<u>\$ 3,461.9</u>
Diluted shares outstanding for the period	184,725,949	184,725,949	184,753,758	184,758,758	184,886,216
<b>Book value per share</b>	\$ 18.38	\$ 14.70	\$ 8.82	\$ 8.61	\$ 13.06
Less accumulated other comprehensive income (loss)	(3.46)	(6.16)	(9.59)	(9.96)	(5.66)
<b>Book value, excluding accumulated other comprehensive income (loss), per share (a non-GAAP financial measure)</b>	<u>\$ 21.84</u>	<u>\$ 20.86</u>	<u>\$ 18.41</u>	<u>\$ 18.57</u>	<u>\$ 18.72</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, discontinued operations and increases to our valuation allowance for deferred tax assets ("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, discontinued operations and increases to our valuation allowance for deferred tax assets are unrelated to the Company's continued operations.

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. 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.

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## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of return on common equity to operating return on common equity (excluding accumulated other comprehensive income (loss) and net operating loss carryforwards) is as follows (dollars in millions, except per share amounts):

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
<b>Net income (loss) applicable to common stock</b>	\$ (488.5)	\$ (183.3)	\$ (453.3)	\$ 24.5	\$ 27.6
Net realized investment (gains) losses, net of related amortization and taxes	17.4	84.2	88.0	6.9	13.2
Discontinued operations	198.3	157.4	367.5	-	-
Valuation allowance for deferred tax assets	298.0	-	45.0	-	-
<b>Net operating income (a non-GAAP financial measure)</b>	<b>\$ 25.2</b>	<b>\$ 58.3</b>	<b>\$ 47.2</b>	<b>\$ 31.4</b>	<b>\$ 40.8</b>
Common shareholders' equity	\$ 3,395.7	\$ 2,716.3	\$ 1,630.0	\$ 1,591.2	\$ 2,415.0
Less accumulated other comprehensive income (loss)	(639.2)	(1,137.7)	(1,770.7)	(1,840.5)	(1,046.9)
Common shareholder's equity, excluding accumulated other comprehensive income (loss) (a non-GAAP financial measure)	4,034.9	3,854.0	3,400.7	3,431.7	3,461.9
Less net operating loss carryforwards	1,137.2	1,121.7	1,001.1	960.2	973.7
Common shareholders' equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	<b>\$ 2,897.7</b>	<b>\$ 2,732.3</b>	<b>\$ 2,399.6</b>	<b>\$ 2,471.5</b>	<b>\$ 2,488.2</b>
Average common shareholders' equity	\$3,675.2	\$3,056.0	\$2,173.2	\$1,610.6	\$2,003.1
Average common shareholders' equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	\$2,991.5	\$2,815.0	\$2,566.0	\$2,435.6	\$2,479.9
<b>Return on equity ratios:</b>					
<b>Return on common equity</b>	-53.2%	-24.0%	-83.4%	6.1%	5.5%
<b>Operating return on common equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)</b>	3.4%	8.3%	7.4%	5.2%	6.6%



## 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 six months ended June 30, 2009, is as follows (dollars in millions):

	<u>CIG</u>	<u>Bankers</u>	<u>Colonial Penn</u>	<u>Corporate</u>	<u>Total</u>
Pretax operating earnings (a non-GAAP financial measure)	\$ 52.4	\$ 108.0	\$ 16.1	\$ (64.6)	\$ 111.9
Allocation of interest expense, excess capital and corporate expenses	(35.3)	(26.4)	(2.4)	64.1	-
Income tax (expense) benefit	(6.2)	(29.4)	(4.9)	0.8	(39.7)
Segment operating income	<u>\$ 10.9</u>	<u>\$ 52.2</u>	<u>\$ 8.8</u>	<u>\$ 0.3</u>	<u>72.2</u>
Net realized investment losses, net of related amortization and taxes					(20.1)
Net income					<u>\$ 52.1</u>

(Continued on next page)

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## Information Related to Certain Non-GAAP Financial Measures

A reconciliation of common shareholders' equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure) to common shareholders' equity at June 30, 2009, is as follows (dollars in millions):

(Continued from previous page)

	<u>CIG</u>	<u>Bankers</u>	<u>Colonial Penn</u>	<u>Corporate</u>	<u>Total</u>
<b>December 31, 2008</b>					
Common shareholders' equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	\$ 1,580.6	\$ 1,232.1	\$ 111.9	\$ (525.0)	\$ 2,399.6
Net operating loss carryforwards	1,001.1	-	-	-	1,001.1
Accumulated other comprehensive income (loss)	(824.7)	(817.9)	(41.4)	(86.7)	(1,770.7)
Allocation of capital	526.9	410.7	37.3	(974.9)	-
Common shareholders' equity	<u>\$ 2,283.9</u>	<u>\$ 824.9</u>	<u>\$ 107.8</u>	<u>\$ (1,586.6)</u>	<u>\$ 1,630.0</u>
<b>June 30, 2009</b>					
Common shareholders' equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	\$ 1,625.6	\$ 1,262.4	\$ 119.4	\$ (519.2)	\$ 2,488.2
Net operating loss carryforwards	973.7	-	-	-	973.7
Accumulated other comprehensive income (loss)	(527.8)	(463.4)	(23.9)	(31.8)	(1,046.9)
Allocation of capital	541.9	420.8	39.8	(1,002.5)	-
Common shareholders' equity	<u>\$ 2,613.4</u>	<u>\$ 1,219.8</u>	<u>\$ 135.3</u>	<u>\$ (1,553.5)</u>	<u>\$ 2,415.0</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) and net operating loss carryforwards (a non-GAAP financial measure) to average common shareholders' equity at June 30, 2009, is as follows (dollars in millions):

(Continued from previous page)

	<u>CIG</u>	<u>Bankers</u>	<u>Colonial Penn</u>	<u>Corporate</u>	<u>Total</u>
Average common shareholders' equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	\$ 1,633.7	\$ 1,247.2	\$ 114.7	\$ (537.9)	\$ 2,457.7
Average net operating loss carryforwards					973.8
Average accumulated other comprehensive income (loss)					(1,624.6)
Average common shareholders' equity					<u>\$ 1,806.9</u>
Return on equity ratios:					
Return on equity					5.8%
Operating return on common equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	1.3%	8.4%	15.3%	NM	5.9%

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## 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.

A reconciliation of the debt to capital ratio to debt to capital, excluding accumulated other comprehensive loss is as follows (dollars in millions):

	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>
Corporate notes payable	\$ 1,167.9	\$ 1,168.0	\$ 1,311.5	\$ 1,310.5	\$ 1,259.3
Total shareholders' equity	<u>3,395.7</u>	<u>2,716.3</u>	<u>1,630.0</u>	<u>1,591.2</u>	<u>2,415.0</u>
Total capital	4,563.6	3,884.3	2,941.5	2,901.7	3,674.3
Less accumulated other comprehensive loss	<u>639.2</u>	<u>1,137.7</u>	<u>1,770.7</u>	<u>1,840.5</u>	<u>1,046.9</u>
Total capital, excluding accumulated other comprehensive loss (a non-GAAP financial measure)	<u>\$ 5,202.8</u>	<u>\$ 5,022.0</u>	<u>\$ 4,712.2</u>	<u>\$ 4,742.2</u>	<u>\$ 4,721.2</u>
Corporate notes payable	<u>\$ 1,167.9</u>	<u>\$ 1,168.0</u>	<u>\$ 1,311.5</u>	<u>\$ 1,310.5</u>	<u>\$ 1,259.3</u>
<b>Corporate notes payable to capital ratios:</b>					
<b>Corporate debt to total capital</b>	25.6%	30.1%	44.6%	45.2%	34.3%
<b>Corporate debt to total capital, excluding accumulated other comprehensive loss (a non-GAAP financial measure)</b>	22.4%	23.3%	27.8%	27.6%	26.7%

