



CNO FINANCIAL GROUP

News

For Immediate Release

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CNO Financial Group Reports First Quarter 2017 Results

Carmel, Ind., April 26, 2017 - CNO Financial Group, Inc. (NYSE: CNO) today announced net income for the first quarter of 2017 of \$62.3 million, or 36 cents per diluted share, compared to \$45.5 million, or 25 cents per diluted share, in the first quarter of 2016. CNO also announced first quarter of 2017 net operating income (1) of \$59.8 million, or 34 cents per diluted share, compared to \$49.6 million, or 27 cents per diluted share, in the first quarter of 2016.

"Our diversified business model continues to perform, expanding CNO's reach to serve the middle-income market in the U.S.," said Ed Bonach, CEO of CNO Financial. "The consistent strength of our balance sheet and disciplined approach to strategy execution again produced revenue growth, solid earnings, excess capital, and shareholder returns."

First Quarter 2017 Highlights

- First-year collected premiums: \$345.3 million, up 5% from 1Q16
- Total collected premiums: \$940.0 million, up 5% from 1Q16
- New annualized premium ("NAP") (2) for life and health products: \$91.3 million, down 3% from 1Q16
- Annuity collected premiums: \$257.7 million, up 10% from 1Q16
- Annuity account values: \$8.3 billion, up 3% from 1Q16
- Policies inforce of 3.5 million (including third party policies inforce), up .3% from 1Q16
- Net income per diluted share: 36 cents in 1Q17 compared to 25 cents in 1Q16
- Net operating income (1) per diluted share: 34 cents in 1Q17 compared to 27 cents in 1Q16
- Book value per common share increased to \$26.77 from \$25.82 at December 31, 2016
- Book value per diluted share, excluding accumulated other comprehensive income (loss) (3), increased to \$22.31 from \$22.02 at December 31, 2016
- Unrestricted cash and investments held by our holding company were \$314 million at March 31, 2017 compared to \$264 million at December 31, 2016
- Common stock repurchases of \$43.0 million and dividends of \$14.0 million in 1Q17
- Consolidated risk-based capital ratio was estimated at 446% at March 31, 2017, reflecting estimated statutory operating earnings of \$70 million and insurance company dividends to the holding company of \$128.4 million during the first three months of 2017

Quarterly Segment Operating Results

	Three months ended	
	March 31,	
	2017	2016
	(Dollars in millions, except per share data)	
Adjusted EBIT (4):		
Bankers Life	\$ 89.7	\$ 77.6
Washington National	23.5	26.3
Colonial Penn:		
Inforce business (5)	14.1	12.7
New business (5)	(14.4)	(19.5)
Total Colonial Penn	(.3)	(6.8)
Long-term care in run-off	.4	—
Adjusted EBIT from business segments	113.3	97.1
Corporate Operations, excluding corporate interest expense	(8.9)	(8.1)
Adjusted EBIT	104.4	89.0
Corporate interest expense	(11.5)	(11.4)
Operating earnings before taxes	92.9	77.6
Tax expense on operating income	33.1	28.0
Net operating income (1)	59.8	49.6
Net realized investment gains (losses) (net of related amortization)	7.9	(1.0)
Fair value changes in embedded derivative liabilities (net of related amortization)	(4.4)	(29.5)
Fair value changes related to agent deferred compensation plan	—	(6.0)
Other	.3	(.6)
Non-operating income (loss) before taxes	3.8	(37.1)
Income tax expense (benefit):		
On non-operating income (loss)	1.3	(13.0)
Valuation allowance for deferred tax assets	—	(20.0)
Net non-operating income (loss)	2.5	(4.1)
Net income	\$ 62.3	\$ 45.5
Per diluted share:		
Net operating income	\$.34	\$.27
Net realized investment gains (losses) (net of related amortization and taxes)	.03	—
Fair value changes in embedded derivative liabilities (net of related amortization and taxes)	(.01)	(.11)
Fair value changes related to agent deferred compensation plan (net of taxes)	—	(.02)
Valuation allowance for deferred tax assets	—	.11
Other	—	—
Net income	\$.36	\$.25

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The following table summarizes the financial impact of significant items on our 1Q17 net operating income (dollars in millions, except per share amounts):

	Three months ended		
	March 31, 2017*		
	Actual results	Significant items	Excluding significant items
Net Operating Income (1):			
Bankers Life	\$ 89.7	\$ 1.7	\$ 91.4
Washington National	23.5	1.3	24.8
Colonial Penn	(.3)	—	(.3)
Long-term care in run-off	.4	—	.4
Adjusted EBIT from business segments	113.3	3.0	116.3
Corporate Operations, excluding corporate interest expense	(8.9)	—	(8.9)
Adjusted EBIT (4)	104.4	3.0	107.4
Corporate interest expense	(11.5)	—	(11.5)
Operating earnings before taxes	92.9	3.0	95.9
Tax expense on operating income	33.1	1.1	34.2
Net operating income	<u>\$ 59.8</u>	<u>\$ 1.9</u>	<u>\$ 61.7</u>
Net operating income per diluted share	<u>\$.34</u>	<u>\$.01</u>	<u>\$.35</u>

The significant items in 1Q17 included: (i) a \$4.8 million expense increase for estimated future state guaranty association assessments, net of premium tax offsets, related to the liquidation of Penn Treaty Network America Insurance Company (including \$3.5 million in the Bankers Life segment and \$1.3 million in the Washington National segment); partially offset by (ii) the \$1.8 million release of long-term care reserves (net of the reduction in insurance intangibles) due to the impact of policyholder actions following rate increases in the Bankers Life segment.

* See page 8 for the table of Net Operating Income Excluding Significant Items for the three months ended March 31, 2016.

Segment Results

Bankers Life markets and distributes a variety of insurance products to middle-income Americans at or near retirement through a dedicated field force of career agents. First-year collected premiums in 1Q17 were \$311.1 million, up 6 percent from 1Q16, primarily reflecting an increase in premiums from annuity products; partially offset by lower premiums collected on life and Medicare supplement products. NAP for life and health products in 1Q17 was \$44.9 million, down 3 percent compared to 1Q16. Sales results for the quarter reflect lower sales of life products; partially offset by higher sales of health products. Average producing agents (over the last twelve months) were down 6 percent from 1Q16. However, average agents with three or more years of service (over the last twelve months) were only down 1 percent in 1Q17 compared to 1Q16.

Total collected premiums in 1Q17 were \$687.8 million, up 4 percent from 1Q16, primarily reflecting an increase in premiums from annuity products. Annuity collected premiums in 1Q17 were \$257.5 million, up 10 percent from 1Q16. Annuity account values, on which spread income is earned, increased 4 percent to \$7.9 billion in 1Q17 compared to 1Q16, driven by strong sales and persistency. Total policies inforce (including third party policies inforce) decreased .4 percent in 1Q17; third party policies inforce increased 4 percent.

Pre-tax operating earnings in 1Q17 compared to 1Q16 were up \$12.1 million, or 16 percent. Pre-tax operating earnings in 1Q17 reflected higher spread income on annuities due to growth in the block; favorable margins on the

long-term care and Medicare supplement blocks; and \$3.5 million of higher expense related to the aforementioned estimated future state guaranty association assessments, net of premium tax offsets.

The long-term care interest-adjusted benefit ratio was 72.5 percent in 1Q17, lower than the 1Q16 ratio of 75.3 percent. The 1Q17 and 1Q16 ratios were favorably impacted by \$2 million and \$8 million, respectively, of one-time reserve releases related to policyholder decisions to surrender or reduce coverage following rate increases. The 1Q17 long-term care interest-adjusted benefit ratio excluding the favorable reserve releases related to rate increases was 74.2 percent compared to 82.4 percent in 1Q16. The 1Q17 ratio also reflects no increase to the future loss reserve, given the outcome of the year-end 2016 actuarial review, compared to a \$8.9 million increase in 1Q16. We continue to expect the long-term care interest-adjusted benefit ratio to be in the range of 77 percent to 82 percent during 2017, excluding the reserve-related impacts of rate increase actions. As we experienced in 1Q17, we expect that the rate increases will have less of an impact on the interest-adjusted benefit ratio in 2017 than in 2016.

Pre-tax operating earnings in 1Q17 reflected a Medicare supplement benefit ratio of 70.0 percent, lower than the 1Q16 ratio of 71.1 percent. We continue to expect the Medicare supplement benefit ratio to be in the range of 71 percent to 74 percent during 2017.

Washington National markets and distributes supplemental health and life insurance to middle-income consumers through a wholly-owned subsidiary and independent insurance agencies. First-year collected premiums in 1Q17 were \$20.5 million, up 2 percent from 1Q16. NAP from life and health products in 1Q17 was \$24.6 million, up 5 percent from 1Q16, primarily reflecting higher sales of supplemental health products. The average number of producing agents (over the last twelve months) was up 6 percent compared to 1Q16, reflecting higher agent retention.

Total collected premiums from the segment's supplemental health block were up 6 percent in 1Q17 compared to 1Q16.

Pre-tax operating earnings in 1Q17 compared to 1Q16 were down \$2.8 million, or 11 percent. Pre-tax operating earnings in 1Q17 primarily reflect: (i) \$1.3 million of expense related to the aforementioned estimated future state guaranty association assessments, net of premium tax offsets; and (ii) lower margins on the supplemental health block compared to 1Q16. The supplemental health interest-adjusted benefit ratio was 60.6 percent and 57.7 percent in 1Q17 and 1Q16, respectively. We continue to expect the supplemental health interest-adjusted benefit ratio to be in the range of 58 percent to 61 percent during 2017.

Colonial Penn markets primarily graded benefit and simplified issue life insurance directly to customers through television advertising, direct mail, the internet and telemarketing. First-year collected premiums in 1Q17 were \$13.7 million, down 2 percent from 1Q16 reflecting lower lead volume primarily due to reduced marketing expenses. NAP in 1Q17 was \$21.8 million, down 10 percent from 1Q16.

Total collected premiums were up 6 percent in 1Q17 compared to 1Q16, reflecting both recent sales activity and steady persistency.

The pre-tax operating loss in 1Q17 was \$.3 million compared to a loss of \$6.8 million in 1Q16 principally due to reduced marketing expenses. Inforce Adjusted EBIT was \$14.1 million, up 11 percent from 1Q16, primarily reflecting growth in the block.

Recognizing the accounting standard related to deferred acquisition costs, the amount of our investment in new business during a particular period will have a significant impact on this segment's results. We continue to expect this segment to report earnings in 2017 in the range of \$5 million to \$15 million.

Long-term care in run-off only includes the long-term care business that was recaptured in September 2016. This segment recognized pre-tax earnings of \$.4 million in 1Q17. We expect this segment to report normalized earnings before net realized investment gains (losses) of approximately breakeven over the long-term. However, this segment's quarterly results can be volatile given its loss recognition status.

Corporate Operations includes our investment advisory subsidiary and corporate expenses.

Pre-tax losses in 1Q17 were \$8.9 million compared to \$8.1 million of losses in 1Q16 primarily reflecting higher expenses, partially offset by favorable investment returns.

Non-Operating Items

Net realized investment gains in 1Q17 were \$7.9 million (net of related amortization) including total other-than-temporary impairment losses of \$8.4 million recorded in earnings. Net realized investment losses in 1Q16 were \$1.0 million (net of related amortization) including total other-than-temporary impairment losses of \$10.0 million recorded in earnings.

During 1Q17 and 1Q16, we recognized decreases in earnings of \$4.4 million and \$29.5 million, respectively, resulting from changes in the estimated fair value of embedded derivative liabilities related to our fixed index annuities, net of related amortization. Such amount includes the impacts of changes in market interest rates used to determine the derivative's estimated fair value.

During 1Q16, we recognized a decrease in earnings of \$6.0 million for the mark-to-market change in the agent deferred compensation plan liability which was impacted by changes in interest rates used to value the liability. We recognize the mark-to-market change in the estimated value of this liability through earnings as assumptions change.

In 1Q16, we reduced the valuation allowance for deferred tax assets by \$20 million primarily related to higher expected non-life income.

Statutory (based on non-GAAP measures) and GAAP Capital Information

Our consolidated statutory risk-based capital ratio was estimated at 446% at March 31, 2017, reflecting estimated statutory operating earnings of \$70 million and insurance company dividends to the holding company of \$128.4 million during 1Q17.

During the first quarter of 2017, we repurchased \$43.0 million of common stock under our securities repurchase program (including \$4.5 million of repurchases settled in 2Q17). We repurchased 2.1 million common shares at an average cost of \$20.61 per share. CNO anticipates repurchasing common stock in the range of \$200 million to \$275 million in 2017, absent compelling alternatives. As of March 31, 2017, we had 172.1 million shares outstanding and had authority to repurchase up to an additional \$209.7 million of our common stock. During 1Q17, dividends paid on common stock totaled \$14.0 million.

Unrestricted cash and investments held by our holding company were \$314 million at March 31, 2017, compared to \$264 million at December 31, 2016, reflecting dividends from subsidiaries, partially offset by common stock repurchases and dividend payments.

Book value per common share was \$26.77 and \$25.82 at March 31, 2017 and December 31, 2016, respectively. Book value per diluted share, excluding accumulated other comprehensive income (loss) (3), increased to \$22.31 at March 31, 2017, compared to \$22.02 at December 31, 2016.

The debt-to-capital ratio was 16.5 percent and 16.9 percent at March 31, 2017 and December 31, 2016, respectively. Our debt-to-total capital ratio, excluding accumulated other comprehensive income (6) was 19.1 percent at both March 31, 2017 and December 31, 2016.

Conference Call

The Company will host a conference call to discuss results on April 27, 2017 at 11:00 a.m. Eastern Time. The webcast can be accessed through the Investors section of the company's website: <http://ir.CNOinc.com>. Participants 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 the morning of the call at the Investors section of the company's website.

About CNO Financial Group

CNO Financial Group, Inc. (NYSE: CNO) is a holding company. Our insurance subsidiaries - principally Bankers Life and Casualty Company, Colonial Penn Life Insurance Company and Washington National Insurance Company - primarily serve middle-income pre-retiree and retired Americans by helping them protect against financial adversity and provide for a more secure retirement. For more information, visit CNO online at www.CNOinc.com.

CNO FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Dollars in millions)
(unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Investments:		
Fixed maturities, available for sale, at fair value (amortized cost: March 31, 2017 - \$19,880.3; December 31, 2016 - \$19,803.1)	\$ 21,378.4	\$ 21,096.2
Equity securities at fair value (cost: March 31, 2017 - \$571.3; December 31, 2016 - \$580.7)	587.8	584.2
Mortgage loans	1,788.5	1,768.0
Policy loans	112.4	112.0
Trading securities	341.1	363.4
Investments held by variable interest entities	1,514.5	1,724.3
Other invested assets	665.2	589.5
Total investments	26,387.9	26,237.6
Cash and cash equivalents - unrestricted	530.2	478.9
Cash and cash equivalents held by variable interest entities	354.5	189.3
Accrued investment income	258.2	239.6
Present value of future profits	388.8	401.8
Deferred acquisition costs	1,028.5	1,044.7
Reinsurance receivables	2,241.1	2,260.4
Income tax assets, net	697.8	789.7
Assets held in separate accounts	4.6	4.7
Other assets	535.8	328.5
Total assets	\$ 32,427.4	\$ 31,975.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Liabilities for insurance products:		
Policyholder account balances	\$ 10,975.1	\$ 10,912.7
Future policy benefits	11,057.2	10,953.3
Liability for policy and contract claims	498.1	500.6
Unearned and advanced premiums	292.8	282.5
Liabilities related to separate accounts	4.6	4.7
Other liabilities	798.0	611.4
Investment borrowings	1,647.2	1,647.4
Borrowings related to variable interest entities	1,634.2	1,662.8
Notes payable – direct corporate obligations	913.4	912.9
Total liabilities	27,820.6	27,488.3
Commitments and Contingencies		
Shareholders' equity:		
Common stock (\$0.01 par value, 8,000,000,000 shares authorized, shares issued and outstanding: March 31, 2017 – 172,103,802; December 31, 2016 – 173,753,614)	1.7	1.7
Additional paid-in capital	3,177.1	3,212.1
Accumulated other comprehensive income	729.6	622.4
Retained earnings	698.4	650.7
Total shareholders' equity	4,606.8	4,486.9
Total liabilities and shareholders' equity	\$ 32,427.4	\$ 31,975.2

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CNO FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Dollars in millions, except per share data)
(unaudited)

	Three months ended	
	March 31,	
	2017	2016
Revenues:		
Insurance policy income	\$ 663.8	\$ 644.4
Net investment income:		
General account assets	312.0	291.0
Policyholder and other special-purpose portfolios	75.2	11.7
Realized investment gains (losses):		
Net realized investment gains (losses), excluding impairment losses	16.3	9.1
Impairment losses recognized (a)	(8.4)	(10.0)
Total realized gains (losses)	7.9	(9)
Fee revenue and other income	11.8	14.2
Total revenues	1,070.7	960.4
Benefits and expenses:		
Insurance policy benefits	669.3	619.0
Interest expense	30.8	27.7
Amortization	63.5	62.1
Other operating costs and expenses	210.4	211.1
Total benefits and expenses	974.0	919.9
Income before income taxes	96.7	40.5
Income tax expense (benefit):		
Tax expense on period income	34.4	15.0
Valuation allowance for deferred tax assets	—	(20.0)
Net income	\$ 62.3	\$ 45.5
Earnings per common share:		
Basic:		
Weighted average shares outstanding	173,431,000	180,350,000
Net income	\$.36	\$.25
Diluted:		
Weighted average shares outstanding	175,065,000	182,128,000
Net income	\$.36	\$.25

(a) No portion of the other-than-temporary impairments recognized in the periods was included in accumulated other comprehensive income.

CNO FINANCIAL GROUP, INC. AND SUBSIDIARIES
NET OPERATING INCOME EXCLUDING SIGNIFICANT ITEMS*
(Dollars in millions, except per share data)

	Three months ended		
	March 31, 2016*		
	Actual results	Significant items	Excluding significant items
Net Operating Income (1):			
Bankers Life	\$ 77.6	\$ (7.7)	\$ 69.9
Washington National	26.3	—	26.3
Colonial Penn	(6.8)	—	(6.8)
Adjusted EBIT from business segments	97.1	(7.7)	89.4
Corporate Operations, excluding corporate interest expense	(8.1)	3.0	(5.1)
Adjusted EBIT (4)	89.0	(4.7)	84.3
Corporate interest expense	(11.4)	—	(11.4)
Operating earnings before taxes	77.6	(4.7)	72.9
Tax expense on operating income	28.0	(1.7)	26.3
Net operating income	<u>\$ 49.6</u>	<u>\$ (3.0)</u>	<u>\$ 46.6</u>
Net operating income per diluted share	<u>\$.27</u>	<u>\$ (.01)</u>	<u>\$.26</u>

* This table summarizes the financial impact of significant items on our 1Q16 net operating income. The significant items in 1Q16 included: (i) the \$7.7 million release of long-term care reserves (net of the reduction in insurance intangibles) due to the impact of policyholder actions following rate increases; and (ii) \$3 million of accelerated stock compensation expense related to retirement eligible employees.

CNO FINANCIAL GROUP, INC. AND SUBSIDIARIES
FIRST-YEAR COLLECTED PREMIUMS
(Dollars in millions)

	Three months ended	
	March 31,	
	2017	2016
Bankers Life:		
Medicare supplement	\$ 17.5	\$ 18.4
Long-term care	4.2	4.4
Supplemental health	1.4	1.3
Other health	.2	—
Life	31.9	38.6
Annuity	255.9	231.8
Total	<u>311.1</u>	<u>294.5</u>
Washington National:		
Supplemental health and other health	19.1	18.5
Life	1.4	1.6
Annuity	—	—
Total	<u>20.5</u>	<u>20.1</u>
Colonial Penn:		
Life	13.7	14.0
Total	<u>13.7</u>	<u>14.0</u>
Total first-year collected premiums from segments	<u>\$ 345.3</u>	<u>\$ 328.6</u>

TOTAL COLLECTED PREMIUMS
(Dollars in millions)

	Three months ended	
	March 31,	
	2017	2016
Bankers Life:		
Medicare supplement	\$ 191.7	\$ 186.9
Long-term care	117.0	119.6
Supplemental health	5.7	5.0
Other health	1.6	1.6
Life	114.3	114.0
Annuity	257.5	233.6
Total	<u>687.8</u>	<u>660.7</u>
Washington National:		
Supplemental health and other health	150.6	141.6
Medicare supplement	14.4	16.4
Life	7.9	7.2
Annuity	.2	.3
Total	<u>173.1</u>	<u>165.5</u>
Colonial Penn:		
Life	74.0	69.5
Medicare supplement and other health	.5	.6
Total	<u>74.5</u>	<u>70.1</u>
Long-term care in run-off:		
Long-term care	4.6	N/A
Total	<u>4.6</u>	<u>N/A</u>
Total collected premiums from segments	<u>\$ 940.0</u>	<u>\$ 896.3</u>

CNO FINANCIAL GROUP, INC. AND SUBSIDIARIES
NEW ANNUALIZED PREMIUMS FOR LIFE AND HEALTH PRODUCTS (2)
(Dollars in millions)

	Three months ended	
	March 31,	
	2017	2016
Bankers Life:		
Medicare supplement	\$ 17.7	\$ 16.4
Long-term care	6.9	6.1
Supplemental health and other health	1.9	1.5
Life	18.4	22.4
Total	44.9	46.4
Washington National:		
Supplemental health	22.9	22.0
Life	1.7	1.4
Total	24.6	23.4
Colonial Penn:		
Life	21.8	24.1
Total	21.8	24.1
Total new annualized premiums	\$ 91.3	\$ 93.9

ANNUITY ACCOUNT VALUES
(Dollars in millions)

	March 31,	
	2017	2016
Bankers Life	\$ 7,869.7	\$ 7,586.1
Washington National	404.5	454.2
Total	\$ 8,274.2	\$ 8,040.3

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BENEFIT RATIOS ON MAJOR HEALTH LINES OF BUSINESS

	Three months ended	
	March 31,	
	2017	2016
Bankers Life:		
Medicare supplement:		
Earned premium	\$196 million	\$193 million
Benefit ratio (7)	70.0%	71.1%
Long-term care:		
Earned premium	\$116 million	\$118 million
Benefit ratio (7)	132.6%	132.9%
Interest-adjusted benefit ratio (a non-GAAP measure) (8)	72.5%	75.3%
Washington National:		
Medicare supplement:		
Earned premium	\$14 million	\$16 million
Benefit ratio (7)	66.8%	65.1%
Supplemental health:		
Earned premium	\$146 million	\$139 million
Benefit ratio (7)	84.6%	81.2%
Interest-adjusted benefit ratio (a non-GAAP measure) (8)	60.6%	57.7%
Long-term care in run-off:		
Long-term care:		
Earned premium	\$5 million	N/A
Benefit ratio (7)	286.5%	N/A
Interest-adjusted benefit ratio (a non-GAAP measure) (8)	128.1%	N/A

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NOTES

- (1) Management believes that an analysis of Net income applicable to common stock before: (i) net realized investment gains or losses, net of related amortization and taxes; (ii) fair value changes due to fluctuations in the interest rates used to discount embedded derivative liabilities related to our fixed index annuities, net of related amortization and taxes; (iii) fair value changes related to the agent deferred compensation plan, net of taxes, (iv) changes in the valuation allowance for deferred tax assets; and (v) other non-operating items consisting primarily of earnings attributable to variable interest entities, net of 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 the items excluded from net operating income can be affected by events that are unrelated to the company's underlying fundamentals. Net realized investment gains or losses include: (i) gains or losses on the sales of investments; (ii) other-than-temporary impairments recognized through net income; and (iii) changes in fair value of certain fixed maturity investments with embedded derivatives. A reconciliation of Net operating income to Net income applicable to common stock is provided in the table on page 2. Additional information concerning this non-GAAP measure is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investors - SEC Filings" section of CNO's website, www.CNOinc.com.
- (2) Measured by new annualized premium for life and health products, which includes 10% of single premium whole life deposits and 100% of all other premiums (excluding annuities). Medicare Advantage sales are not comparable to other sales and are therefore excluded in all periods.
- (3) Book value per diluted share reflects the potential dilution that could occur if outstanding stock options were exercised, restricted stock and performance units were vested and convertible securities were converted. The dilution from options, restricted shares and performance units is calculated using the treasury stock method. Under this method, we assume the proceeds from the exercise of the options (or the unrecognized compensation expense with respect to restricted stock and performance units) will be used to purchase shares of our common stock at the closing market price on the last day of the period. The dilution from convertible securities is calculated assuming the securities were converted on the last day of the period. In addition, 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.
- (4) Management believes that an analysis of earnings before net realized investment gains (losses), fair value changes due to fluctuations in the interest rates used to discount embedded derivative liabilities related to our fixed index annuities, fair value changes related to the agent deferred compensation plan, other non-operating items, corporate interest expense and taxes ("Adjusted EBIT," a non-GAAP financial measure) provides a clearer comparison of the operating results of the company quarter-over-quarter because these items are unrelated to the company's underlying fundamentals. A reconciliation of Adjusted EBIT to Net Income applicable to common stock is provided in the table on page 2.
- (5) Management believes that an analysis of Adjusted EBIT for Colonial Penn, separated between inforce and new business, provides increased clarity for this segment as the vast majority of the costs to generate new business in this segment are not deferrable and Adjusted EBIT will fluctuate based on management's decisions on how much marketing costs to incur in each period. Adjusted EBIT from new business includes pre-tax revenues and expenses associated with new sales of our insurance products during the first year after the sale is completed. Adjusted EBIT from inforce business includes all pre-tax revenues and expenses associated with sales of insurance products that were completed more than one year before the end of the reporting period. The allocation of certain revenues and expenses between new and inforce business is based on estimates, which we believe are reasonable.
- (6) 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.
- (7) The benefit ratio is calculated by dividing the related product's insurance policy benefits by insurance policy income.
- (8) The interest-adjusted benefit ratio (a non-GAAP measure) is calculated by dividing the product's insurance policy benefits less imputed 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 the imputed interest income earned on the accumulated assets. The interest-adjusted benefit ratio reflects the effects of such interest income offset (which is equal to the tabular interest on the related insurance liabilities). 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 "Investors - SEC Filings" section of CNO Financial's website, www.CNOinc.com.

Cautionary Statement Regarding Forward-Looking Statements. *Our statements, trend analyses and other information contained in this press release relative to markets for CNO Financial's products and trends in CNO Financial'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," "guidance," "outlook" 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) changes in or sustained low interest rates causing reductions in investment income, the margins of our fixed annuity and life insurance businesses, and sales of, and demand for, our products; (ii) expectations of lower future investment earnings may cause us to accelerate amortization, write down the balance of insurance acquisition costs or establish additional liabilities for insurance products; (iii) general economic, market and political conditions and uncertainties, including the performance and fluctuations of the financial markets which may affect the value of our investments as well as our ability to raise capital or refinance existing indebtedness and the cost of doing so; (iv) the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject; (v) our ability to make anticipated changes to certain non-guaranteed elements of our life insurance products; (vi) our ability to obtain adequate and timely rate increases on our health products, including our long-term care business; (vii) the receipt of any required regulatory approvals for dividend and surplus debenture interest payments from our insurance subsidiaries; (viii) 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; (ix) changes in our assumptions related to deferred acquisition costs or the present value of future profits; (x) the recoverability of our deferred tax assets and the effect of potential ownership changes and tax rate changes on their value; (xi) our assumption that the positions we take on our tax return filings will not be successfully challenged by the Internal Revenue Service; (xii) changes in accounting principles and the interpretation thereof; (xiii) our ability to continue to satisfy the financial ratio and balance requirements and other covenants of our debt agreements; (xiv) 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, (xv) performance and valuation of our investments, including the impact of realized losses (including other-than-temporary impairment charges); (xvi) 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; (xvii) our ability to generate sufficient liquidity to meet our debt service obligations and other cash needs; (xviii) our ability to maintain effective controls over financial reporting; (xix) our ability to continue to recruit and retain productive agents and distribution partners; (xx) customer response to new products, distribution channels and marketing initiatives; (xxi) our ability to achieve additional upgrades of the financial strength ratings of CNO Financial and our insurance company subsidiaries as well as the impact of our ratings on our business, our ability to access capital and the cost of capital; (xxii) 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 the sale, underwriting and pricing of products, and health care regulation affecting health insurance products; (xxiii) changes in the Federal income tax laws and regulations which may affect or eliminate the relative tax advantages of some of our products or affect the value of our deferred tax assets; (xxiv) availability and effectiveness of reinsurance arrangements, as well as the impact of any defaults or failure of reinsurers to perform; (xxv) the amount we may need to pay to a reinsurer and the earnings charge we may incur in connection with a long-term care reinsurance transaction; (xxvi) the performance of third party service providers and potential difficulties arising from outsourcing arrangements; (xxvii) the growth rate of sales, collected premiums, annuity deposits and assets; (xxviii) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (xxix) events of terrorism, cyber attacks, natural disasters or other catastrophic events, including losses from a disease pandemic; (xxx) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; and (xxxi) the risk factors or uncertainties listed from time to time in our filings with the Securities and Exchange Commission. 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.

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