FINAL

Bloomberg Transcript

Y 2020 Earnings Call

Company Participants

- Andy Parsons, Group Chief Financial Officer
- David Louis Richardson, Group Chief Executive Officer

Other Participants

- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- Gordon Aitken, Analyst
- Larissa Van Deventer, Analyst
- Louise Miles, Analyst
- Nick Johnson, Analyst
- Oliver Steel, Analyst

Presentation

David Louis Richardson {BIO 1989974 <GO>}

I'm sure you've all had to do virtual meetings by now, but please bear with us should anything unexpected happens. In terms of running order today, I'll open our discussion with a summary of the strong progress we've made during 2020. Andy will go through the results in more detail, and afterwards I'll return with some concluding remarks. We will, of course, have plenty of time at the end for your questions.

Before I start our results presentation, I want to take a moment to recognize the outstanding contribution of my colleagues across the group over the past 12 months. They've shown immense agility and determination to accommodate a very challenging personal and professional period to ensure the service we provide to our customers has not missed a beat. On behalf of the entire Board, I'd like to thank them.

Now I'd like to start by summarizing our performance in the last year. 2020 has been a very successful year. Against the tougher backdrops, I'm extremely pleased with our achievements. We have executed our strategy, met on promises, and we have reached a major landmark in the group's history by achieving capital self-sufficiency. First of all, I'm proud of the way we responded to the pandemic. We've shown strong operational, commercial, and financial resilience during a period of huge disruption.

Second, we have improved strength and resilience of our capital base. We have made strong progress in reducing the balance sheet exposure to property risk and intend to do more of this in the near future.

Third, our organic capital generation has been transformed and will continue to improve. I'm delighted to report a combination of these two factors, means we have achieved capital self-sufficiency more than a year earlier than originally planned. This will increase the choices we have on how to deploy our surplus capital over time.

And finally, we've shown that one of those choices returning to growth has been secured whilst delivering attractive returns to shareholders. As we show you today, we have the foundations firmly in place to innovate, grow profits, and deliver attractive returns to shareholders.

So turning to our results now on slide 5, capital continues to be the number one priority of the whole leadership team. The headline capital coverage ratio has improved by 15 percentage points year-on-year, driven by management actions and the green bond issue.

Our balance sheet has proved to be resilient and the movements in the credit markets and reduction in risk-free rates over the period have had little impact. Before management actions, we achieved underlying organic capital generation of GBP18 million. A GBP33 million improvement on the prior year and a barometer for how the business has performed as the transformation has gathered pace.

New business strain at 2.2% premiums was an excellent result. With the addition of management actions, we achieved GBP221 million of organic capital generation. All these management actions free of capital as an attractive implied rate of return and importantly further reduces the risk profile of our balance sheet. Andy will cover the results in more detail later. But a 12% increase in new business premiums to GBP2.1 billion, a 10% increase in tangible book value to 199p and earnings per share of 7% to 18.8p shows that whilst we prioritize actions to improve our capital position in parallel the business continues to deliver value to shareholders.

So, on slide 6, I am proud of what we have achieved in our journey the capital self-sufficiency. We feel we now have the foundations in place to take advantage of the opportunities available in our markets and to progressively increase shareholder value.

Starting at the first column on the left, we have added 20 percentage points of capital to the Solvency II coverage ratio in two years. At the same time as digesting the LTM regulatory changes. You will know that a larger surplus provides further comfort to our various stakeholders, lowers our cost of capital, and also gives us options to grow. We utilized balance sheet capacity to optimize the capital structure while minimizing recourse to shareholders.

Since 2018 organic capital generation has improved by around GBP400 million, quite a remarkable turnaround. Management actions and basis changes have added over GBP250 million excess own funds over the past two years, a very meaningful addition to our capital buffer. Moving to the middle column, we have transformed how we run the business turning GBP111 million of underlying capital consumption in 2018 into GBP18 million of capital generation in 2020. This is the core metric we use to consider the group to be capital self-sufficient.

We focussed on reducing new business strain to deliver a very significant turnaround in capital generation. In just two years, we have reduced new business strain by over two-thirds. This pricing discipline gives us a strong starting point to selectively increase new business growth. And moving to the third column. In a period when the focus has been on capital, it is pleasing that we have continued to grow IFRS operating profits and book value substantially.

Looking forward, we are confident about the prospects for further value creation. So, overall, we have achieved a lot in the past two years. However, there's a

Lot more we want to do. We are determined to execute our plans, deliver our promises, and build further value for shareholders.

Moving on to slide 7. As a reminder, whilst the underlying economic benefits of matching our retirement income portfolio with LTMs are clear, changes in the regulatory treatment of LTMs over the last few years mean that the sensitivity of our capital position, property movements is higher than we would like. We want to reduce this balance sheet sensitivity, and have announced a number of transactions in this regard.

Over the course of 2020, we completed our second and third no negative equity guarantee or no NNEG risk transfers. 20% of the book now benefits from this type of downside protection and we have appetite for more. Perhaps up to 40% to 50% over time.

And in December, we sold the portfolio of LTM approximately 8% of the book. Further sales in the future are likely subject to acceptable pricing. Together, these transactions have reduced unhedged LTMs as a proportion of our total assets to 29% from 35% at the end of 2019. Excellent progress and as you can see they are reducing our sensitivity to any potential fall in the UK house prices.

I think we have all been pleasantly surprised how well UK house prices have performed over the past 12 months and it's worth pointing out that the ONS measures used in our balance sheet have an in-inbuilt lag. So we are expecting some further positive developments in the early months of 2021 at a minimum.

Beyond that, there is clearly an open question about the direction of travel for the rest of the year as stamp duty holiday gradually comes to a close and furlough scheme is withdrawn. But again I'd like to emphasize that regardless of the short-term developments, there is more derisking we'd like to carry out on our existing portfolio to bring that balance sheet sensitivity down considerably.

With regards to future new LTMs, it remains an important part of our proposition to customers and can be a very valuable part of their retirement planning. So we will continue to be active in the market, but will moderate the proportion of risk that we retain on our own balance sheet.

Turning to slide 8. Defined benefit derisking now accounts for 70% of our new business premiums. The DB derisking market is a great market to be in, the most exciting market in the UK insurance markets today. 2020 was the second-best year on record with over GBP30 billion transactions completed which is still a tiny fraction of the GBP2.4 trillion of UK's DB liabilities. LCP, a leading benefits consultancy estimated DB market will be between GBP30 billion and GBP50 billion per annum for the next five years.

Now just to date, we have focused our DB business primarily on transactions below GBP250 million. Last year we completed 23 transactions and for content there are around 130 transaction of this size per annum. We targeted this segment as it accounts for roughly 80% to 90% of total transactions in the market, allowing us to be selective and also providing a regular flow of new business premium. The pie chart on the right-hand side shows the total amount of DB transactions over the last six years. We've only been active in one-quarter of total market, securing a 21% market share. As our balance sheet grows and as we deploy our capital-light DB partnering proposition, we expect to deepen our participation in the GBP250 million to GBP1 billion segments, which is almost one-third of the pie.

We have good visibility and have been monitoring pricing in this segment for some time. We are well-positioned to take a larger slice of a growing pie.

Now slide 9. The retail retirement income market continues to be an attractive market for Just. The overall market benefits from two big structural growth drivers and aging population and the growth of the fine contribution or DC pensions helped by auto-enrollment and the long-established trend of DB scheme closure.

We are a leading player in the guaranteed income for life markets. Our Corporate Solutions and advisory business HUB financial solutions is the largest UK broker GIfL securing one in every five sales across the open markets. Since Pension Freedom were introduced six years ago, huge volumes of retirement savings have migrated to drawdown platforms instead of purchasing deferrals.

The amount is now approaching GBP100 billion. Our secure lifetime income products has been developed to help customers safely de-risk their investments on these platforms over time. We're at an early stage in its adoption but it is a good example of an innovative customer solution which present another potential avenue for growth over the medium term.

So we remain attractive to the retail retirement markets. We are selective in the risks, we choose to write and can pivot between writing DB and retail GIfL to meet our new business volume and return objectives.

And finally from me, for now slide 10. We have transformed our business to become more capital efficient. On the bottom left, you will see a repeat of the new business strain chart.

The fundamental changes we have made to the new business model over the last two years are having a real effect. So when we write new business, we generate higher returns.

Increasing use of reinsurance has helped but maintaining strong pricing discipline and targeting business with a lower capital strain have been crictical. Writing low strain new business at attractive returns is fully embedded in the reward structures of our management team, and it helps to deliver this major improvement. The graph on the top left is a good reminder that whilst we were successful in growing our retirement's income sales by 12% in 2020 we have much headroom for growth as sales has only just returned to the levels achieved in 2018. There are multiple opportunities available as demonstrated in the last two slides.

Furthermore, in 2021, we expect the retail market to bounce back from COVID-19 related disruption. Naturally, with a stronger capital position, we can write more new business. The chart on the top right helps to demonstrate that those opportunities come with very attractive returns. Now that we've transformed the business model.

In 2020 GBP48 million of capital invested in new business is expected to generate around GBP300 million of future cash generation for a net increase of around GBP250 million. The lower strain increases returns and has shortened the payback period to just three years. And with that, I'll hand over to Andy.

Andy Parsons {BIO 20726474 <GO>}

Thank you, David. And may I also extend a warm welcome to you all today. We very much appreciate your time and continued interest and I'm looking forward to the opportunity to meet some of you in person, again as we gradually emerge from lockdown.

Turning then to the numbers and focusing first on progression of the capital position outlined on the waterfall on slide 12. You can see the substantial progress we have made over the last 12 months. Opening surplus own funds GBP748 million representing a capital coverage ratio of 141%.

This position improved over the period by GBP328 million resulting in a year-end capital coverage ratio of 156%. Key factors enabling this improvement were significant contribution from management actions, which together with model and basis changes added 11 percentage points to the ratio. A further six percentage points came from capital raising being proceeds from GBP250 million green bond in October, net of the Tier-3 tender and earlier in the year the partnership life Tier-2 redemption.

In addition, I'm very pleased to note the growing contribution from our underlying capital generation over the period of GBP18 million. We expect this to continue to become more meaningful over time and given the extraordinary turbulence, we've seen in the markets over the last year it's also satisfying to note a very limited impact from economic movements.

This reflects the effectiveness of our hedging program and active risk management of the investment portfolio. Before we get into further detail on organic capital generation, it is helpful to consider the contribution from management actions and how we see this developing on slide 13. This slide summarizes the significant management actions and capital raising we have delivered over the past two years. These actions deliver the pace alongside the day-to-day running of the business, have significantly strengthened our capital position, and also helped to improve our underlying organic capital generation.

On the right hand side of the slide, we've outlined potential future actions, including continued property derisking through further NNEG hedging and LTM sales plus other ongoing initiatives such as longevity reinsurance and cost reduction as well as the planned move of the partnership life business on to the internal model. Note that although we still expect continued capital benefits from future actions these will likely be lower on an annual basis for the benefit we saw in 2020 with reducing property exposure a high priority moving forwards.

Moving to slide 14, which shows the key component that make up organic capital generation. As a reminder, this is a measure of the capital generation achieved by the business before the impacts of regulatory change, market movements, and any capital raising.

We have chosen to present slightly differently in order to better highlight the key dynamics of the underlying organic capital generation from the business. As you can see from the table growing cash delivery from our growing in-force book provides funding for our new business strain, financing, and other group costs.

Significant reductions in new business strain and other group costs over the period have outweighed the rising group financing costs, which together with the growth in the in-force cash has driven a turnaround of the underlying capital generation from consumption of GBP15 million in 2019 to positive cash flow generation of GBP18 million in 2020. On the right-hand side of the slide, we've broken out the GBP203 million contribution from management actions and modeling and basis changes.

This includes a combined GBP104 million coming from the two NNEG hedges, DB partner deal announced last March, and the GIfL longevity reinsurance announced in August. The main other positive was GBP54 million from updating to the CMI 19 annuitant mortality model[ph]. As you can see from the previous slide, in-force cash generation supports our new business and financing costs.

On slide 15, we have shown how the cash from the current in-force book is expected to emerge over time. This is a measure of the value and cash generation potential that is already embedded in our existing book of business. Annualized cash flow analysis has been provided previously in the back of the RNS release but here we summarized it into five-year blocks. Note, that we have made a slight simplification to last year's presentation to remove return expected to be earned on surpluses after they've emerged, which is a cleaner representation that depresses the outer years a little compared to last year.

The analysis shows that to add to our existing GBP1.1 billion of surplus capital the current in-force book will generate GBP3.6 billion of cash surplus over the next 30 years. It also shows the effect of the TMTP amortization over the next 11 year without which the cash generation would of course be significantly greater.

Even so, over the next five years, we have three quarters of a billion of cash, expected to emerge net of TMTP unwind from our in-force book which is available to invest in new business and to service our capital providers. We also expect to add to our in-force book each year through new business which David noted earlier. In 2020 we added GBP0.3 billion of new future cash generation at a cost of GBP50 million in strain.

Now let's move to the next slide to cover our view on the near-term dynamics around the underlying organic capital generation. Over the last two years, we've made excellent progress to improve our underlying organic capital generation moving from significant capital consumption in 2018 to a material positive of GBP18 million in 2020. And as we look forward, we expect our underlying capital generation to continue to improve. Indeed, we expect this to double by 2022.

This improvement is driven by in-force cash growing at around mid-single digit and by continued progress on costs, which will eliminate the cost overrun in 2021. We expect to limit new business strain to around 3% before income from DB partnering deals with the DB partnering income enabling us to grow new business without growing new business strain.

Financing costs will be GBP6 million high in 2021. The growth in underlying organic capital to provide a meaningful annual contribution, helps to provide the business with choices in the future over whether to invest emerging surplus in creating additional capital headroom, new business growth, or returns to shareholders.

Moving on to slide 17 to touch briefly on our continued positive progress on costs. This slide shows the progress since 2018 to realign the cost base with GBP6 million year-on-year absolute cost savings achieved in 2020 translating to 14% cost saving over the past two years. These savings are being achieved through a combination of actions including strength and procurement and discretionary cost controls, process improvements to enhance our efficiency, selective hiring to improve capability, and rationalization of our property footprint.

The combination of strong cost control and new business growth has ensured that the Solvency II new business expense overrun has fallen materially in 2020 and our commitment to eliminate this by the end of 2021 remains.

Turning to the next slide in the key elements Solvency II non-operating capital movements. House price inflation across our portfolio in 2020 was marginally ahead of our long-term house price inflation assumption, which I will return to later. Credit rating downgrades over the period, had a negative impact of GBP42 million, but this was more than offset by GBP88 million benefit from portfolio management to improve credit quality and more closely align duration across our matching portfolio which is coming in more detail on a later slide.

Regulatory costs in the period include the final GBP24 million of accelerated TMTP amortization and also negative from the strengthening of the valuation of our LTM notes in light of the fall in risk free rates ahead of half-year. This was to ensure sufficient headroom was maintained over the PRA effective value test.

Long term interest rates have risen substantially after the year-end, which has boosted our headroom over the current minimum EVT deferment rate of zero to 120 basis points. This is comfortably above the PRA minimum deferment rate target for the year-end 2021 of 50 basis points, although there is a possibility that with rising rates the PRA might increase that target minimum deferment rate.

Other potential regulatory changes on the horizon include those flowing from the post-Brexit review of Solvency II such as improvements to the risk margin and also the cost of moving our discount rate from m LIBOR to SONIA. We do not currently expect a substantial net cost from these future regulatory changes. I would expect any cost to be offset by capital benefits for future management actions.

Moving on to slide 19 shows up Solvency II sensitivities. These are generally in line with those published at half year. Our property sensitivity has improved to 14 percentage points for a 10 percentage point drop in house prices. The benefit from the sale of LTM and the third NNEG hedge both completed in December, have been offset a little simply by the mechanics on the sensitivity of having a higher solvency coverage ratio at year-end 2020. Going forward, we continue to actively progress options to reduce the sensitivity of our balance sheet to potential future property price falls. Our sensitivity to a credit quality step downgrade of 20% of the credit portfolio remains at 13%. As at half year, I would comment that this sensitivity as well as being quite extreme also understates the real level of risk as it makes no allowance for the positioning of the individual names within the portfolio or any potential portfolio management during a stress scenario.

We've just had a great example of this in 2020 where despite the extensive rating action our Solvency II downgrade exposure has been limited and the net solvency impact from our credit portfolio was actually being a GBP46 million positive. As we noted at half year we have an active hedging program in place to managing interest rate risk, which leads to a minimal sensitivity shown here and has protected the solvency balance sheet throughout 2020.

On to slide 20 and switching to look at the IFRS results. Given the difficult social and economic backdrop over the last 12 months, our IFRS results are a great testament to the robustness of the business and the flexibility and resilience of the people that work at Just. Underlying operating profit for the year increased by 12% to GBP297 million and adjusted operating profit was up 9% to GBP239 million.

Within this new business, profit increased GBP199 million with retirement income sales growing by 12% reflecting our growing maturity and success in the DB derisking market.

Margins reduced very slightly to 9.3% with continuing pricing discipline, risk selection, and lower costs offsetting a lower LTM backing ratio and additional reinsurance.

Going forward, we anticipate a broadly similar new business margin. The strong in force performance was helped by increased surplus assets and widened credit spreads. Growth in 2021 will be a little more subdued. Operating experience and assumption changes were a positive GBP46 million broadly in line with the previous year. Reduction of CMI 19 has had a positive impact of GBP62 million with other calibration modeling and assumption changes negative GBP25 million

Increased in year mortality affected our annuity and LTM books with a small net benefit offsetting costs from the GIfl longevity ratio and DB partner deals. Movements in other group companies and development expenditure offset each other with reinsurance and financing costs increasing as expected. Overall, a very positive result in what was a challenging year.

Turning next to the below-the-line items, contributing to the statutory IFRS result. The main item here is the investment economic profit with an analysis on the right hand side. There was a large gain from the positive impact of lower risk free rates where our hedging of the Solvency II exposure leads to IFRS gains when rates fall but losses when rates rise.

Credit spreads were a net negative and annual property growth in 2020 as noted earlier was broadly in line with our long-term assumption; however, in light of potential short and longer term economic uncertainties impacting the outlook for the UK property market in particular, as the economy recovers from COVID-19 and Brexit. The board has taken the decision to revise our long-term property growth assumption reducing this by 50 basis points from 3.8% to 3.3%. This assumption change has resulted in GBP166 million IFRS loss.

The next line shows the IFRS impact of the LTM sale in December. With over GBP540 million of LTMs were sold at a gain the IFRS asset valuation an IFRS loss arises because the replacement bonds deliver a lower investment deal. The impact has been GBP136 million pre-tax loss or GBP110 billion reduction in net equity.

This reduction is expected to decrease somewhat over time as the funds are recycled into alternative high yielding asset classes to achieve our optimal asset mix. Finally, tangible net asset value driven by the strong operating result improved to 199p per share, up from 181 pence as of 31 December 2019.

Moving on now to focus briefly on our investment portfolio. Slide 22 shows our credit market exposures across the bond portfolio with liquid funds making up 54% of our Financial Investments. The pie chart shows the split of our total bond of BBB portfolio between more defensive sectors shaded in coral and the sectors potentially more exposed to the pandemic in grey. 78% of our total portfolio and 76% of BBB bonds are concentrated in defensive sectors.

We hold a GBP650 million IFRS credit default reserves, which is equivalent to an annual 61 basis points yield reduction and suffered no credit defaults during the period. The table on the top right hand side, details the strong performance of our credit portfolio during 2020. Proactive management help to limit the impact of rating downgrade over the period and also to generate Solvency II surplus to improve credit quality and duration managing leading to a net GBP46 million of Solvency II surplus during 2020. In the table on the bottom right you can see that following significant credit rating and portfolio management over 2020 our overall BBB rating has remained broadly unchanged. We will continue to actively manage the portfolio in 2021.

Next turning to our Lifetime Mortgage of LTM portfolio on slide 23. Given the long-term predictable nature of our annuity cash flows 46% of our asset portfolio is invested in illiquid. With the most important components of our illiquid investment historically being LTM. We have shown here LTMs as a proportion of the total portfolio on the chart on the left hand side and this chart highlights the impact of three NNEG hedges completed to date and the portfolio sale in December with unhedged LTMs dropping over the course of 2020 to 29% of total investments.

Going forward, we expect to continue to gradually reduce our overall proportion of LTM and also to further increase the mortgages covered by NNEG hedges. Hedging LTMs frees up capital, and also reduces the property sensitivity. We've also focused on new LTM sales on less capital intensive loans. LTMs are an asset we have deep experience and understanding of which also fulfilled a societal need, playing an important role in providing those in later life the option to help their loved ones, improves their retirement outcome and to stay for as long as they wish in that community.

They continue to offer attractive spreads over alternative assets albeit with much of this realized overtime under the new Solvency II regulation and they also provide a natural longevity hedge as we have seen through 2020. Going forward, we expect LTMs to continue to play an important but reducing role in backing new annuities with action continuing to reduce the UK residential property risk across our in-force portfolio.

With that, I'll hand back to David for his concluding remarks.

David Louis Richardson {BIO 1989974 <GO>}

Thanks Andy. Let's turn to slide 25. I'd like to start my conclusion by spending a moment to recap on why we do what we do here at Just. Our purpose statement is a good reminder of why Just exists. We help people achieve better later life. We believe decisions we make and the actions we take should contribute to our partners. Whether our colleagues directly support our customers or providing support to someone else with our purposes beacon that guides our teams behaviors and drives high levels of engagement throughout the organization.

We're helping retail savers, homeowners, pension trustees, and clients of our corporate customers would advice and solutions that help them to achieve peace of mind in later lines and at times like this that really bring home the value of locking[ph] into certainty.

COVID-19 has resulted in a higher number of customers becoming vulnerable. Our colleagues are trained to identify and support vulnerable customers and they do a fantastic job of that. There have been recognized in the awards we have won this year for outstanding service. I would like to thank them for the way they have responded over the year to put our customers first.

And this purpose helps us in the way that we approach doing business as we set out on slide 26. ESG factors and sustainability are core part of how we want our business just operationally and how we invest our assets and 2020 was significant year on these fronts, becoming the first UK insurer to issue a green bond and send an important message both externally and internally and give further impetus to our sustainable investing journey and we became much more sustainable in the way we work reducing our carbon emission by 75% from what was already the lowest per employee level in the sector.

And this is not simply a pandemic one off. It is representative of our low emissions going forward. When it comes to our colleagues, we worked hard to focus on improving engagement during the pandemic and some aspects of remote working have actually brought us closer together. We have been accredited as a two star organization in the Annual Best Companies survey. This rating is classified as an outstanding level of engagement and it's something I and the leadership team are very proud of achieving given difficult external environment.

We have increased Gender Diversity at senior levels and we are on track to achieve the targets we have set ourselves in line with our pledge signatory to women and finance charter that 33% of our senior leaders will be female by 2023. You may have seen, we appointed Kalpana Shah as our new Non-Executive Director on March 1. Kalpana has considerable commercial and insurance expertise, which will benefit our group and I'm looking forward to working with them.

Turning to slide 27 another important part of fulfilling our purpose is to ensure that we have the right products and services for those in later life in a changing retirement landscape. That's why we continue to invest in developing (inaudible) so that we can positively disrupt the market and develop attractive options to grow our business.

We've launched a highly innovative, automated financial advice service called destination retirement. We are in advanced discussions with a number of employee benefit consultants to get this in the workplace solutions they offer across the UK. (inaudible) a business of Marsh & McLennan, the world's leading professional services company has selected destination retirement to be added to their workplace proposition.

This is an exciting partnership which means we can help 1000 more customers every year, achieve a better leisure life. Our secure lifetime income product is a highly innovative solution for Wealth Advisors, it delivers guaranteed income to their retail clients who sits on modern investment platforms.

As previously announced in 2020 we completed our first DB partner deal a capital-light partnering model for DB de-risk in transactions, which exceed GBP250 million in size. And in July, we launched the UK first Lifetime Mortgage which provides incentives to customers whose property has an A or B rated energy performance statistics.

We are investing to ensure we can deliver our strategic priorities, grow our business and fulfill our purpose. On slide 28 you will know that our strategy over the past two years have been very clear. We've been transforming how we work to deliver a sustainable resilient business and are now approaching an inflection point for the group.

Generating capital remains our number one priority as healthy capital generation provides a wider range of options to build shareholder value. Our leadership positions in attractive segments of our chosen markets provide us with opportunities to grow with low capital strain through the cycle.

We must acknowledge that the outlook for the external macro environment is clearly uncertain. The gradual withdrawal of the government stimulus will impact the UK economy and its effect on the UK residential property market remains unknown; however, with a higher capital base and more resilient balance sheet, we are better able to navigate the uncertainty and write business at attractive margins.

So just to conclude why I started our presentation today. First, we have shown strong operational, commercial, and financial resilience during a period of huge disruption. Second, we have a stronger and more resilient capital base. Third, our organic capital generation is being transformed and will continue to improve increasing the range of choice we have and have to deploy that capital. And finally, we show that one of those choices returning to growth has been achieved whilst delivering attractive returns to shareholders. So having delivered a major transformation over the past two years we now have the foundation in place to use our market-leading capabilities to create further shareholder value. So we'll now invite questions (Operator Instructions) So I'll just give you a moment to work technology and then I'll hand over to Steve to start Q&A

Questions And Answers

Operator

Thanks, David. We have a number of questions already in the queue. So Sarah could we please unmute Nick Johnson's microphone. Nick please go ahead.

Q - Nick Johnson {BIO 21194455 <GO>}

So good morning. Can you hear me.

A - David Louis Richardson {BIO 1989974 <GO>}

Yes, Nick, thank you.

Q - Nick Johnson {BIO 21194455 <GO>}

Great. Good morning. So two questions, firstly the reduction to 20% Lifetime Mortgage Banking ratio over time. What will dictate the pace that happens would it be dependent on finding suitable replacement investments and related to that perhaps you could just comment on the market for liquid investments in terms of availability, what you're seeing there.

And then second question is the sensitivity of new business margin to LTM banking ratio. Do you expect to be able to maintain new business margins where they are in the long-term 20% LTM banking ratio. Thanks.

A - David Louis Richardson {BIO 1989974 <GO>}

Thanks, Nick. Those two questions are probably going to be even in the first two brands of how we're going to manage the LTM banking ratio coming down and how the outlook for replacement investment look and second hold sensitivity of our new business margin to LTM banking ratio

A - Andy Parsons {BIO 20726474 <GO>}

Thank you, Nick. So I think in terms of the reduction to 20% over the key point I would make is that we have actually achieved a lot of that already. So if you look at our new business banking ratio for LTM through 2020 that was around 23% and if you look couple of years back, that would have been more like 28% or 29%. So that has been quite significant production already. We're looking to continue on that journey down to around 20%, but it's not a massive step from where we have already achieved effectively through 2020 as we have achieved that and also to answer your second question a bit. We've obviously achieved that whilst maintaining that new business margin, so yes, clearly there is healthy margin associated with LTMs but we have managed through the pricing discipline that we have our ability to operate in the markets that we do through the cost reductions that we're achieving across the business, we have managed to maintain in 2020 our new business margin.

You asked about the liquid investments and it's a good question, because our liquid outside of LTMs what we are seeing a growing proportion of our investment portfolio.

We've got just over 2 billion of sort of other liquids current across the portfolio, but it's worth noting that around GBP0.5 billion of those we actually added through 2020. So we do have a reasonable portfolio and we are adding to that as we move forward. The types of assets that we tend to be focused on it's a mix really so we have within there we have commercial mortgages, we have infrastructure and within that renewables and focus there was both solar and offshore wind. So we are investing into those industries.

And then also private placements as well. So it's a mixture of things and we are accessing that market through a selection of external asset managers

Q - Nick Johnson {BIO 21194455 <GO>}

Thank you. Do you have any supplementaries before I hand the mic over.

A - David Louis Richardson {BIO 1989974 <GO>}

No, that's great, thank you very much both. Thank you.

Operator

Thanks very much, Nick and so could we please unmute Gordon Aitken Mike from RBC. Please go head Gordon.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you and good morning David's. Good morning, Andy. Three questions please. First on mortality, just looking at earnings mortality was a benefit in 2026, GBP1 million positive but in 2017 you mentioned it was a net GBP30 million negative and that was when you move to the CMI 15 tables. So what's changed in the three years from then to now. Second question on reserves in your release you talked about increasing reserves by GBP36 million for calibration and other modeling refinements just give us a bit more detail here, so we can take a view of this and is it needed or are you being prudent, because you have reserve releases elsewhere. And finally on the solvency ratio, can you just give us a current estimate of your solvency ratio, you mentioned that you expect that to be positives from property in the early months of 2021. Thank you.

A - David Louis Richardson {BIO 1989974 <GO>}

Thanks Gordon and I'll let Andy answer the first two questions on mortality and the reserve adjustments for modeling refined calibration and on solvency ratio Gordon when I publishing kind of a regular monthly update but as I kind of alluded to my comments. And there is a natural time lag between what you might see reports in the headlines and house prices, I want flows through into our solvency balance sheet because we use ONS so and we are expecting it due to that source and over the early months of 2021 and I guess on balance emerging news is probably skewed to the positive there anyway forward-looking indicators and of course that will be supplemented by still relatively modest in pound terms, but of course symbolically very important that we've got underlying organic capital generation, which is also further nudging up the ratio over time.

The one thing I would like to emphasize though as kind of a slightly higher level is and hopefully came through the comments is that, once we've achieved our goal of capital self-sufficiency we will continue to be managing the capital position and very carefully and through both the organic underlying capital generation but also we will continue to seek capital management actions that improve the capital ratio and/or reduce the balance sheet sensitivity.

So, and hope that gives you to the flavor of the direction of travel. And Andy do you want to pick those two, please.

A - Andy Parsons {BIO 20726474 <GO>}

I can, and maybe can give you all the detail that you would probably like on those questions Gordon, in terms of the mortality release we felt it will be helpful within our overall assumption changes to split out the impact purely focused in mind which is what we have done. Obviously there is a lot of other things go on within assumption changes across business such as ours.

So there is a lot of both small adjustments to assumptions, but also modeling changes that will be flowing through and refinements the accrual[ph] models and flow through year-on-year and they will, they do inevitably create a degree of noise and that can be positive. It can be negative so that's really In terms of I guess the calibration element on those. So I would anticipate that will be ongoing negatives equally and you should anticipate the ongoing positives, but there will be a degree of up and down the ways on that line. In terms of the actual mortality versus 2017, yes, we are change is a combination of the impact (inaudible) on our annuity, but also our LTM book.

So we bring both of those into the net GBP60 million benefit that you see flowing into the IFRS results. So within that there is a large of positive for the annuity book and that really reflects that we do have a GBP21 billion book of annuities and we are currently we are 57% hedged on longevity and that still leaves quite a chunk of that that is exposed obviously and will benefit from any improvement in those CMI tables

Operator

Thanks very much Gordon and so could we open Ashik's mike from JPM, please.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi, good morning, David. Good morning, Andy. Just couple of questions I have is, how should I read this GBP3.6 billion of future cash generation number, mean on one slide which is slide number 15 I see that you're expecting GBP715 million of cash generation over next five years. I mean, what is the comparable figure that you have reported this year, because if I look at the in-force[ph] release, it was GBP164 million and like in next slide you say in-force release is going to go up by mid single digit. So what is the GBP750 million a year any clarity on that would be very helpful.

And the second question is around doubling underlying capital generation. If I remember correctly, it was mentioned in past that in-force release net of DB should be moving up at 15% a year. But it looks like now it's moving at 5% a year. So why is it less, because clearly in-force release is moving faster than the underlying capital generation should move much faster as well, so that would be my second question. Yeah. Thank you.

And I'm sorry, just one more last question is what do you still be, would you be willing to give any sort of thoughts on like what should be a solvency ratio hurdle where you want to sit at.

A - David Louis Richardson {BIO 1989974 <GO>}

So again, Andy I'll let you handle the first two on the in-force surplus and generation and the difference between the run-off presentation in the forward guidance for the whole book and I'll just briefly touch on the third one in terms of solvency ratio. I mean and we're not putting out target range and I think what we can say is that the board is comfortable with where we're at 156% and we think it's in itself, a good starting point and particularly as realistically we face into a period of some macro uncertainty.

And just echoing my comments from the last set of questions from Gordon we're not going to be resting on our laurels, we will continue to take actions which provides an underlying increase in that ratio even if it does move about positive or negative due to markets and movement outside our control. So that's trended[ph] again since direction travel and Andy on the first two.

A - Andy Parsons {BIO 20726474 <GO>}

It sounds good to me the first two (inaudible) to be adding up over the next five years. Those in force cash numbers. So that is 164 driven forward over the next five years. So that's what we're anticipating from that number. But, with no new business. Yes, exactly. So in that 0.75 there is -- we aren't layering on new business, because that's purely an in-force really so we would expect as we move forward that new business will start to add to that.

In terms of your question more around the capital generation I'm going to guess particularly why going forward we guide to a lower in force growth rate that we've seen this year, there were, there were various structural reasons as we restructured our balance sheet, particularly types of the changes in the LTM regulations and that has created an increase in additional improvements within our balance sheet that then releases so that we've got a sort of an improvement effect to be in the 2020 in force, but that was a one-off. So what you will see going forward is more than our in force is expected to grow every year as we add new business at a faster rate and the business is going up and that's what really drives that mid-single digit expectation in terms of the improvement in that in-force line.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's very clear. Thank you for this thank you.

Operator

Thank you Ashik. Could we please now open Oliver's mike from DB, please Sarah? Go ahead.

Q - Oliver Steel {BIO 6068696 <GO>}

Good morning David. Good morning Andy. Three questions from me. And the first is, can you just comment on how much of the LTM proceeds you already reinvested and by implication, how much is to go and sort of roughly what sort of reaching level you're reinvesting that at I suppose the question behind it is it does it raise your sensitivity to credit defaults or credit migration.

And secondly on the GBP250 million to GBP1 billion segment if you're looking to sort of access a bit more what does that imply then to your third-party agreements, any third-party agreements that you might sign, because I thought that segment is intended for those and then the third question is and I sort of hesitate to ask this really, but even if you double the underlying free capital generation by 2022 you are still only on a 3.5% free cash flow yield and it doesn't really leave a lot of room for the dividend.

And so, what does that implies of the dividend and how can you get that implicit GBP36 million of underlying free capital generation up to a sort of much bigger level.

A - David Louis Richardson {BIO 1989974 <GO>}

Okay, thanks. Oliver and I'll handle the second and third and Andy can take the first. So on the DB market the GBP250 million to GBP1 billion segment it's an area where if you go back to my presentation and it accounts for getting close to a third of the total volume of transactions at per annum and we fairly participate at the moment. So the huge untapped opportunity there and we do have good visibility on the pricing in that market we have participated in a number of processes and indeed we had one in that segment.

So we did a GBP140 million transaction in 2020. So and we think there is plenty of space for us to put to both for us to selectively right[ph] the occasional transaction onto our own balance sheet as well as getting access for our DB partnering proposition and just to give you flavor that even if we right just one additional transaction in that segment per year that makes a big difference to our topline proportionately, so it's not like we've got to do a loss in that segment on our own balance sheet to move to dial.

So we think there's plenty of space for both, and we think and the pricing dynamics are supportive on the kind of longer-term outlook for free cash flow and how that plays into dividend and it's not something that we want to and particularly play too much emphasis on it at this stage because and at this stage, we are focused on guessing that organic capital generation number up higher to give ourselves option. So we don't have in our mind at this stage a set view on what is a dividend policy at some point down the line maybe and we are focusing on say[ph] improving organic capital generation.

So that it gives us those options down the line and the options to whether it's to further build the ratio, whether it's to reinvest capital in new business at very attractive IRR that are available at the moment or whether it is to reinstate a dividend policy. And I do get your underlying point, which is really fundamentally, our business is not going to be a yield story anytime soon and I hope that's on (inaudible) anybody who follows those.

We are going to be a growth and an increasing value at attractive IRR story. That is what our fundamental proposition is over the medium term. Andy do you want to comment first one.

A - Andy Parsons {BIO 20726474 <GO>}

I guess any other point of that to David is you focus very much there quite rightly in some way that underlying capital generation. We do expect that to be a continued contribution year on year from management actions. But, yeah, that will obviously bounce around. In terms of your question in terms of what we have reinvested so effectively, we have, we have fully reinvested the LTM proceeds into corporate bonds so, into liquid corporate bonds. So that was done in December. What we're doing as we roll through this year is selectively rotating (inaudible) bonds and into more liquid assets. So that will happen as we go through this year. We're starting to make progress on that. I don't have a figure in terms of how fall through we are on that, but you can view that of that GBP540 million effect (inaudible) was closer to GBP600 million of proceeds that we received in.

We will be looking probably to reinvest about a third of that overtime out of the bonds that we went into originally.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you very much.

Operator

Thanks, Oliver. Sarah, could we turn Louise Miles of Morgan Stanley, please.

Q - Louise Miles {BIO 20765435 <GO>}

Hi, good morning everyone. Hope you're all doing well. Just three questions from me, please. You've mentioned and you've already spoken a little bit about doing that you're increasing your allocation to other (inaudible) and I think you're using (inaudible) moment. Do you have any plans to develop or acquire any capability to originate any of these assets yourselves so that's my first question.

And then on your interest rate sensitivity on under Solvency basis on slide 19, are we correct to assume that this is linear i.e. if interest rates increased by 50 bps will we see one percentage point decrease in Solvency ratio or something else happening there..

And then finally on destination retirement that sounds like a pretty interesting proposition. I'm just trying to get my head around the impact to earnings from these partnerships with (inaudible) and potentially other pensions consultancies, is this really just another distribution channel for selling lifetime mortgages and deferrals, or are you actually also earning a fee from the consultancy using this platform. Thanks.

A - David Louis Richardson {BIO 1989974 <GO>}

Great thanks Louise and again, I'll take the last one working (inaudible) today. I'll take the last and Andy you can do the first two, and (inaudible) is a bit different. So in terms of thinking about how the financials play out on that it will essentially be generating a fee income for us and that is primarily what it is designed to do. It's meant to be low-cost automated and simply automated financial advice, which helps to navigate middle Britain through and what is a very complex retirement landscape.

So we plug that into workplace solutions, so as people around[ph] order enrollment or have other DC parts can start to think about their future and be led to simplifying way and it could increase and probably should increase the total size of the pie in terms of some of our products. But that's not the primary driver because the advice which comes out of this destination retirement is not limited to our products or even our product suite. It is a full range depending on the risk appetite of the customer of what they may want to invest in their assets

Of course, the great thing about this is what you're building up is an ongoing relationship with that customer, but the whole benefit of the building something which is automated. So that could add up to meaningful contribution over the medium term, we are (inaudible) medium term, I wouldn't factor anything into your models for '21 or '22 at this stage.

A - Andy Parsons {BIO 20726474 <GO>}

And in terms of the first two questions so on the illiquid side yeah, we are quite comfortable with our marketing of using external asset managers, because we believe that gives us a good reach across the market. Good access to opportunities across the market, and it also means we aren't -- we aren't sort of tied to any one portion of that market. So we don't have immediate plans to develop our own sort of origination capability particularly in the illiquid space.

We have -- we have taken on some of the more liquid bond management in-house ourselves but we prefer to keep the access to the illiquid market through few specialists. In terms of the interest rate sensitivity I think we published a minus 50, I get your point that it might be helpful to know what the plus 50 basis would be, I would view that as broadly (inaudible) I think particularly in a range of plus or minus 50. I'm probably a bit above that. We are producing here in terms of how we operate. Probably one point to note it is invested in my speech here that so little bit of downward pressure on the solvency ratio.

As we've gone through the first couple of months of this year that's more than outweighed by the positive we've seen from house price growth through the ONS, and also has led to growth in our buffer on the EVT test against the deferment, right. So, so that's going up to 1.2, 1.3% for us, it is significant because it may even (inaudible) PRI choose to increase that target minimum devote right from 0.5% to 1%.

We still -- we're still above that and comfortably above that today. So there is no future cost involved in getting to that minimum.

Operator

Thank you Louise and Sarah If you please go to Larissa at Barclays, please. Larissa, please go ahead.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Good morning, guys. Thank you. Three quick ones. The first one on the LTM early redemptions. Could you give us a sense of whether that is simply following lower rates or whether on agency competitive pricing in the market. Second question is with the lower new business strategy show a breakeven period of three to four years, can we extrapolate that to be four to five issues if the new business strain goes up to about 3%

and the last one is back on the liquid. You mentioned that you want to increase the liquid exposure. At what point does that become a risk on liquidity or are you able to match the duration so that liquidity should not be a problem. Thank you.

A - David Louis Richardson {BIO 1989974 <GO>}

Great, thank you Larissa. I'll handle the east one, the middle one. Andy you can do the early redemptions and the liquidity management but, I asked exactly actually same question there is if I can answer that with confidence that yes if it moves to that four to five years if you have a 3% strain. So Andy, over to you.

A - Andy Parsons {BIO 20726474 <GO>}

All right. So in terms of LTM, we saw a small increase in redemptions, not a massive increase through last year, a lot of that relates to increase autopsy in the population. I think that there has been probably. If you look back over the last two or three years, a bit more re-broken going on across the LTM sort of market we're seeing less of that now that we were a couple of years back.

In terms of the, your question on illiquids in fact, we were expecting to replace the LTMs we wouldn't be brought so if we were writing new business of banking 28% for the LTMs and bringing us now down to 20 it's that portion that we are expecting now to be filling with other illiquid, so we're not moving generally to be more illiquid. We're just changing the nature of our illiquid backing so that's very much where we've targeted. And that is being made to any liquidity strain in terms of future cash payments.

A - David Louis Richardson {BIO 1989974 <GO>}

Just one other point, just to add on the LTM early redemption. So Andy says we are seeing a drop off in re-broking there in recent months. But just to remind you that and we do have early redemption charges which provide significant protection against early redemption, not complete mitigation but it provides a significant protection against those.

Operator

Thank you, Larissa. Thank you, David, maybe we have one more question. Sarah could we turn to Barrie Cornes of Panmure, please. Please go ahead.

Q - Barrie Cornes {BIO 2389115 <GO>}

Can you hear me.

A - David Louis Richardson {BIO 1989974 <GO>}

Yes, thanks Barrie.

Q - Barrie Cornes {BIO 2389115 <GO>}

I've got 3 questions. I just wanted to talk you on the backing of the LTM's towards 20%. Can you give me a timeframe as to when you'd like to get down towards 20%. The second question I had was, in terms of the bond sales think made GBP639 million Just wondered if there were any particular area and the reason behind that. And lastly, I just wondered if you could comment on the market's appetite on no NNEG hedging and LTM just wanted, what sort of market was out there. Has it changed as a result of the macro environment. Thank you.

A - David Louis Richardson {BIO 1989974 <GO>}

Great. I'll pick up the first and the third one and let you deal with the bond sales one. And so, first of all, you had a target on getting new business LTM banking ratio down to 20% and we want to get there by next year up Barrie so for financial year 2022 and just expand on that point, ever so slightly the way we're thinking about property exposure at the moment is on the existing LTM and we have at the moment. We're using a combination of no NNEG hedges and portfolio sales to bring that down to the level we'd like it to be and which is getting the kind of the balance sheet sensitivity approaching at 10% sensitivity for 10% house price falls somewhere in that region.

And so, we're using those to deal with the bank book and then what we're doing on new businesses is we just want to make sure we keep a lid on that revised level sensitivity by bringing the new business banking ratio down to around 20%.

And as I said in my remarks, we still think it's economically and attractive asset and those are very valuable customer proposition. But doing that on new business should keep the whole thing and broadly speaking in equilibrium and Just on the topic of no NNEG hedging and we are still seeing good counterparty appetite for that, it's not a deep and liquid market. These are -- these are first of a kind type transactions.

But there has been no reduction at all in that appetite in light of what's going on the broader housing market.

A - Andy Parsons {BIO 20726474 <GO>}

Okay. In terms of -- in terms of the bond sales this is probably a few points to make in terms of those sales. Obviously, we have -- we have a portfolio of around (inaudible). So we tend to look through name by name, rather than particularly trying to tell you are getting out of a particular segment.

Within that, we probably have reduced our exposure through to some of the consumer cyclical areas of banks as we've gone through the year. But very much we have looked on a name by name basis a very focused within that of not just on whether what we think bond is at risk of downgrade, but also will that downgrade take you down the category from a Solvency II so it moved to the next big letter in writing to Solvency II because that impact of the (inaudible) benefit you can type, but I will stress also the GBP600 odd million there is a combination thereof some of that was defensive so trying to trade out of things which we thought were at risk of downgrading some I would see as more optimizing and that's looking to proactively move out of certain names and into other assets, which maybe give us a better matching profile.

So we moved more to ground rents as we went through last year, which give us a very good duration within DMI and that move to benefit. So it really is a mixture of both defensive and offensive or optimizing type activity.

Operator

Great. Thanks Barrie for the question and thank you Andy for answering. So that concludes today's presentation. Thank you all for joining us today and for your continued interest in Just. Obviously you've got any follow-up questions I'm sure you won't hesitate to call the IR team (inaudible) talking to you again soon. Thank you. Bye-bye.

A - David Louis Richardson {BIO 1989974 <GO>}

Thank you.