

# CNO Global Funding

## Funding Agreement-Backed Notes Program

September 2021

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# Today's Presenters



**Paul McDonough**  
Chief Financial Officer  
CNO Financial Group, Inc.

Mr. McDonough was named Chief Financial Officer for CNO Financial Group in March 2019. He also serves as chair of the Company's Sustainability Council.

Mr. McDonough has nearly 30 years of public company finance and 20 years of insurance industry expertise. Prior to joining CNO, he was executive vice president and chief financial officer of OneBeacon Insurance Group from 2005 to 2017.

Previously, Mr. McDonough held treasury roles at The St. Paul Companies, as treasurer from 2001 to 2004 and assistant treasurer from 1999 to 2001. He worked in strategic planning and finance at Sears and Chevron, and proudly served as an officer in the U.S. Navy.

Mr. McDonough earned a bachelor's degree in government from Georgetown University and a Master of Business Administration with a concentration in finance and accounting from the Kellogg Graduate School of Management at Northwestern University.



**Eric Johnson**  
Chief Investment Officer  
CNO Financial Group, Inc.  
President, 40|86 Advisors, Inc.

Mr. Johnson was appointed chief investment officer of CNO Financial Group and president of 40|86 Advisors, Inc. in September 2003. He also serves as chair of the Company's Investments-ALM Committee and oversees corporate development activities. He joined CNO in 1997 and has served as an officer of the company since 1998.

He is on the board of the Greater Indianapolis Progress Committee and The Indianapolis Chamber of Commerce and is treasurer and a board member of the Harvard Club of Indiana, and co-chair of the club's Schools Committee, which is responsible for local admissions outreach.

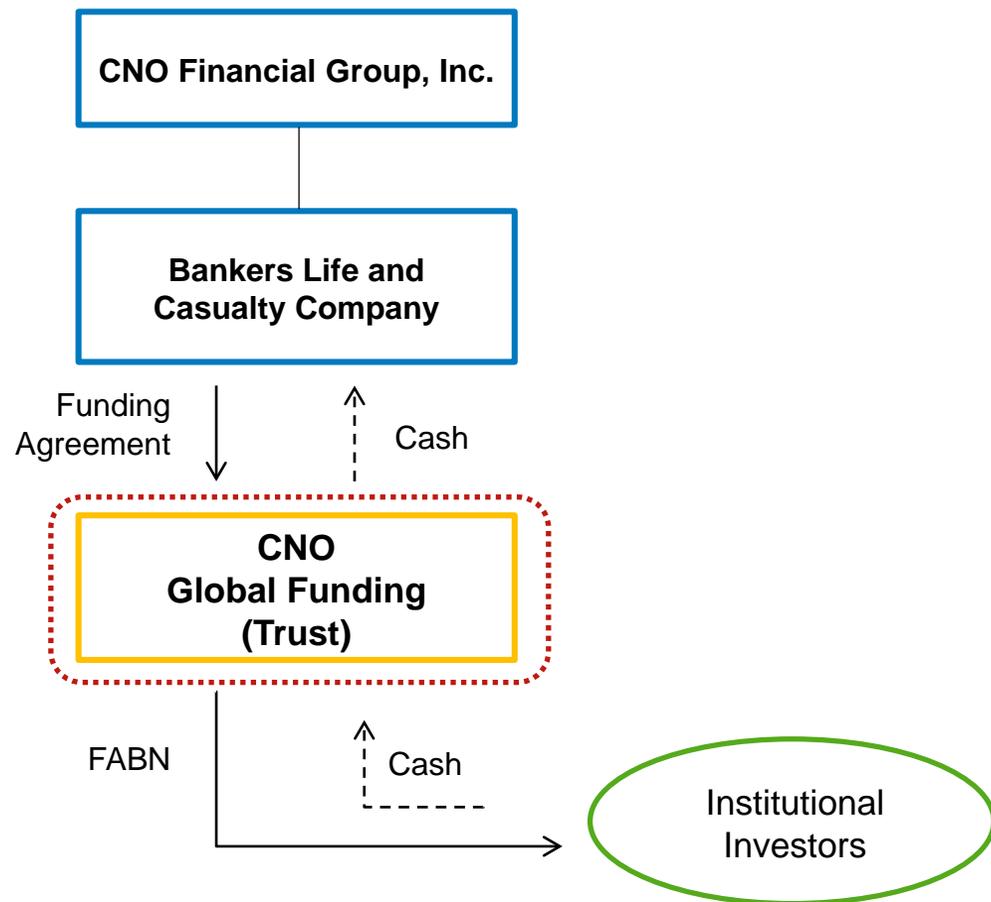
# Overview of CNO Global Funding

<b>Issuer</b>	<b>CNO Global Funding, a Delaware statutory trust</b>
<b>Funding Agreement Provider</b>	Bankers Life and Casualty Company (“Bankers Life”)
<b>Type</b>	Funding Agreement-backed (“FA-backed”) Global Medium-Term Notes (“FABN”)
<b>Format</b>	144A / Regulation S
<b>Program Size</b>	\$3 Billion
<b>Expected Note Ratings <sup>(1)</sup></b>	Moody’s: A3 (Stable) S&P: A- (Stable) Fitch: A- (Stable)
<b>Listing</b>	Euronext Dublin
<b>Arranger</b>	Credit Suisse

<sup>1</sup>Ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

# FABN Structure Overview

## Legal Entity Overview



## Notes

- Bankers Life and Casualty Company is the issuer of Funding Agreements.
- A Special Purpose Statutory Trust, CNO Global Funding (the “Trust”), has been established under the Delaware Statutory Trust Act.
- The Trust will issue FABN pursuant to an Offering Memorandum in separate series, which may comprise one or more tranches.
- Each series of FABN will be secured by one or more Funding Agreements from Bankers Life and Casualty Company.
- The payments under the Funding Agreement entered into in connection with a tranche of FABN will be structured to meet the Trust’s scheduled payment obligations in full under such FABN.
- When the Trust issues a tranche of FABN, the net proceeds from the issuance will be used to purchase a Funding Agreement from Bankers Life and Casualty Company.
- **The funding agreements will rank *pari passu* to policyholder claims and are backed by the broader general account assets of Bankers Life and Casualty Company.**
- The Trust’s expected ratings are equivalent to Bankers Life and Casualty Company’s existing FSR ratings, as follows:
  - Moody’s: A3 (Stable)
  - S&P: A- (Stable)
  - Fitch: A- (Stable)

# Bankers Life Credit Highlights

Experienced management team with proven track record of success



Well-positioned in the attractive senior market



Diversified product offering



Stable earnings and cash flow generation



Strong balance sheet; positive ratings momentum



High quality and conservative investment portfolio



Robust approach to risk management and governance



Unique scale and mix of distribution capabilities



# Experienced Management Team with a Proven Track Record

Name	Title	Years with CNO	Years in Insurance Sector	Age
<b>Gary C. Bhojwani</b>	Chief Executive Officer	5	31	53
<b>Paul H. McDonough</b>	Chief Financial Officer	2	19	56
<b>Eric R. Johnson</b>	Chief Investment Officer	23	24	60
<b>Bruce K. Baude</b>	Chief Operations and Technology Officer	8	16	56
<b>Matthew J. Zimpfer</b>	General Counsel	23	28	53
<b>Yvonne K. Franzese</b>	Chief Human Resources Officer	3	31	62
<b>John R. Kline</b>	Chief Accounting Officer	30	41	63
<b>Rocco F. Tarasi</b>	Chief Marketing Officer	4	4	49
<b>Karen J. DeToro</b>	Chief Actuary and Chief Risk Officer	2	27	49
<b>Scott L. Goldberg</b>	President, Consumer Division	16	20	50
<b>Michael B. Byers</b>	President, Worksite Division	<1*	N/A	59

\*Mr. Byers was appointed President, Worksite Division effective August 31, 2021.

# CNO At-a-Glance



**\$35.5bn**  
Assets



**\$4.2bn**  
LTM GAAP Total Revenues



**~4,900**  
Agents



**~3,400**  
Employees

## 6/30/2021 Selected Metrics (\$ in millions)

Market Capitalization <sup>(1)</sup>	\$3,027
LTM Net Operating Income <sup>(2)</sup>	\$363
LTM Operating ROE <sup>(2)</sup>	12.3%
LTM Cash Flow from Operating Activities	\$649
Total Shareholders' Equity Ex. AOCI <sup>(2)</sup>	\$3,329
Total Debt / Total Capitalization Ex. AOCI <sup>(2)</sup>	25.5%

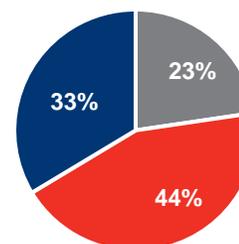
<sup>1</sup>Price as of 8/13/2021 and based on shares outstanding at 7/22/2021.

<sup>2</sup>This is a non-GAAP financial measure. See the Appendix for a reconciliation to the corresponding GAAP measure.

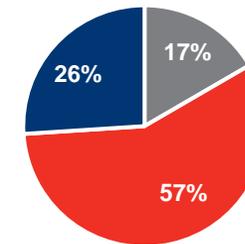
<sup>3</sup>Net insurance liabilities are equal to total insurance liabilities less: (i) amounts related to reinsured business; (ii) deferred acquisition costs; (iii) present value of future profits; and (iv) the value of unexpired options credited to insurance liabilities.

## Product Metrics

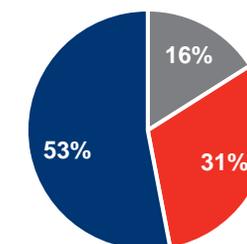
### LTM Collected Premiums



### LTM Insurance Product Margin



### LTM Average Net Insurance Liabilities



■ Life ■ Annuities ■ Health

LTM 2Q21  
Collected Premiums:  
\$3,864mm

LTM 2Q21 Insurance  
Product Margin:  
\$912mm

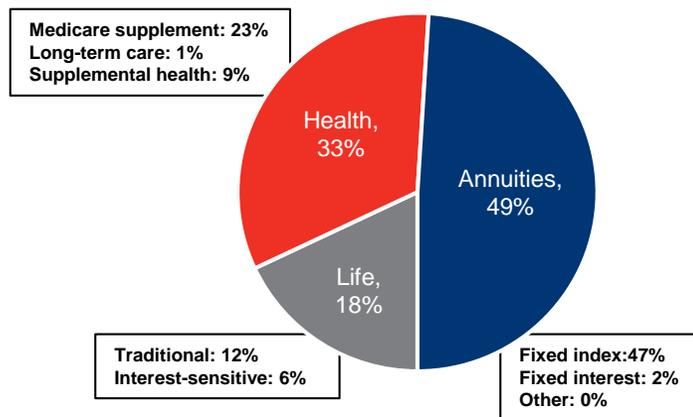
LTM 2Q21 Reserves:  
\$18,446mm <sup>(3)</sup>

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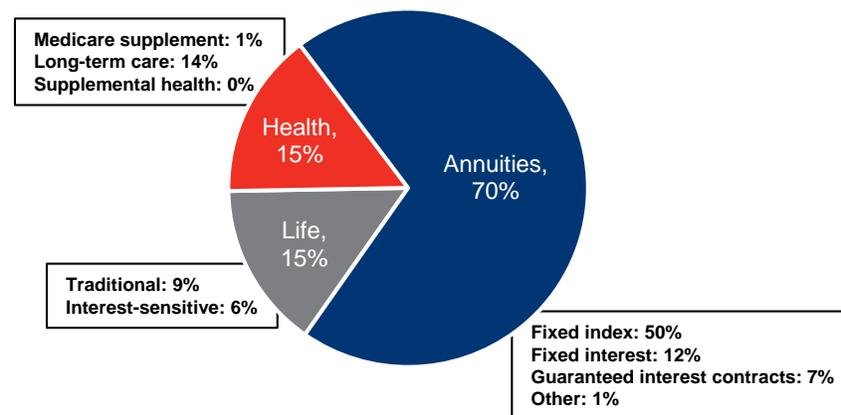
# Bankers Life At-a-Glance

- Established in 1880, Bankers Life focuses exclusively on middle-income Americans at or near retirement.
- Bankers Life offers a diverse mix of protection and accumulation products (Medicare Supplement/Advantage, Supplemental Health, Long-Term Care, Life insurance, and Annuities) with low face amounts, few bells and whistles and attractive and predictable return characteristics.
- Bankers Life comprises 69% of CNO Financial Group's consolidated collected premiums for the LTM ended 6/30/2021 and 71% of CNO Financial Group's consolidated statutory reserves at 6/30/2021.
- With more than 4,400 exclusive field agents, Bankers Life is a Top 10 career agent franchise.
- Agents serve individual consumers, engaging with them on the phone, online, or face-to-face through more than 255 field locations nationwide, or through a combination of sales channels.

**Premiums Collected  
(LTM ended 6/30/2021)**



**Statutory Reserves  
(as of 6/30/2021)**

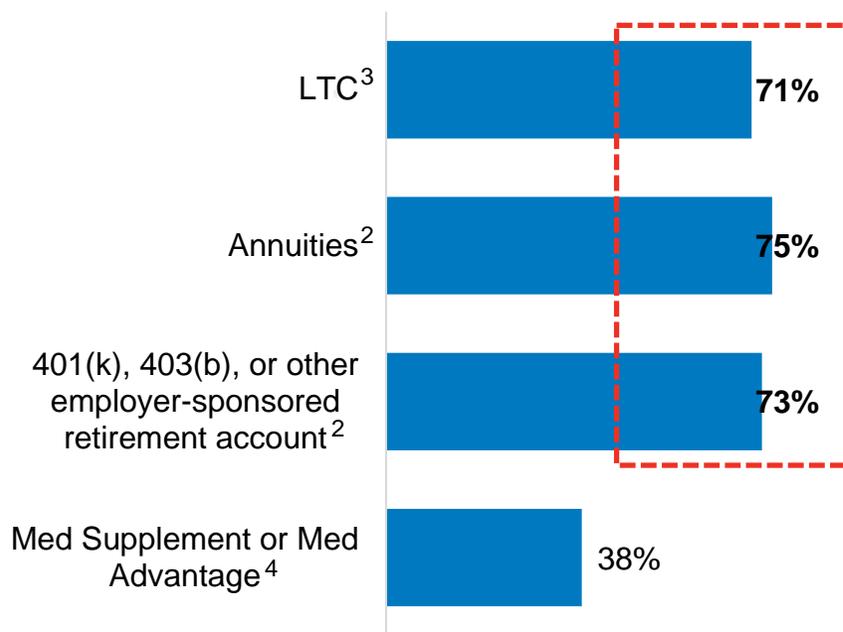


Rating Agency	Financial Strength	Outlook
<b>MOODY'S</b>	A3	Stable
<b>S&amp;P Global Ratings</b>	A-	Stable
<b>Fitch Ratings</b>	A-	Stable
<b>A.M. Best</b>	A-	Positive

# Bankers Life is Well-Positioned in the Attractive Senior Middle Market

~45% of middle-income households have no life insurance<sup>1</sup>; ~55% of baby boomers lack financial advisors<sup>2</sup>

## Percentage of Population Age 65+ without a Financial Product



## Bankers Life Solutions

- Extensive experience and understanding of the middle market.
- Differentiated with our market vs. product focus.
- Diversification of products and distribution provides sustainable competitive advantage.
- Positioned to help customers to address main concerns of outliving their assets and dealing with rising healthcare costs as they age.

<sup>1</sup>LIMRA 2021 Barometer Study

<sup>2</sup>2021 Forrester Analytics Technographics

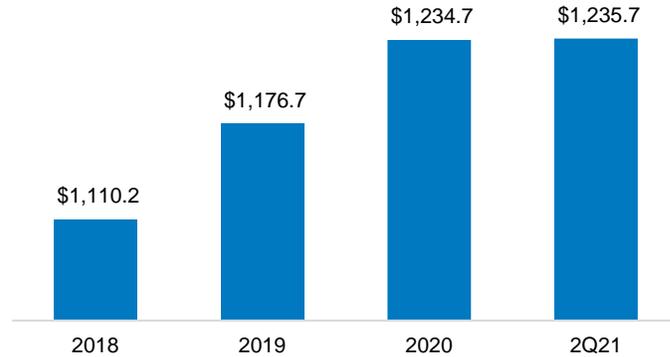
<sup>3</sup>LIMRA 2021 Consumer Perspective on Long Term Care and Insurance; includes all age ranges, not just 65+

<sup>4</sup>Medicare Market Competition, Mark Farrah 2020, Year Over Year Medicare Supplement Market Snapshot and Plan Performance Insight, Mark Farrah 2021; includes people who are eligible for Medicare due to disability, not just 65+

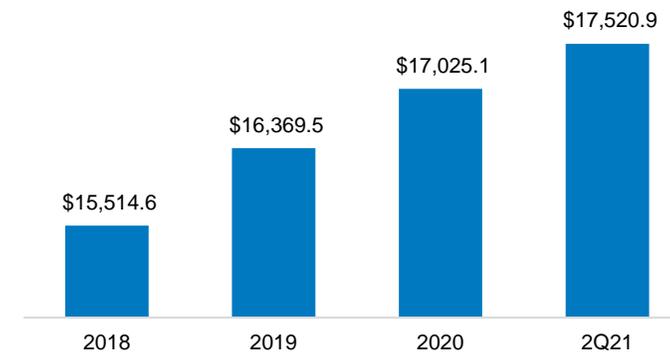
# Bankers Life Key Financial Metrics

(dollars in millions)

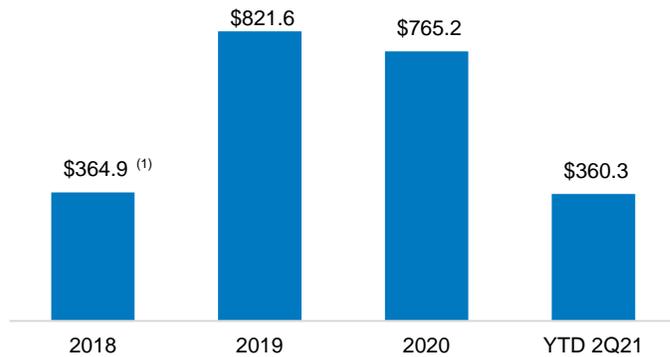
## Capital and Surplus



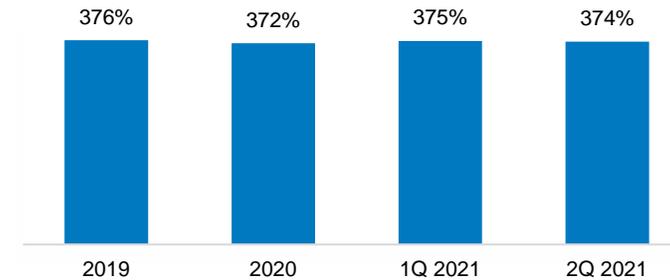
## Admitted Assets



## Net Cash From Operations



## RBC Ratio<sup>(2)</sup>



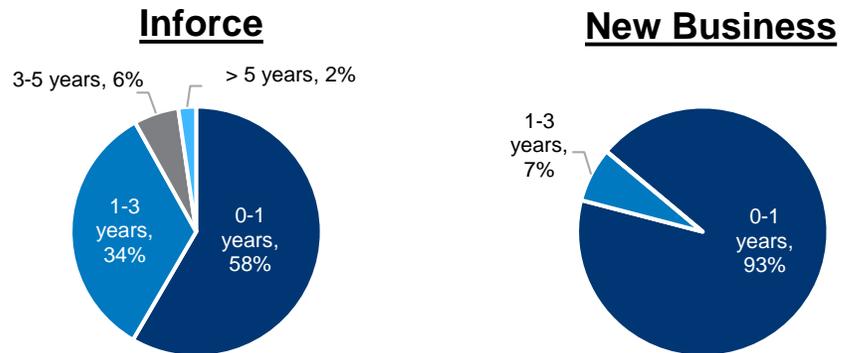
<sup>(1)</sup> Unfavorable \$365 million impact from LTC reinsurance transaction in 2018.

<sup>(2)</sup> In June 2021, among other things, the NAIC adopted new bond factors to be used in determining RBC effective December 31, 2021. The estimated impact of these changes, based on Bankers Life's investment portfolio on December 31, 2020, is a reduction in the RBC ratio of approximately 12 percentage points (which is equivalent to approximately \$50 million of capital).

# Bankers Life's Risk Profile was Significantly Improved by the 2018 LTC Reinsurance Transaction

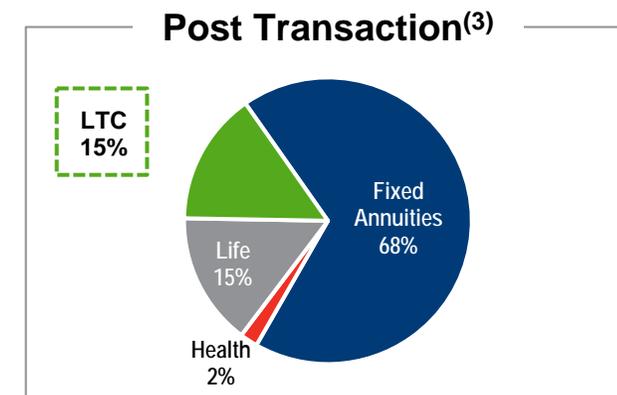
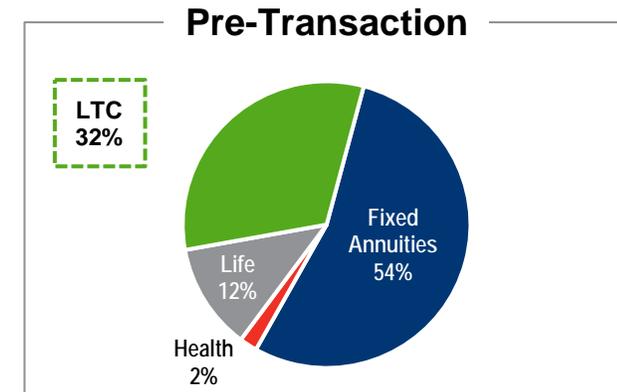
- September 2018, Bankers Life ceded all pre-2003 comprehensive and nursing home long-term care reserves to Wilton Re.
  - Business ceded was the most volatile.
- New sales (~\$25 million annually) focused on short duration products; average is 11 months.
- New business 25% reinsured since 2009.
- Reserve assumptions informed by historical experience.
  - No morbidity or mortality improvement, minimal future rate increases.
- Favorable economic profile

## Duration of LTC Benefit Periods<sup>(1)</sup>



<sup>(1)</sup> By policy count

## Reserve Composition<sup>(2)</sup>



<sup>(2)</sup> Reserve net of reinsurance

<sup>(3)</sup> As of June 30, 2021

# Established Investment Track Record

1

FA program is complementary with our core investment strengths.

2

Deep and tenured investment team.

3

We have disciplined asset-liability duration and cash flow management processes.

4

We combine third party managers with our own internal strategic oversight to gain access to highly specialized assets (e.g., private credit).

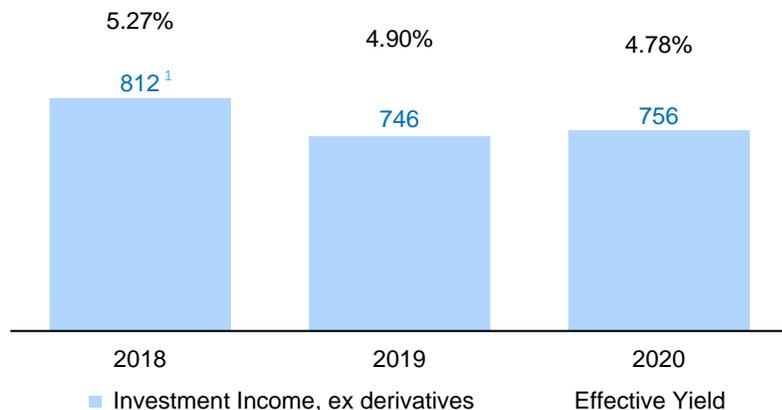
5

We are committed to long term program success: consistency and quality take precedence over scale for its own sake.

# Bankers Life's Investment Strategy

## Stable Investment Results

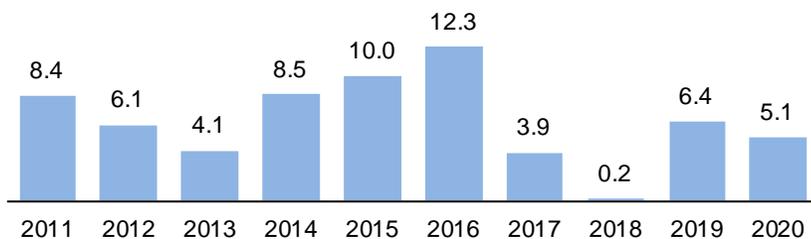
(dollars in millions)



<sup>1</sup> Includes \$46 million of investment income on assets that were transferred in a reinsurance transaction effective April 1, 2018.

## Consistently Low Credit Impairments

(Credit impairments as % of average invested assets and cash, expressed in basis points)



## Conservative Investment Risk Appetite

ALM	Each line of business 'owns' a segmented portfolio with appropriate A-L match and KR D limits.
ESG	ESG is an <u>integrated</u> part of our investment process, which we use to identify and mitigate risk and assess relative value.
Concentration	Our investment guidelines impose conservative single asset limits.
Liquidity	We measure expected asset and liability cashflows and manage their relationship.
Credit	Highly diversified portfolio with average rating of single A.
High Risk Assets	We have specific boundaries on the amount of HRA we will own.

# Risk Governance Controls and Oversight

## Prudent issuance

We do not aim to be the biggest in the market, but to scale in line with the size of our balance sheet, our ratings, and growth plans.

## Disciplined return thresholds

We intend to run the program under return thresholds in line with product management objectives.

## Diversified and conservative investment strategy

Program will have asset concentration limit of 2.5% during ramp-up and 1.0% thereafter. Target asset allocation in the A- rating range.

## ESG

Current principles and guidelines will be integrated into the FABN program.

## ALM

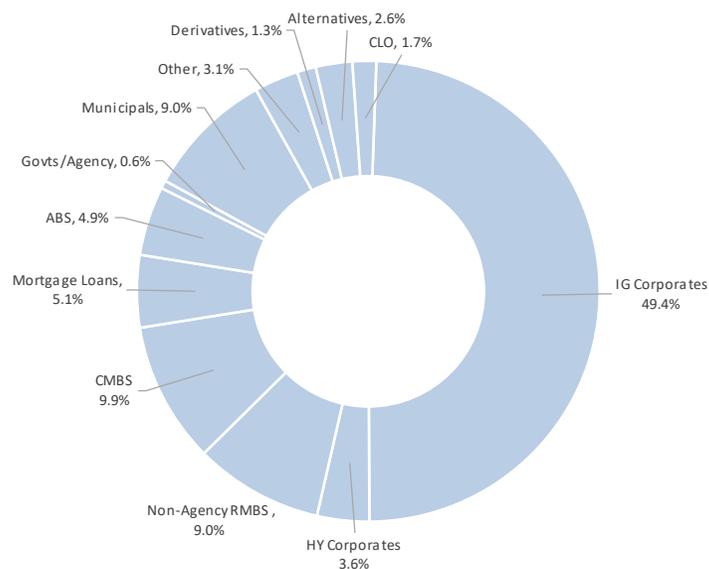
Existing ALM program across product lines demonstrates commitment to conservative practices.

- FABN program subject to ALM duration match of +/- 0.25 years.
- KRDs at the series level.
- Program assets and liabilities to be managed separately from other Bankers Life activities: Will form a 'closed system' where support from Bankers Life to cover fixed charges will not be needed. FABN program will be internally capitalized consistent with enterprise target RBC level.

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# Bankers Life's Investment Portfolio Highlights

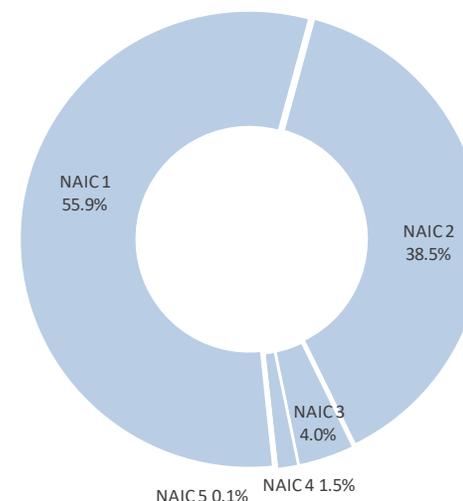
## \$19 billion of Invested Assets<sup>1</sup>



- **\$19 billion of assets with a high degree of liquidity.**
  - ~\$9.7 billion public corporate bonds.
  - ~\$4.7 billion structured securities.
  - ~\$1.8 billion municipal, political subdivisions, and U.S. and foreign government bond.
- Disciplined ALM guidelines as part of institutional ERM process.

<sup>1</sup> All figures are based on fair value as of 06/30/21.

## Fixed Maturity Securities by Ratings<sup>1</sup>



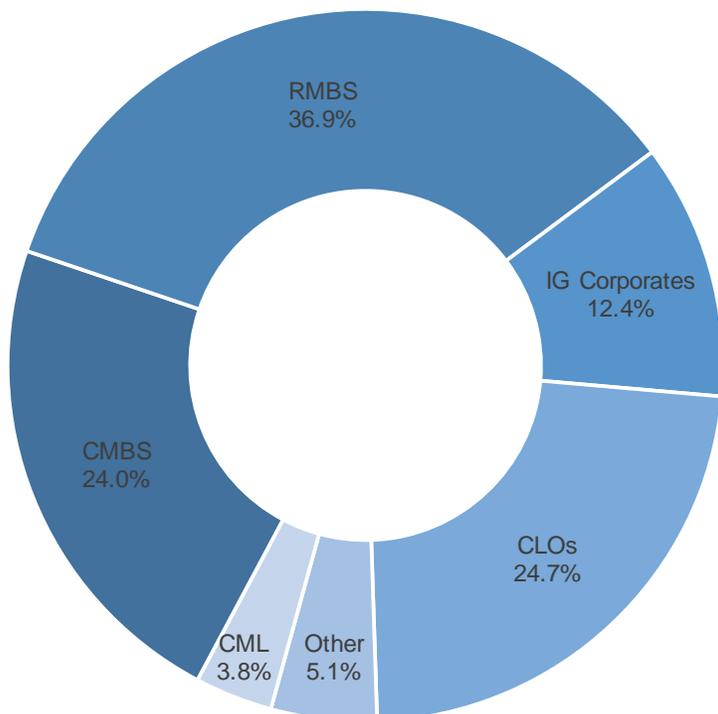
- **Strong credit risk profile.**
  - 94% rated NAIC 1 / 2.
  - Diversified commercial and residential mortgages with favorable performance metrics which are well margined and exhibit strong operating characteristics. No delinquencies.
  - Significant credit enhancement in structured products.
  - 10% of portfolio reallocated 'up in quality' from BBB rated securities to A or better since June 30, 2018.

# Proven Experience Managing Institutional Funding Program

(as of 6/30/2021)

## FHLB Asset Allocation

Stable asset allocation and strong A-L matching has produced stable investment income.



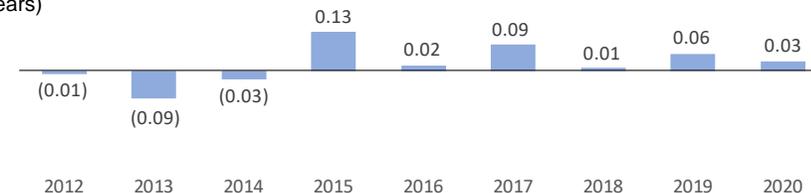
## Stable annual FHLB earnings

(dollars in millions)

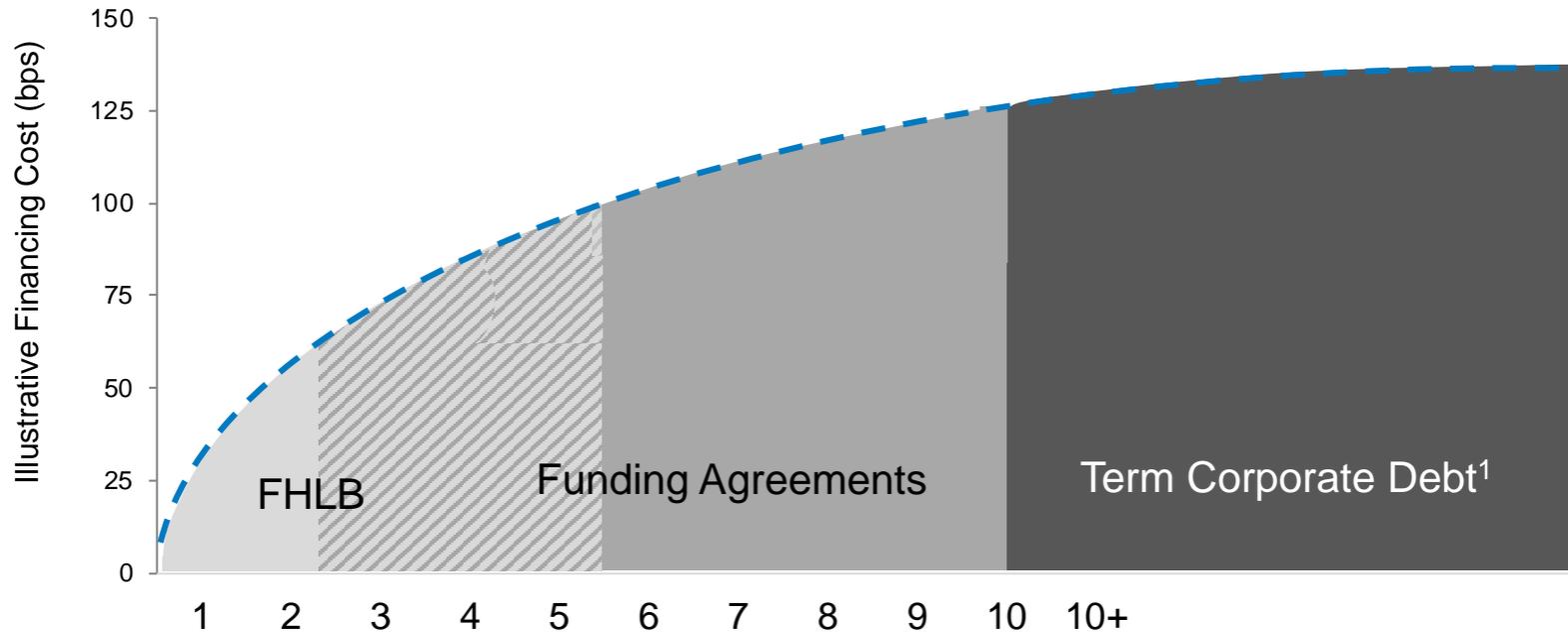


## FHLB managed to tight ALM match

(Duration/Years)



# Funding Agreements are Complementary to Existing FHLB Program



- FHLB and FA programs draw on substantially similar investment capabilities, albeit at different curve points hence differing asset allocation strategies.
- Combination provides for funding diversification.
- FHLB is competitively superior at short end and for floating rate pricing. FHLB has effective constraints of availability beyond 5-year maturities.
- FA (unsecured) mitigates issues related to FHLB collateral availability.

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# CNO 2020 ESG Accomplishments



## Environmental

- Performed GHG emissions inventory.
- Established GHG emissions reduction target.
- Earmarked more than \$100 million for new impact investments.



## Social

- Advanced DE&I programs.
- Linked DE&I progress to executive compensation.
- Augmented associate benefits.



## Governance

- Implemented responsible investment policy.
- Enhanced policies that promote ethical and responsible business practices.
- Formed CNO Council on Sustainability.



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# Concluding Remarks

## Differentiated Company

- Attractive opportunity in underserved market of middle-income Americans at or near retirement.
- Differentiated distribution platforms; significant opportunity to generate synergies.
- Diversified and unique product portfolio.
- Strong management team with extensive experience.

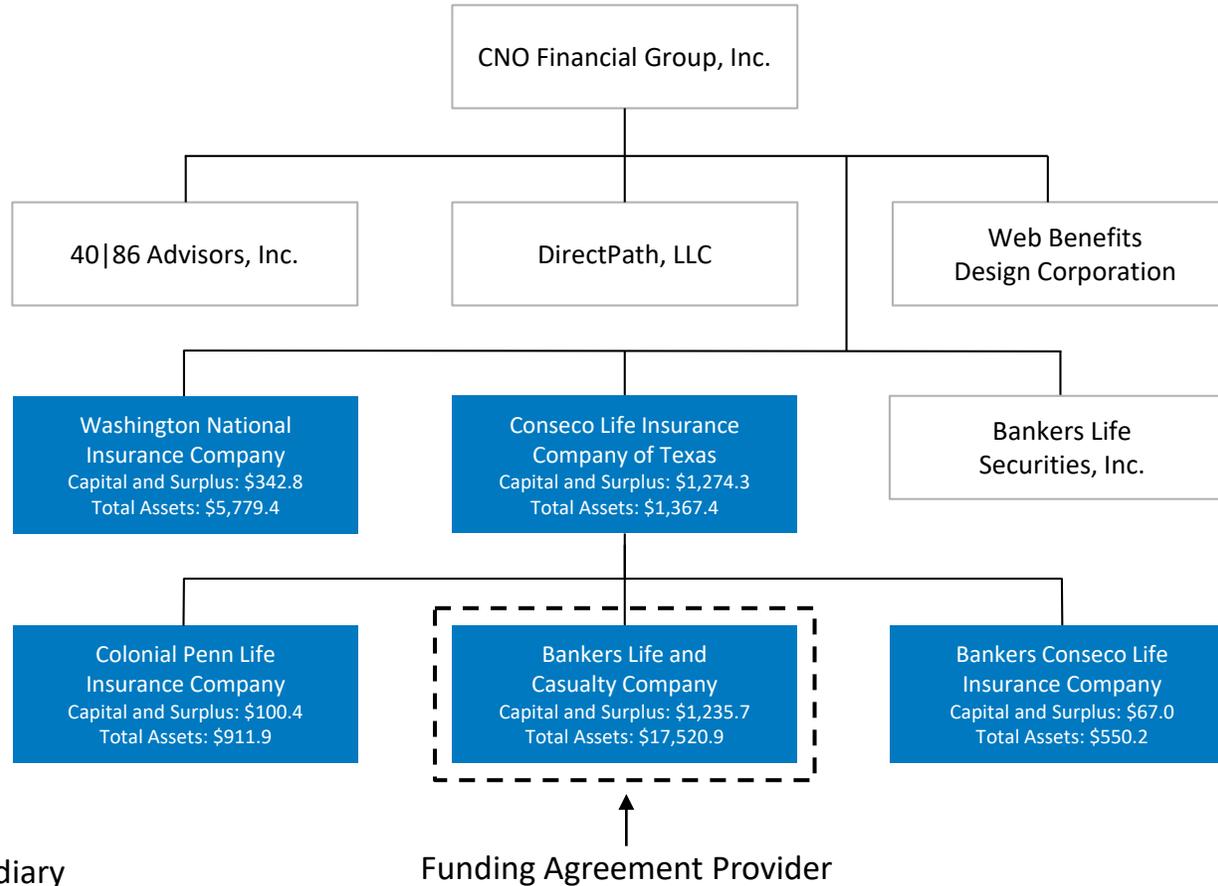
## Credit Strengths

- Well-positioned in core middle market, with sustainable growth initiatives.
- Attractive liability portfolio with active risk management.
- High quality investment portfolio positioned for uncertain interest rate environment.
- Stable financial performance.
- Favorable demographic tailwinds.
- Strong cash flow generation.

# Appendix

# Summary Organization Structure

(only includes primary operating subsidiaries; dollars in millions)



# Bankers Life Statutory Financial Highlights

	Six months ended		% change	Years ended December 31,			% change	
	June 30,			2020	2019	2018	2020	2019
(dollars in millions)								
<b>Statement of operations data</b>								
<b>Revenue:</b>								
Premiums	\$ 1,353.0	\$ 1,211.8	12%	\$ 2,508.0	\$ 2,650.5	\$ 2,559.2	(5)%	4%
Net investment income (including IMR amortization)	501.5	293.8	71%	796.7	901.4	779.3	(12)%	16%
Other income	9.2	20.5	(55)%	37.6	44.8	19.6	(16)%	129%
<b>Total revenue</b>	<b>1,863.7</b>	<b>1,526.1</b>	<b>22%</b>	<b>3,342.3</b>	<b>3,596.7</b>	<b>3,358.1</b>	<b>(7)%</b>	<b>7%</b>
<b>Benefits and expenses:</b>								
Policy benefits	974.9	977.5	-%	1,831.4	1,979.1	2,025.2	(7)%	(2)%
Change in policy benefit reserves	428.0	137.2	212%	597.6	734.3	(2,358.3)	(19)%	n/m
Commissions and operating expenses	336.2	307.0	10%	651.2	644.7	626.3	1%	3%
Transfer of reserves under coinsurance ceded agreement	-	-	-%	-	0.5	2,609.8	n/m	n/m
Ceding commission paid under coinsurance ceded agreement	-	-	-%	-	-	825.0	n/m	n/m
Transfer of IMR under coinsurance agreement in excess of balance released	-	-	-%	-	-	15.2	n/m	n/m
<b>Total benefits and expenses</b>	<b>1,739.1</b>	<b>1,421.7</b>	<b>22%</b>	<b>3,080.2</b>	<b>3,358.6</b>	<b>3,743.2</b>	<b>(8)%</b>	<b>(10)%</b>
Income (loss) from operations before taxes	124.6	104.4	19%	262.1	238.1	(385.1)	10%	n/m
Income tax expense (benefit)	45.4	(145.2)	n/m	(89.9)	(1.3)	(45.0)	n/m	(97)%
Income (loss) from operations before realized gains (losses)	79.2	249.6	(68)%	352.0	239.4	(340.1)	47%	n/m
Net realized capital gains (losses), net of tax and transfer to IMR	(1.0)	(13.0)	(92)%	(12.5)	(13.5)	40.2	(7)%	n/m
<b>Net income (loss)</b>	<b>\$ 78.2</b>	<b>\$ 236.6</b>	<b>(67)%</b>	<b>\$ 339.5</b>	<b>\$ 225.9</b>	<b>\$ (299.9)</b>	<b>50%</b>	<b>n/m</b>

n/m - not meaningful

# Bankers Life Statutory Financial Highlights

					% change		
	June 30, 2021	2020	December 31, 2019	2018	2021	2020	2019
(dollars in millions)							
<b>Balance sheet</b>							
<b>Assets:</b>							
General account cash and investments	\$ 16,881.5	\$16,384.9	\$15,784.7	\$14,917.0	3%	4%	6%
Premiums due and deferred	70.4	66.2	63.4	64.4	6%	4%	(2)%
Accrued investment income	135.6	130.5	131.8	132.2	4%	(1)%	-%
Net tax assets	195.9	191.7	159.4	167.9	2%	20%	(5)%
Cash surrender value of company-owned life insurance	207.9	209.7	194.0	171.7	(1)%	8%	13%
Other assets	29.6	42.1	36.2	61.4	(30)%	16%	(41)%
<b>Total assets</b>	<b>\$ 17,520.9</b>	<b>\$17,025.1</b>	<b>\$16,369.5</b>	<b>\$15,514.6</b>	<b>3%</b>	<b>4%</b>	<b>6%</b>
<b>Liabilities:</b>							
Reserves for policy benefits	\$ 15,312.4	\$14,891.4	\$14,353.4	\$13,623.3	3%	4%	5%
Interest maintenance reserve	241.0	233.4	240.8	241.2	3%	(3)%	-%
Asset valuation reserve	245.9	223.1	217.8	170.0	10%	2%	28%
Other liabilities	485.9	442.5	380.8	369.9	10%	16%	3%
<b>Total liabilities</b>	<b>16,285.2</b>	<b>15,790.4</b>	<b>15,192.8</b>	<b>14,404.4</b>	<b>3%</b>	<b>4%</b>	<b>5%</b>
<b>Capital and surplus:</b>							
Common stock	10.0	10.0	10.0	10.0	-%	-%	-%
Paid-in surplus	968.6	968.6	968.6	968.6	-%	-%	-%
Unassigned funds	257.1	256.1	198.1	131.6	-%	29%	51%
<b>Total capital and surplus</b>	<b>1,235.7</b>	<b>1,234.7</b>	<b>1,176.7</b>	<b>1,110.2</b>	<b>-%</b>	<b>5%</b>	<b>6%</b>
<b>Total liabilities and capital and surplus</b>	<b>\$ 17,520.9</b>	<b>\$17,025.1</b>	<b>\$16,369.5</b>	<b>\$15,514.6</b>	<b>3%</b>	<b>4%</b>	<b>6%</b>
<b>Total adjusted capital (TAC) (1)</b>	<b>\$ 1,481.6</b>	<b>\$ 1,457.8</b>	<b>\$ 1,394.5</b>	<b>\$ 1,280.3</b>	<b>2%</b>	<b>5%</b>	<b>9%</b>

(1) TAC is a measure of regulatory capital adequacy which includes capital and surplus, and AVR

# 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 "Investors – SEC Filings" section of CNO's website, [www.CNOinc.com](http://www.CNOinc.com).

## Operating earnings measures

Management believes that an analysis of net income applicable to common stock before net realized investment gains or losses from sales, impairments and change in allowance for credit losses, net change in market value of investments recognized in earnings, 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, loss on extinguishment of debt, changes in the valuation allowance for deferred tax assets and other tax items and other non-operating items consisting primarily of earnings attributable to variable interest entities ("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.

# Information Related to Certain Non-GAAP Financial Measures

The components of our operating earnings and a reconciliation of operating earnings to net income for the twelve months ended June 30, 2021, is presented below (dollars in millions):

	3Q2020	4Q2020	1Q2021	2Q2021	Twelve months ended June 30, 2021
Insurance product margin:					
Annuity	\$ 45.3	\$ 68.1	\$ 57.9	\$ 66.0	\$ 237.3
Health	152.2	125.2	124.7	120.9	523.0
Life	47.3	37.3	27.1	39.7	151.4
Total insurance product margin	244.8	230.6	209.7	226.6	911.7
Allocated expenses	(130.3)	(162.7)	(141.1)	(141.6)	(575.7)
Income from insurance products	114.5	67.9	68.6	85.0	336.0
Fee income	0.8	2.9	7.3	6.6	17.6
Investment income not allocated to product lines	43.7	57.8	43.0	47.8	192.3
Expenses not allocated to product lines	(13.7)	(17.8)	(22.0)	(23.8)	(77.3)
Operating earnings before taxes	145.3	110.8	96.9	115.6	468.6
Income tax expense on operating income	(32.7)	(24.8)	(21.7)	(26.5)	(105.7)
Net operating income	112.6	86.0	75.2	89.1	362.9
Net realized investment gains from sales, impairments and change in allowance for credit losses (net of related amortization)	7.7	12.6	3.6	24.3	48.2
Net change in market value of investments recognized in earnings	8.5	6.0	(6.4)	5.7	13.8
Fair value changes in embedded derivative liabilities (net of related amortization)	(1.6)	16.3	82.1	(44.9)	51.9
Fair value changes related to agent deferred compensation plan	-	(3.1)	13.2	-	10.1
Other	6.5	0.9	0.6	0.9	8.9
Non-operating income (loss) before taxes	21.1	32.7	93.1	(14.0)	132.9
Income tax expense (benefit) on non-operating income	4.5	6.9	20.9	(2.9)	29.4
Net non-operating income (loss)	16.6	25.8	72.2	(11.1)	103.5
Net income	\$ 129.2	\$ 111.8	\$ 147.4	\$ 78.0	\$ 466.4

# Information Related to Certain Non-GAAP Financial Measures

## Operating return measures

Management believes that an analysis of net income applicable to common stock before net realized investment gains or losses from sales, impairments and change in allowance for credit losses, net change in market value of investments recognized in earnings, 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, loss on extinguishment of debt, changes in the valuation allowance for deferred tax assets and other tax items, loss on extinguishment of debt and other non-operating items consisting primarily of earnings attributable to variable interest entities ("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.

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.

# Information Related to Certain Non-GAAP Financial Measures

The calculations of: (i) operating return on equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure); and (ii) return on equity are as follows for the twelve months ended June 30, 2021 (dollars in millions):

	Twelve months ended June 30, 2021
Operating income	<u>\$ 362.9</u>
Net income	<u>\$ 466.4</u>
Average common equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	<u>\$ 2,947.7</u>
Average common shareholders' equity	<u>\$ 5,114.1</u>
Operating return on equity, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	12.3%
Return on equity	9.1%

(Continued on next page)

# Information Related to Certain Non-GAAP Financial Measures

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

	<u>2Q20</u>	<u>3Q20</u>	<u>4Q20</u>	<u>1Q21</u>	<u>2Q21</u>	Trailing Four Quarter Average 2Q21
Consolidated capital, excluding accumulated other comprehensive income (loss) and net operating loss carryforwards (a non-GAAP financial measure)	\$ 2,784.2	\$ 2,905.1	\$ 2,956.2	\$ 3,019.5	\$ 3,035.6	\$ 2,947.7
Net operating loss carryforwards	426.8	377.2	341.9	323.1	292.9	350.5
Accumulated other comprehensive income	1,520.2	1,801.6	2,186.1	1,518.1	1,995.5	1,815.9
Common shareholders' equity	<u>\$ 4,731.2</u>	<u>\$ 5,083.9</u>	<u>\$ 5,484.2</u>	<u>\$ 4,860.7</u>	<u>\$ 5,324.0</u>	<u>\$ 5,114.1</u>

# Information Related to Certain Non-GAAP Financial Measures

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

The debt to capital ratio, excluding accumulated other comprehensive income (loss), differs from the debt to capital ratio because accumulated other comprehensive income (loss) 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 (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. A reconciliation of these ratios is as follows (dollars in millions):

	2Q21
Corporate notes payable	\$ 1,136.9
Total shareholders' equity	5,324.0
Total capital	\$ 6,460.9
Corporate debt to capital	17.6%
<hr/>	
Corporate notes payable	\$ 1,136.9
Total shareholders' equity	5,324.0
Less accumulated other comprehensive income	(1,995.5)
Shareholders' equity, excluding AOCI	3,328.5
Total capital	\$ 4,465.4
Debt to total capital ratio, excluding AOCI (a non-GAAP financial measure)	25.5%