



# Allmerica Financial Corporation

---

## **Sale of Variable Life and Annuity Business**

**To be read only in conjunction with the conference call  
scheduled for August 23, 2005.**



# Forward-looking Statements

All statements in this power point slide presentation, accompanying press release and conference call, other than statements of historical fact, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition to the risks and uncertainties noted in this release or in such conference call, there are certain factors that could cause actual results to differ materially from those anticipated by the press release, slide presentation and statements made. These include: (1) the successful consummation of the transactions with Goldman Sachs in a timely manner; (2) the various conditions to the consummation of such transactions being satisfied or waived without the imposition of material burdens or expenses; (3) the required regulatory approvals of the transactions being obtained in a timely manner without the imposition of any material restrictions or burdens, and regulatory approval for future dividend requests from FAFLIC; (4) the uncertainties as to the gross or net proceeds to be received by AFC, including the uncertainty as to the effects of the various purchase price adjustments and expenses incurred by AFC; (5) the shareholder approval of the AIT Fund reorganization; (6) the successful and timely execution of the anticipated repurchase program; (7) the ability to realize post-closing earnings for the property-casualty segment that are taxable and make FAFLIC's tax attributes valuable; (8) the ability to timely achieve overhead and other expense savings; (9) the ability of AFC and FAFLIC to perform the transitional services in connection with the transactions without incurring unexpected expenses and the completion of the transitional services within the projected time so that the company can realize projected cost savings; (10) the uncertainties of the purchase price hedge to effectively hedge the purchase price as currently estimated and at a cost consistent with expectations; (11) the impact of policyholder surrenders on the purchase price adjustment, which are not hedged, and the impact that this announcement or any financial strength rating actions triggered by this announcement could have on surrenders between the date hereof and the closing; (12) the impact of contingent liabilities, including litigation and regulatory matters, assumed by the holding company in connection with the transaction; (13) the ability to outsource the administration of the retained FAFLIC businesses at projected rates; (14) the statutory results of operations of the Life Companies segment until close, which will impact the statutory surplus of AFLIAC and consequently the ultimate purchase price; and (15) the future statutory operating results of FAFLIC, which will affect projected statutory adjusted capital.

Forward-looking statements are not guarantees of future performance, and actual results could well differ materially. Investors should consider these and other risks and uncertainties in our business that may affect future performance (including Life Companies operations) and that are discussed in readily available documents, including Allmerica's Annual Report on Form 10-K, quarterly reports on Form 8-K and other documents filed by Allmerica with the Securities and Exchange Commission and which are also available at [www.allmerica.com](http://www.allmerica.com) under "Investor Relations".



# Transaction Overview

- ◆ Sale of VA and VUL business to The Goldman Sachs Group.
- ◆ Projected proceeds related to the sale of approximately \$345 million.
- ◆ In conjunction with the sale, we will seek regulatory approval for \$40 million dividend from remaining life company (FAFLIC).
- ◆ Projected GAAP after tax loss on the sale is expected to be approximately \$385 million in 2005 and \$15 million in 2006.
- ◆ Transaction is currently projected to close November 30, 2005.
- ◆ Remaining traditional life business of FAFLIC is projected to have approximately \$175 million in statutory total adjusted capital post-transition.



## Form of Transaction

- ◆ Sale of AFLIAC legal entity, which contains most of the VA and VUL business – \$10 billion in Account Value.
- ◆ Transfer of remaining VA and VUL business which is contained in FAFLIC via reinsurance – \$0.6 billion in Account Value.
- ◆ Transfer of Allmerica Investment Trust (AIT) assets and liabilities via fund reorganization into the Goldman Sachs Variable Insurance Trust.



# Major Terms

- ◆ Total projected proceeds of approximately \$385 million:
  - \$345 million projected proceeds related to the sale transaction
    - ◆ \$310M related to sale of AFLIAC
    - ◆ \$ 9M related to reinsurance of FAFLIC business
    - ◆ \$ 26M related to transfer of AIT Funds and sale of AFIMS
  - \$40 million estimated proceeds at closing from proposed dividend out of retained life company (FAFLIC).
- ◆ \$70 million of the projected proceeds from the sale will be deferred and paid out over 3 years.
- ◆ Actual purchase price is subject to adjustment from certain changes in the equity market, implied equity market volatility, interest rates, surrender activity and changes in AFLIAC surplus until closing.
- ◆ We are implementing a hedge program intended to substantially protect us from changes in the purchase price from market movements until closing.
- ◆ Allmerica has agreed to provide transition services to Goldman Sachs for up to 18 months.
- ◆ AFLIAC stock sale closing is expected to occur on November 30, 2005; other closings are expected at the same time or later.



# Use of Proceeds

2005 projected cash proceeds of \$315 million (total projected proceeds of \$385 million less \$70M deferred payment).

- ◆ Anticipated share repurchase program of up to \$200 million, commencing after the close.
- ◆ Remaining cash held at holding company for:
  - Reinstatement of a common stock dividend, expected in the fourth quarter.
  - Interest expense on debt and trust preferred.
  - Payment of certain expenses associated with the transaction.
  - Possible future payments in connection with liabilities assumed and other transaction indemnification obligations.
  - Other holding company obligations.
- ◆ Enhanced holding company financial flexibility and liquidity.



# Projected GAAP Financial Impact

## ◆ Life Segment Earnings

- Earnings for 2005 and beyond will only reflect the retained Life business.
- Expected loss in 2005 and 2006, resulting principally from timing of expense reductions.
- Results for 2007 and beyond are expected to approximate breakeven.

## ◆ Discontinued Operations

- The AFLIAC variable business that has been sold will be reported as discontinued operations under SFAS 144.
  - Effective upon signing in Q3 of 2005.
  - 2005 Q1 and Q2 reported results will be restated.
- Projected after-tax loss on sale of approximately \$385 million reported as discontinued operations in Q3 2005.
  - True-up reflecting final purchase price including the impact of the hedge expected in Q4 2005.
  - Additional after tax loss of \$15M projected in 2006.



# Projected Earnings Impact

**Projections Assume 11/30 Closing**

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Pre-tax Life Companies Segment Earnings</b>	\$( 30) M	\$( 7) M	Nil
<b>Discontinued Operations</b>			
Income from operations of discontinued life business, net of taxes	\$ 25 M	\$ 0 M	\$ 0
Loss from disposal of life business, net of taxes	\$(385) M <sup>(1)</sup>	\$( 15) M <sup>(2)</sup>	\$ 0

- Projected loss from disposal of \$(385)M in 2005 composed of projected proceeds of approximately \$345M less estimated GAAP equity of \$705M and estimated \$25M of closing costs, adjustments and net transition services expenses.
- Estimated loss from disposal of (\$15)M in 2006 composed of an estimated \$8M of net transition services expenses and \$7M in severance costs.



# FAFLIC Retained Business

## Retained Business

*(\$ in millions)*

	<b>Statutory Reserves</b> <b>(As of June 30, 2005)</b>	<b>Description</b>
Traditional Life, principally Closed Block	\$770	Traditional participating whole life (approximately 70,000 policies).
Pension Annuities	\$510	Primarily purchased benefits providing monthly payments (approximately 15,000 annuitants).
GICs	\$400	Funding agreements of \$345M maturing within the next twelve months.
Group Life & Health	\$ 70	Residual business from discontinued group Life & Health segment exited in 1999.



# Financial Highlights – FAFLIC Retained Business

- ◆ Projected statutory total adjusted capital of approximately \$175 million after the transition period.
- ◆ Projected breakeven statutory results from operations after the transition period is completed.
- ◆ Tax attributes of approximately \$170 million at June 30, 2005; majority are not reflected in statutory total adjusted capital.
- ◆ Tax attributes are projected to generate approximately \$20-25 million per year of dividendable statutory capital for a four to five year period beginning in 2006.
- ◆ Residual projected total adjusted capital of \$175M should be realizable over time.
- ◆ AFC expects to provide a 100% RBC keepwell to FAFLIC.



# Summary

- ◆ Total projected proceeds estimated to be \$385M.
- ◆ Anticipate initiating share repurchase program of up to \$200M commencing at closing of sale of AFLIAC.
- ◆ Exit vast majority of life business and eliminate Guaranteed Minimum Death Benefit and other market-driven risks.
- ◆ Retained residual business will consist of run-off blocks of primarily traditional lines of business with valuable tax assets and projected post-transition total adjusted capital of \$175M.

# Q&A