



Chris Gibson-Smith, Chairman

Good morning everyone. I'm Chris Gibson-Smith, Chairman of Just Group plc. I am joined this morning by David Richardson, our Interim CEO.

I'd like to welcome all of you joining us today. We really do appreciate your interest.

This has been a challenging year for the Group, its employees and shareholders. On behalf of the Board, I would like to express our gratitude to all of the stakeholders who have supported us. I want to reassure our shareholders that the Board is focused on a strategy to rebuild shareholder value after the regulatory capital changes introduced in 2018. Capital discipline and a willingness to do whatever it takes to deliver improved returns are at the heart of our plans. Let me also emphasise the Board's profound frustration with our share price performance.

Since the merger of Just and Partnership three years ago, operating profits in our Group have more than doubled, new business margins have trebled, and the Group has expanded successfully in the growing Defined Benefit De-risking market ("DB"). We are proud of our track record.

However, that track record has been significantly affected by recent Prudential Regulation Authority ("PRA") changes. As you will be well aware, new regulatory guidance released by the PRA in December - Policy Statement 31/18 ("PS31/18") - imposed increased capital requirements for lifetime mortgage writers, particularly in relation to business written since January 2016. This business was originally priced using the capital rules in place at the time, but following PS31/18 has had to be reserved on the new basis.

PS31/18 is the latest industry wide initiative by the PRA in a regulatory trend intended to improve policyholder security. As a result, the regulatory capital has consistently increased more quickly than policy liabilities since the introduction of Solvency II. However, the profile of our risks has not changed. As such, our Solvency II capital and balance sheet provisions are now so robust that we could, for instance, withstand an immediate 28% drop in UK house prices followed by no subsequent house price growth, ever, and still fulfil all our commitments to policyholders.

The additional regulatory capital and reserving prudence introduced into the business is obviously frustrating for shareholders. But our operating profit margins have not decreased – they have in fact increased – but returns are lower because the regulatory capital we need to set aside is significantly greater than before and will not be returned for some years. But returned it almost certainly will be.

The value in our balance sheet available to shareholders, measured by embedded value, at year-end 2018 stood at 195p per share on a pro-forma basis after allowing for March's new equity issuance and our tangible net asset value stood at 152p on the same basis. The current market capitalisation represents less than 30% of the EV and around a third of the TNAV. We believe this fails to reflect our fundamentals, implying significant value

upside. Your Board's conviction in the intrinsic value of our Group and our ability to execute on our plan are demonstrated by the fact that collectively my Board colleagues have recently acquired another eight hundred thousand shares and counting.

We have a business that is helping people to achieve a higher standard of living in later life, that is a multiple industry award-winner and that is a market leader in structurally growing markets. The strength of our customer offering has enabled us to adapt new business pricing to the increased capital requirements, and I confirm that shareholder capital invested in new business is expected to deliver mid-teen returns. The strategic value of our new business franchise has been preserved and we are successfully adapting our products to the new regulatory environment.

However in respect of our back book, especially business written since 2016 which has had to be reserved on the new, tougher basis, we concluded that the right decision was to raise additional capital. Before reaching this decision, I can assure you that your Board carefully explored a full range of strategic and capital raising options. One option which we explored at some length was a material back book reinsurance arrangement. However, the pricing was not attractive from a shareholder value perspective, particularly given the final outcome of the regulatory consultation.

In determining the mix of debt and equity for the capital raise, the Board was very aware of its commitment to shareholders to minimise equity issuance. Hence we raised 80% of the required capital through debt, limiting equity issuance to the amount required to ensure that the debt raise would be completed.

The changing capital regime is also why our capital-breakeven goal has been pushed out. We would otherwise have achieved capital self-sufficiency in 2020 as previously intended. Delivering capital self-sufficiency by 2022 is without question our principal commitment to shareholders, because it signals the ongoing rigour of our capital management. This is why we have instigated a less capital intensive strategy. David will explain the steps we are taking to achieve our capital self-sufficiency plans, with the regulator's action requiring us to become a leaner organisation.

In the context of our capital actions, I must acknowledge that the timing of the strengthening of our IFRS property assumptions at the year-end was unhelpful. However, given macro-economic uncertainty, including the possibility of lower house price growth in the shorter term, the Board felt that it was important to take a more conservative approach. We believe that a **long term** HPI assumption of 3.8% is appropriate, particularly in light of the Bank of England's 4.2% estimate, even if in the short term it may be lower than 3.8%. This was a difficult decision to take but we believe it was the right one.

Now I want to explain how your Board views value, and how it drives remuneration. We have never considered performance solely through the lens of the underlying IFRS profit metrics, important though they are. Margin and returns have always been internal primary metrics for us, but we will be making this more visible and embedded in our public remuneration policy. Given this focus on capital consumption, our Remuneration Policy will be renewed at next year's AGM, and we are already collating feedback from our shareholders on this topic. We will ensure that capital management is a more explicit part of remuneration in future.

For 2019, two thirds of the short term incentive plan ("STIP") for executive directors will be measured on financial performance in 4 areas: organic capital consumed, cost reduction,

IFRS profit and IFRS new business profit with a weighting of 25% each. The remaining one third of the bonus outturn will be measured on personal performance measures.

The Group announced at the full year results its intention to reinstate the dividend for FY19 at approximately one third of the 2017 level, subject to the Group's earnings, cash flow and capital position. The intention to recommence dividend payments reflects our confidence in the Group's ability to execute on our capital plan, and takes into consideration the needs of those of our shareholders for whom income is important.

As to the composition of your Board of Directors, we are fully committed to increasing our Board diversity, particularly in terms of gender. I spent a great deal of time on recruiting female NEDs in 2018, but this was another area that was impacted by the instability and steep share price fall following the 2018 regulatory changes.

The changes and challenges we have faced meant that it was also the right time for our long standing chief executive, Rodney Cook, to retire. I would like to thank Rodney personally and on behalf of the Board for his leadership of the Group over the last 9 years and I wish him the very best for the future.

I would also like to express the Board's gratitude to David Richardson for stepping into the role of Interim Group CEO, in addition to his current role of Interim Group CFO. David will be well served in this role by his extensive industry and Just experience. In addition, we have put in place a strong supporting team which includes an E & Y partner who will handle the operational aspects of the CFO role during this interim period. The Board is confident that, given the strong support of the executive management team he can manage both roles during the transitional period. We have begun a search for external candidates for the CEO role and of course have a very strong and credible candidate in David. We are intending to expedite the selection process as much as reasonably possible.

We are pleased to have recently announced the appointment of Andy Parsons to the role of Group CFO, subject to regulatory approval. Andy brings a wealth of experience as Group Finance Director of LV, together with previous executive finance roles in Lloyds Banking Group, Axa and Friends Life. We are delighted he will be joining the team and expect him to start in January.

Before I hand over to David, I want to emphasise my focus on maximising shareholder value, with no options excluded. This can now be done from a position of increased regulatory clarity, greater capital strength, a valuable new business franchise, all under the leadership of a strengthened management team which we expect to come together soon. I speak for the whole Board in this.

Thank you very much for your attention. David is now going to take you through his agenda, with a particular emphasis on our route to capital self-sufficiency."

“Thank you Chris. It has indeed been an eventful and difficult year, but I must start by saying that it is a great privilege to be addressing the AGM as interim CEO. The clear message from our shareholders is that they want us to deliver a sustainable capital model and to optimise our current position so that we can take advantage of the future strategic options that become available to us. We have heard that message loud and clear and that is what we plan to do.

It is very clear that the capital requirements for this business have increased and that we need to adapt our business model, rather than to keep doing the same thing. I’m confident that we can create a successful business in the context of the regulatory environment as it stands today, and that we can create one that is even more successful by adapting our strategy further. This reflects the Chairman’s comment that changes in regulation require us to become a leaner business.

We need to be more efficient and more focused in every commercial choice we make to build a sustainable capital business model under the evolving regulatory requirements. With this in mind, we have already started to adapt the business by:

- Changing our Guaranteed Income for Life (“GifL”) pricing last year
- Reducing new business volumes by focusing on the most capital efficient opportunities in both the GifL and DB markets
- Reducing volumes of Lifetime Mortgages most affected by the new regulatory requirements
- Increasing our focus on cost control across the business
- and finally, closing the US operation

These changes are already adding up to make a big difference. Our changing business priorities were evident in our Q1 trading update. The lower Q1 GifL sales figures reflected the Group’s enhanced focus on the management of our capital as we flexed our prices in that market. In the DB market there are plentiful opportunities, and, over the course of the year, we will focus on those which offer the best returns to shareholders. This led to low Q1 completions, as we could see a number of more attractive competing opportunities which we have subsequently closed during Q2. We have completed over £300m of DB transactions in Q2 on attractive capital terms.

This means we are once again delivering the mid-teen returns on shareholder capital deployed in new business we have always targeted, even in the new capital regime. The key point is that our markets and our distribution network remain healthy, enabling us to adapt our position to meet changing capital requirements. Under my leadership we will take advantage of our strength in these growing markets by selecting the most capital efficient and profitable opportunities available, rather than focusing on top-line growth.

For 2019, we remain comfortable with consensus operating profit expectations, which already reflect our decision to reduce business volumes compared to 2018 in order to manage our new business capital strain. As we outlined in our recent Solvency and Financial Condition Report, some regulatory uncertainty persists, but we have unused self-help actions, some of which I will touch on, which could be used to mitigate these risks.

We have been focussing on costs since the regulatory changes were proposed in the second half of 2018. This has already resulted in an over £10m reduction in our recurring management expenses in H119 compared to FY18. However, there is more to be done. For example, we recently signed an agreement to source our drawdown product from a specialist fintech group, rather than providing this in-house. Our volume of drawdown business is insufficient to justify the costs and risks of an in-house solution. This change will reduce our annualised costs by over £3m p.a. I expect further savings in our core business to flow from business process optimisation, consolidating our property footprint, and focus on procurement activities.

We are also exploring a number of initiatives to accelerate our shift to greater capital efficiency, including:

- Targeted use of reinsurance to reduce new business strain and possibly release some capital on existing business.
- A pilot no negative equity guarantee (“NNEG”) derivative transaction, which transfers the long term NNEG risk on a portfolio of mortgages to a highly rated counterparty. We are currently exploring its regulatory treatment under the new rules. A successful outcome could allow us to reduce meaningfully the capital strain on future new business;
- and finally, we will ensure that start-up losses at HUB Group, our exciting corporate solutions and distribution business, will end soon.

The Chairman mentioned the changes to executive director remuneration. I am pushing my personal focus on capital and expenses through the business. Those at executive management level and below have already had their variable compensation schemes changed to create a more explicit link between remuneration and capital management. Incentives drive behavior, and shareholders and management are already more transparently aligned than before.

Although today is about our shareholders, our customers remain crucially important, whether they have been with us for years, or are currently in the process of joining us for the first time. Providing customers with a fair deal always comes first. We are recognised by customers and intermediaries as the retirement experts, and our focus on their needs together with our intellectual property in medical underwriting has enabled us to continue to offer value to them.

In conclusion, I firmly believe we have a good business which is performing well commercially and operationally. We have a strong position in attractive markets and will use these positive market dynamics together with our market-leading expertise to select lower capital strain business. Combined with strong cost control this can generate good profits for shareholders. We are developing more capital efficient sources of revenue as well as exploring other capital solutions for existing business. We are sharply focused on using our existing capital base wisely and are committed to achieving capital self-sufficiency by 2022, while ensuring that our regulatory capital coverage remains at an appropriate level throughout the journey.

Although it is early days, I hope this gives you a sense of the rigour with which the Group is committed to robustly managing its capital under my leadership. The overall goal is to de-risk our path to capital neutrality by 2022, while in parallel addressing deeper strategic questions. We are prepared to do whatever it takes in our pursuit of shareholder value, and will be listening very carefully to our shareholders as we shape our strategy.

All that remains is for me to offer my deep thanks to you, our shareholders, for your support, and to give my personal commitment that we fully intend to repay the trust you have placed in us by delivering value to you.”

And with that lets move to questions

End.