



**ROYAL BANK OF CANADA**

Royal Bank of Canada (RY) acquires Liberty Life and Liberty Insurance Services from Liberty Corporation

Expanding RY's North American insurance platform

Highlights for the investment community

June 19, 2000

1

## Table of contents

	<u>Chart #</u>
• Acquisition of Liberty Life & Liberty Insurance Services	2
• What are Liberty Life & Liberty Insurance Services?	3-7
• Opportunities & benefits	8-11
• Summary of transaction	12
• Liberty's insurance strategy	13
• Liberty facts	14-15
• Liberty insurance highlights	16-18



## Acquisition of Liberty Life & Liberty Insurance Services

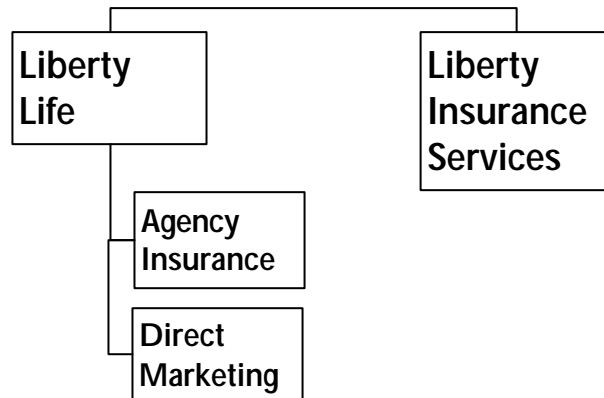
- RY to acquire Liberty Life and Liberty Insurance Services (the insurance operations of Liberty Corporation) for approximately US \$580 million
- Acquisition includes all subsidiaries related to the life insurance operations
- Liberty provides RY a platform in the US to expand into other forms of insurance and distribution, a stable earnings stream, a presence in the growing direct business, and a significant presence in the emerging fee-based administration business



## What are Liberty Life & Liberty Insurance Services?

- A life and health insurance company and a full-service administration company, respectively – subsidiaries of Liberty Corp (NYSE symbol: LC)
- Together, these companies have approximately 1,500 employees and career sales agents
- A well-known established brand in the Southeastern US insurance market
- A leading direct marketer of life insurance in the US
- A premier third party administration company for individual life policies in the US

## Liberty's insurance structure



## Liberty Life's Agency Insurance - a leading player in the Southeast

- Agency operation consists of a 625-person proprietary salesforce and related sales support functions
- Salesforce distributes proprietary traditional life products and specialized products underwritten by other carriers
- Business is concentrated in six southeastern US states with a population of 27 million and operates from 38 branches
- Approximately 1.7 million inforce policies issued by Liberty Life's agency business that are spread over approximately 700,000 households
- Focuses on mid-market customer (household income of US\$25,000 - 75,000) representing 48% of US households
- Agents are incented to promote retention and to deepen relationships by providing additional products
- Recently improved salesforce efficiency by eliminating 500 low performers and the middle layer of sales management



## Liberty Life's Direct Marketing - leveraging alliances to grow

- Markets insurance products to the customers of other organizations and provides services to support its marketing activities
- Offerings tailored to specific customer niches, including mortgage servicers, community banks, credit cards, etc.
- Has relationships with 12 of the 15 largest mortgage servicing organizations in the US and over 1,000 other financial companies - primarily community banks
- Sells term life and health products, accidental death insurance and other types of simple insurance products
- A premier direct marketing insurance organization in the US - largest markets are California and Texas
- Has approximately 660,000 policyholders
- Annually solicits approximately 8 million individuals through low cost distribution platform – channels include direct mail and telemarketing



## Liberty Insurance Services - a leading third party life administrator in the US

- Provides administration services (underwriting, billing and collection, claims processing and investment management) to other insurers
- Administration contracts are usually for a term of five years with options to renew - almost flawless retention rate
- Market expected to grow as rationalization occurs among US life insurers. Three markets for potential growth are:
  - large financial buyers that want to consolidate operations through acquisitions, but have no infrastructure to administer policies,
  - reinsurers that are only interested in retaining the mortality risk and not administering policies, and
  - "marketing companies" that only want to own the infrastructure required to distribute products
- Generates revenues through fees for policy administration, consulting and conversion services
- Administers more than 4.4 million policies for internal and third-party customers

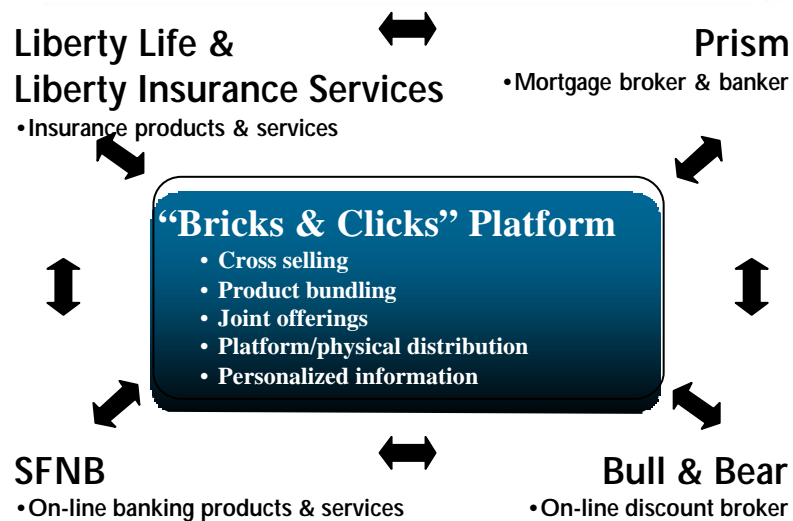


## Liberty acquisition provides significant opportunities

- New US regulatory regime gives RY opportunities to combine insurance and banking activities that do not exist in Canada as a result of different regulations
- Salesforce can distribute wealth management products
- Provides infrastructure to expand into the general agency market that concentrates on affluent clients
- RY will be able to bring its domestic expertise in Canadian creditor and other insurance programs
- RBC Insurance can continue its acquisition strategy focussing on expense and growth synergies



## Fuller US platform offers growth opportunities for RY...





## ...such as:

- Liberty Life and Liberty Insurance Services could provide insurance products and services to SFNB and Prism Financial customers
- Bank products such as cards, loans and mortgages could be marketed to the holders of Liberty Life's 1.7 million policies
- Liberty Life's captive salesforce could be leveraged as a distribution vehicle for bank products
- Liberty Life's relationships with mortgage services firms can be used to improve product offerings by mortgage originators, such as Prism, through product bundling
- The Liberty Life salesforce can be trained to sell wealth management products so that the customer base can expand out of the mid-market range



## Benefits of the acquisition

- Allows RY to participate in the emerging direct marketing insurance business as a market leader
- Strong growth potential from third party administration business as small companies are expected to look to outsourcing as a way to reduce expenses and gain scale
- Positions RY to be able to generate strong earnings through fee based insurance activities, without competing directly with larger lifecos in some businesses
- Acquiring an inforce block of individual life insurance policies that generate steady earnings – therefore reducing the risk of the acquisition
- Liberty Life and Liberty Insurance Services are unencumbered by legacy systems



## Summary of transaction

- Total acquisition cost – US \$580 MM
- Expected closing – September 30, 2000
- Accounting treatment – Purchase method
- Goodwill on transaction (US GAAP) – Approximately US \$80 MM, amortized over 15 years
- Purchase price to book ratio – 1.2x adjusted book value ratio
- Impact on EPS – Accretive in 2000
- Impact on cash EPS – Accretive in 2000
- Conditions – Subject to regulatory and other approvals



## Liberty's strategy

- Liberty Life maintains a growing portfolio of products and services designed to make their customers' lives simpler, easier and financially more secure
- Liberty Life's Agency division utilizes modern technology to support what is still the most effective way to sell life insurance – building trust and identifying needs face-to-face
- LibertyDirect<sup>SM</sup> uses integrated, interactive direct response programs to help companies drive revenues and build brand loyalty. Marketing solutions from LibertyDirect feature insurance products and are custom-tailored to a client's image and customers
- Liberty Insurance Services focuses on removing the burdens of policy administration without sacrificing their clients' level of control. They manage administration efficiently, while reducing expenses and taking care of business processing to allow clients to concentrate on new business growth. They use the most effective, best-of-breed technology to satisfy client needs while providing quality service

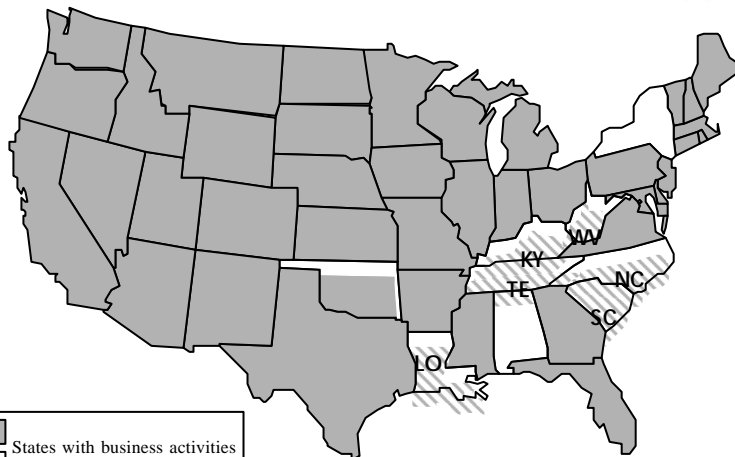


## Liberty facts

- Website:
  - [www.libertycorp.com](http://www.libertycorp.com)
- Headquarters: Greenville, South Carolina
- Founded: 1905
- Employees: Over 1,500
- President: Hayne Hipp



## Focussed in the Southeast



■ States with business activities  
▨ States with agency salesforce  
□ States with agency salesforce



## Liberty financial highlights

### Liberty Life and Liberty Insurance Services - historical performance

(US \$ millions)	<u>Q1/00</u>	<u>1999</u>	<u>1998</u>
Earnings from operations*	\$9.4	\$36	\$31
Assets	\$1,963	\$2,030	\$2,085
Shareholders equity	\$479	\$476	\$505

\*after tax earnings excluding realized gains and losses on investments. In Q1/99, earnings from operations were \$5.4 million.



## Liberty segment highlights

(1999 - US \$ millions)	<u>Liberty Life Agency</u>	<u>Liberty Life Direct</u>	<u>Liberty Insurance Services</u>	<u>Net Corporate &amp; other</u>	<u>Total Insurance</u>
Revenues	\$204	\$118	\$62	\$52	\$436
Expenses	\$189	\$109	\$58	\$40	\$396
Net income before tax	\$16	\$9	\$3	\$12	\$40
Net income					\$28
Assets	\$1,420	\$77	\$11	\$522	\$2,030



## Caution

This presentation may contain certain forward looking statements with respect to Royal Bank's, Liberty Life's and Liberty Insurance Services' financial condition, results of operations, and strategies and objectives for the coming year(s). By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward looking statements will not be achieved. Royal Bank cautions readers not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements. These factors include, but are not limited to, changes in North American and/or global economic conditions including fluctuations in currencies, interest rates and inflation, regulatory developments, technological changes, the effects of competition in the geographic and business areas where the bank operates. Royal Bank cautions that the foregoing list of important factors is not exhaustive; when relying on forward looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and events.