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## Scheme Implementation Deed & Half Year 2014 Results Briefing

Nick Kirk, CEO  
Anthony Dijanosic, CFO

August 2014

# Disclaimer

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The information contained in this presentation provides only a general overview. To the extent that the presentation contains forward looking statements, Calliden considers that the expectations reflected in these statements are reasonable. The statements are subject to known and unknown risk factors associated with the financial services industry which could cause actual results or trends to differ materially.

The information is not intended to be taken as advice regarding any individual situation and should not be relied upon as such. Investors should seek appropriate professional advice in relation to their own objectives, financial situation and needs.

# Conference Calls Dial-In Details

**Wednesday 27 August 2014, 2.00pm AEST – Conference ID 487927**

**Friday 29 August 2014, 9.00am AEST – Conference ID 602540**

Please note that to participate in this conference call you will need a touchtone phone.

Dial in Numbers:

<b>Australia</b>	<b>1800 558 698 or 1800 809 971</b>
New Zealand	0800 453 055
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Japan	0053 116 1281
Hong Kong	800 966 806
UK	0800 051 8245
USA	1855 8811 339
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Approximately 10 minutes before the scheduled time, please dial the relevant number above.

You will be greeted by an operator and asked for the conference ID

You will then be placed in listen only (mute) mode with hold music until the conference is due to commence.

At the start of the conference your line will be taken off hold and you will be placed back in listen only mode.

Should you wish to ask a question or make a comment please dial \*1 (star one) to register your questions.

Should you wish to cancel your question at any time then please dial \*2 (star two).

Please note that all questions will be answered at the conclusion of the presentation.

If you are disconnected during the call then please redial your conference dial in number.

For any queries regarding the above please contact Susan Lochrin at [susan.lochrin@calliden.com.au](mailto:susan.lochrin@calliden.com.au) or + 61 (0)2 9551 1102

# Agenda

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- Scheme Implementation Deed with Steadfast
  - Jack Lowenstein, Non-Executive Director and Chair of Takeover Response Committee
- 2014 Interim Results
  - Anthony Dijanosic, Chief Financial Officer
  - Nick Kirk, Managing Director

# SCHEME IMPLEMENTATION DEED WITH STEADFAST

## The Proposal Overview

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Today the Calliden Group (“Calliden”) announced that it has executed a Scheme Implementation Deed (“SID”) with Steadfast Group (“Steadfast”), Australia’s largest network of insurance brokers and Calliden’s largest single customer.

Steadfast proposes to acquire 100% of Calliden and then, under a separate agreement, to immediately on-sell Calliden’s insurance operations to Munich Holdings Australasia (“MHA”), a subsidiary of Munich Re, one of the world’s leading reinsurers and Calliden’s largest and most longstanding reinsurance partner.

## The Proposal Key Features of the Scheme

- **Total value to shareholder:** 41.5 cents cash offer per Calliden share, plus a 5.0 cent per share fully franked special dividend<sup>1</sup>, totalling 46.5 cents per share
- **Implied company valuation:** values Calliden at \$105m<sup>2</sup>
- **Premium:** 35% to 26 August 2014 closing price and 30% to 90 day VWAP
- **Board recommendation:** The Calliden Board has unanimously recommended shareholders vote in favour of the Scheme, in the absence of a superior proposal. This recommendation is subject to an Independent Expert concluding that the Scheme is fair and reasonable and in the best interests of Calliden shareholders
- **Key approvals required:** Scheme must be approved by Calliden shareholders and by the Federal Court of Australia

# Conditions

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- Shareholder approval at a Scheme Meeting to be held in late November
  - 75% by value of shareholding voted
  - 50% by number of shareholders voting
- Approval from the Federal Treasurer under the Financial Sector (Shareholdings) Act 1998
- No material adverse change and all Calliden warranties remaining true and accurate
- Consent by a number of Calliden's contractual counterparties
- The Independent Expert concluding that the Scheme is fair and reasonable and in the best interests of Calliden shareholders
- APRA, ASIC, ASX and Court approvals being obtained
- Standard deal protection measures apply (no shop, no talk etc.) subject to fiduciary carve-outs
- Break fee \$900,000



# Indicative Timetable

Milestone	Date
First Court Hearing	late October
Scheme Booklet Dispatched	late October
Shareholder Scheme Meeting	late November
Second Court Hearing – Scheme effective	early December
Record Date	mid December
Scheme Implementation Date	mid December
Payment of Scheme Consideration	late December

# HALF YEAR RESULTS

# Half Year 2014 Headlines

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## STRATEGIC FOCUS

- New model now fully in place
- Investing in future growth on contestable platforms and niche agencies
- Interim dividend doubled at 1.0cps fully franked (HY 2013 0.5cps)

## FINANCIAL STRENGTH

- Net Tangible Assets backing maintained at 22cps
- Regulatory capital ratios in excess of 2 for Insurer and Group

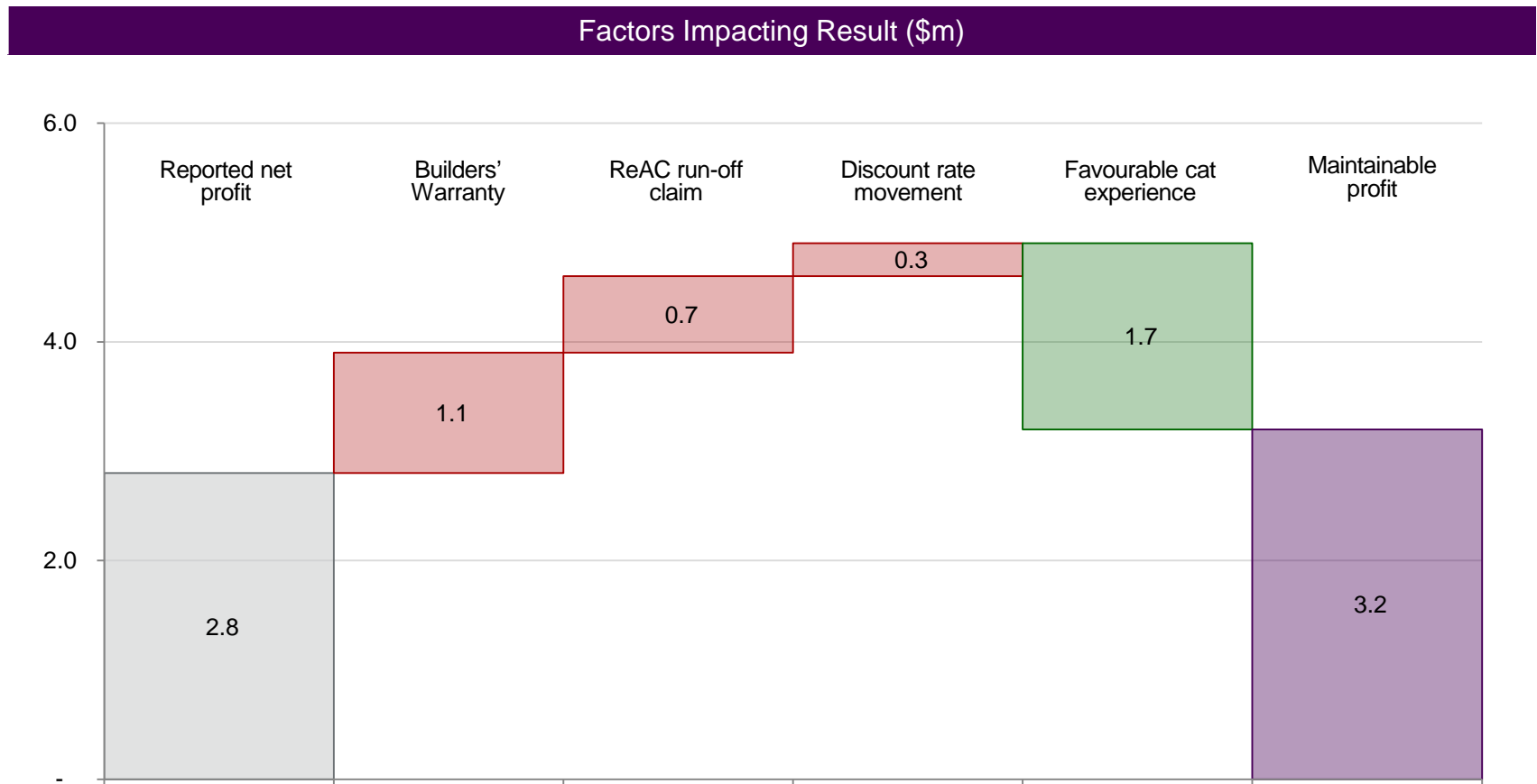
## RESULT HIGHLIGHTS

- NPAT increases by 37% to \$2.8m (HY 2013 \$2.0m)
- Agency profit more than doubles to \$4.4m (HY 2013 \$2.0m)
- Insurance profit reduces to \$0.8m (HY 2013 \$1.8m)

# Analysis of Financials Overview of Performance

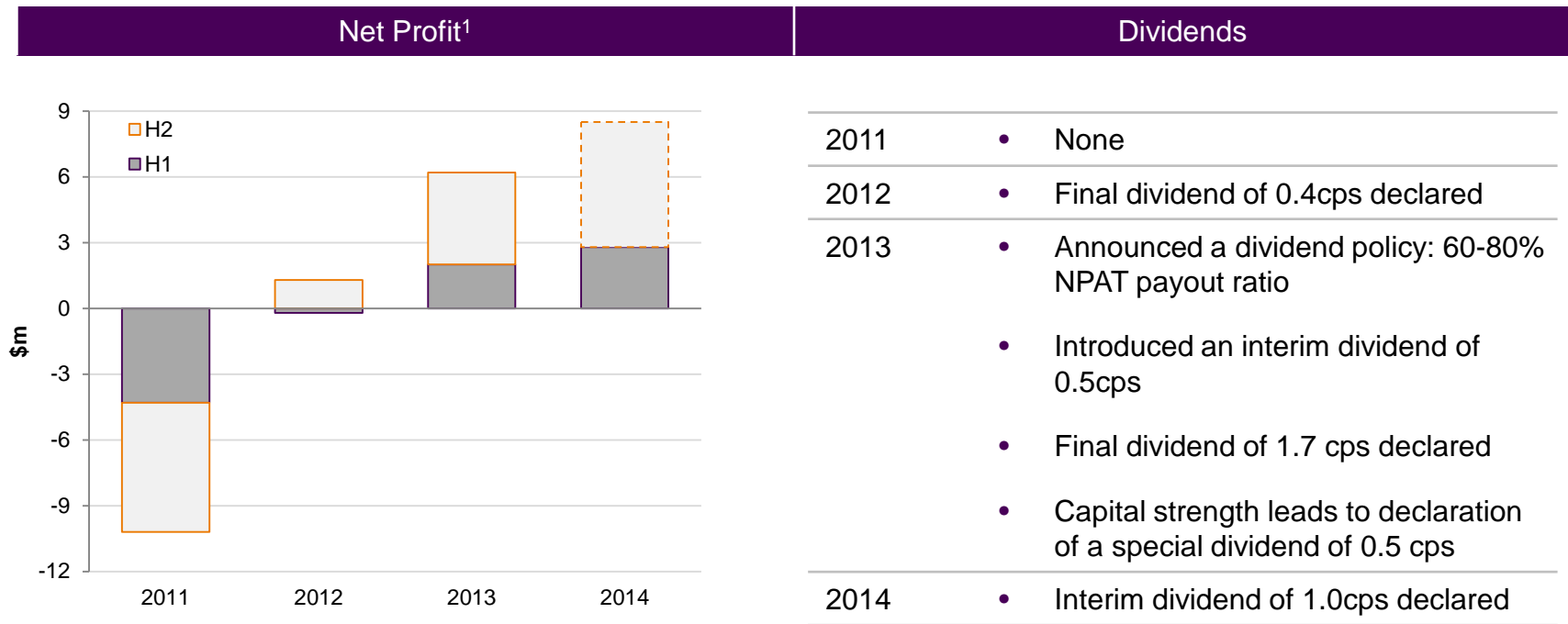
\$m	HY 2014	HY 2013	Comment
<b>Agency Profit</b>	<b>4.4</b>	<b>2.0</b>	<ul style="list-style-type: none"> <li>50% of GWP written by GLA, ACE and SICorp</li> <li>Final stage of provisioning for future admin and claims costs with impact on future profit significantly reduced</li> </ul>
<b>Insurance Profit<sup>1</sup></b>	<b>0.8</b>	<b>2.9</b>	<ul style="list-style-type: none"> <li>Reflects transition from insurer to agency</li> </ul>
<b>JV Agency Profit</b>	<b>0.5</b>	<b>0.1</b>	<ul style="list-style-type: none"> <li>Includes \$0.6m profit on sale of 50% interest in Arena</li> <li>QUS contribution offset by expensing of set-up costs for Famous</li> </ul>
Other Expenses <sup>2</sup>	(0.7)	(0.8)	
<b>EBITDA</b>	<b>5.0</b>	<b>4.2</b>	
Depreciation and Amortisation	(2.0)	(2.2)	
Tax	(0.2)	-	<ul style="list-style-type: none"> <li>Recent tax losses now exhausted, older tax losses adjusted by 87% resulting in an effective group tax rate of c.4% for next 5+ years</li> </ul>
<b>Net Profit After Tax</b>	<b>2.8</b>	<b>2.0</b>	
Earnings Per Share (cents)	1.22	0.89	<ul style="list-style-type: none"> <li>+37% on pcg</li> </ul>
Dividend Cents Per Share	1.00	0.50	<ul style="list-style-type: none"> <li>Dividends 100% fully franked</li> <li>82% payout ratio</li> </ul>

# Analysis of Financials Factors Impacting Result



Maintainable profit remains on track

# Analysis of Financials Earnings & Dividends



Since 2011, Calliden has restructured in order to deliver more predictable earnings allowing it to pay fully franked dividends using tax losses<sup>2</sup> and franking credits.

# Analysis of Financials Agency Performance

\$m	HY2014	HY2013	Comment
GWP <sup>1</sup>	75.2	73.0	• Growth in NSW Warranty, Farm & Mid-Market
Commission and Fee Revenue	23.1	18.3	• Fees on Home • Growth in NSW Home Warranty
Acquisition Costs	(9.6)	(8.7)	
Other Operating Expenses	(9.2)	(7.6)	
Investment Income	0.1	-	
<b>Agency Contribution</b>	<b>4.4</b>	<b>2.0</b>	• +116%
Margin (% of GWP*)	5.7%	4.5%	
Margin (% of Revenue)	18.4%	10.8%	

- More than 75% of Australian insurance brokers deal with Calliden
- Calliden Agency Services is now a top three agency in Australia

# Analysis of Financials Insurance Performance<sup>1</sup>

\$m	HY2014	HY2013	Comment
Gross Written Premium (insurance)	48.8	52.5	
Net Earned Premium	30.1	27.6	<ul style="list-style-type: none"> <li>Large decrease in proportional reinsurance</li> </ul>
Net Claims Incurred	(20.9)	(19.4)	<ul style="list-style-type: none"> <li>Builders' Warranty deterioration, ReAC claim and movement in discount rate (\$2.1m)</li> <li>Favourable catastrophe experience \$1.7m</li> </ul>
Net Acquisition and Underwriting Costs	(10.6)	(7.6)	<ul style="list-style-type: none"> <li>Large decrease in proportional reinsurance has decreased inbound commission</li> </ul>
<b>Underwriting Profit /Loss)</b>	<b>(1.4)</b>	<b>0.6</b>	
Investment Income on Insurance Liabilities	1.9	2.3	<ul style="list-style-type: none"> <li>Lower proportion of investments classified as technical funds as insurance liabilities decrease</li> </ul>
<b>Insurance Profit</b>	<b>0.5</b>	<b>2.9</b>	
Investment Income on Shareholders' funds	0.3	0.0	
<b>Insurance Contribution</b>	<b>0.8</b>	<b>2.9</b>	
Gross claims ratio (%)	69	68	
Net loss ratio (%)	69	71	
Net expense ratio (%)	35	28	
Combined Operating Ratio (%)	105	98	
Insurance Margin (%)	2	10	



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## Analysis of Financials JV Agency Performance

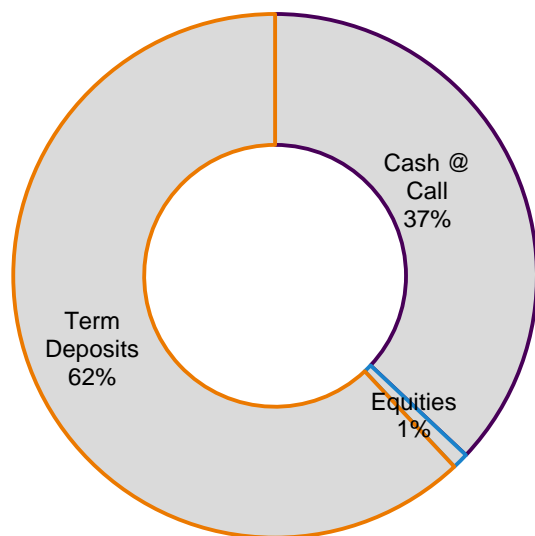
\$m	HY2014	HY2013
GWP	13.4	12.9
EBITDA <sup>1</sup> (our share)	0.7	0.3
Profit (our share)	0.5	0.1
Return on investment <sup>2</sup>	174%	58%

- Sale of Arena realises \$0.6m in profit
- Investment in new Famous JV expensed at \$0.3m

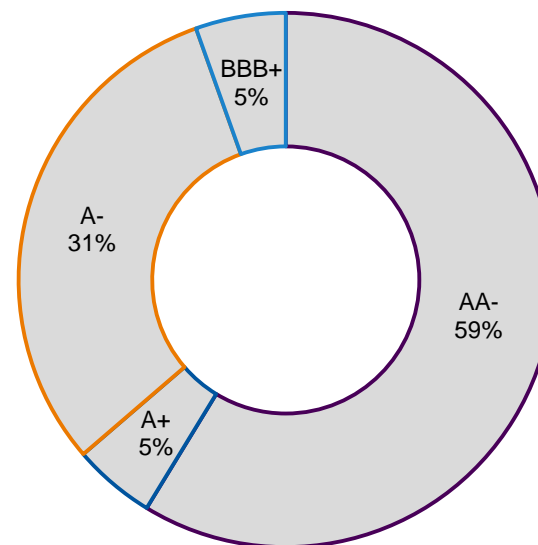
# Analysis of Financials Investment Income

Income	2014		2013	
	HY1 \$m Return	% R12 Return	HY1 \$m Return	% R12 Return
Investment Income <sup>1</sup>	2.3	5.04	2.3	5.79

Investment Portfolio By Asset – 30 Jun 2014



Investment Portfolio By Rating – 30 Jun 2014



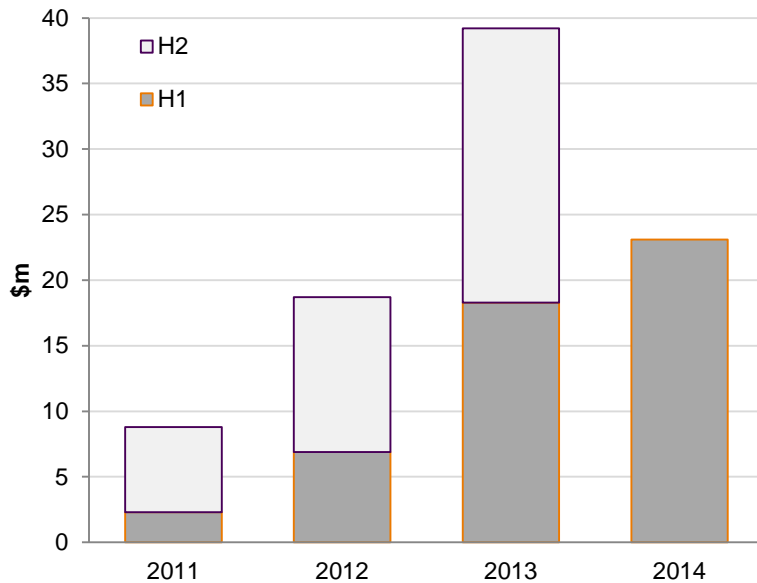
# Analysis of Financials Balance Sheet

\$m	30 Jun 2014	31 Dec 2013
<b>Assets</b>	<b>296.7</b>	<b>290.0</b>
Cash & Investments	103.3	94.2
Other Assets	150.2	151.5
Intangibles	43.2	44.3
<b>Liabilities</b>	<b>199.7</b>	<b>191.0</b>
Insurance Provisions	155.0	160.4
Other Liabilities	44.7	30.6
<b>Total Equity</b>	<b>97.0</b>	<b>99.0</b>
NTA (\$ per share )	0.22	0.22

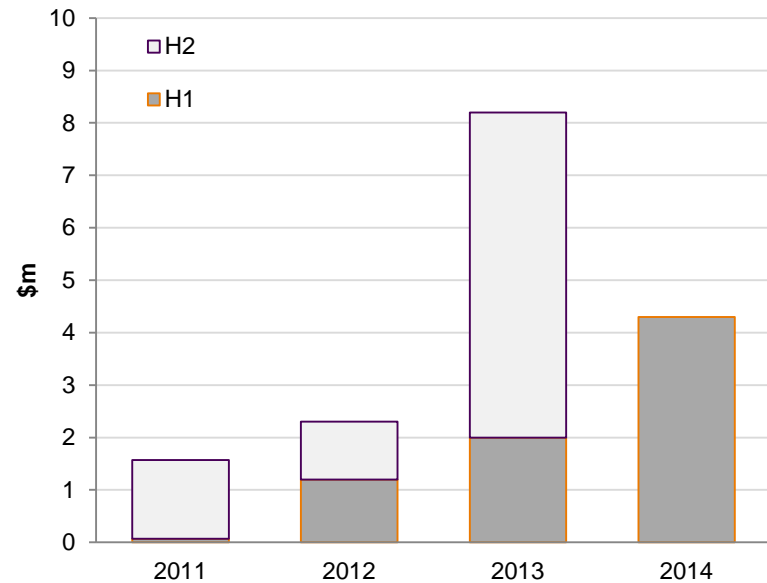
# OPERATIONAL OVERVIEW

# Operational Overview Calliden Agency Services

Agency Commission & Fee Revenue



Agency Profit

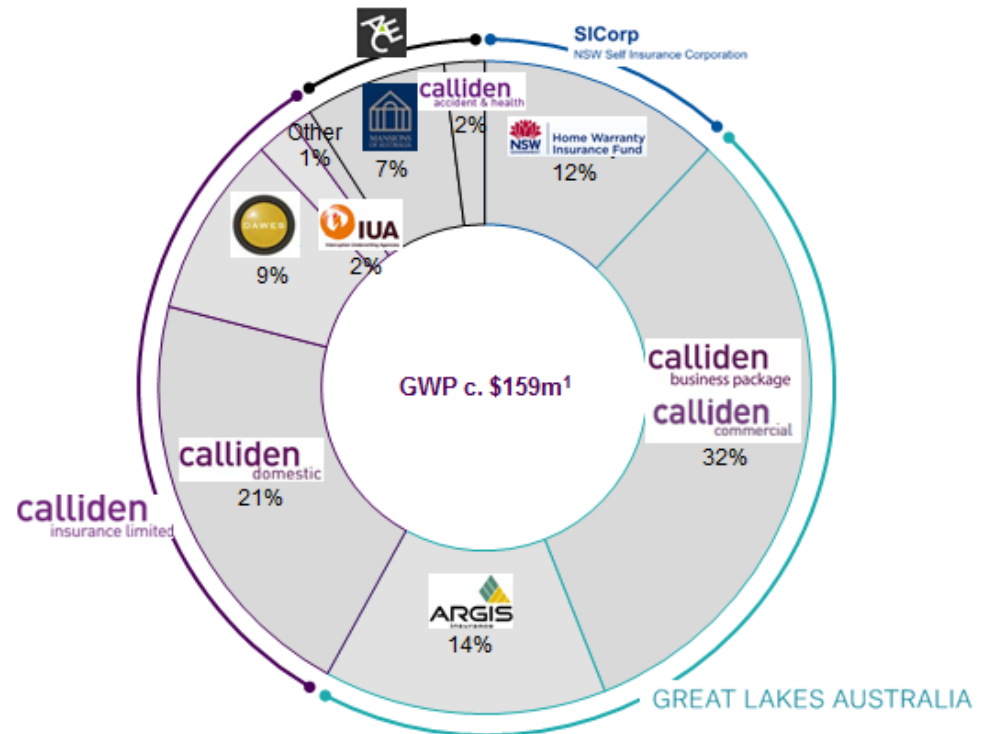


- Strong agency revenue growth
- Strong profit growth
- Top three agency in Australia

# Operational Overview Calliden Agency Services

## Portfolio Mix and Insurers 2014

- Mansions transferred to ACE Insurance with effect from January 2014
- Middleware layer and connection to SVU on track for 4<sup>th</sup> quarter
- IUA moving to Lloyds 4<sup>th</sup> quarter 2014



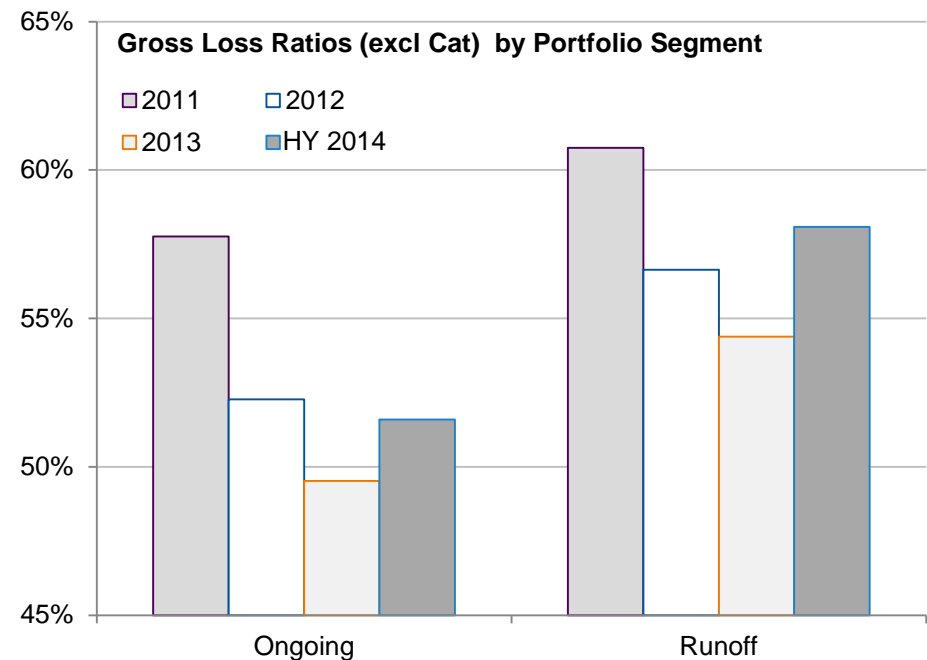
## Top Five Customer Groups



# Operational Overview Insurer Core Portfolio Performance

## Portfolio Trends

- **Home:** Continued pricing strength
- **Motor:** Increased incidence large losses
- **Niche Commercial:** Sound performance
- Continued good performance from ongoing portfolio offset by poor Builders' Warranty and run-off claim





## Operational Overview Insurer

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- Builders' Warranty
  - Higher reported claims activity (\$1.1m) worse than expected including (\$0.7m) Incurred But Not Reported reserve strengthening
- Run-off claim
  - Reserve raised (\$0.7m) following an unusual and unexpected finding in a Canadian Court relating to a 1996 bankruptcy affecting a ReAC reinsurance layer
  - The case is subject to appeal
- Discount rate
  - Increase in claims reserves due to discount rate movement (\$0.3m)

## Operational Overview Ventures

- Calliden has a strong track record in the development of ventures and we are keen to develop more
- The overall profit contribution has totalled over \$14m representing an annualised 53% return including gains from divestment



# Operational Overview Ventures

## Venture Overview



- Niche Residential and Commercial Strata
- GWP \$26m
- Insurer W R Berkley



- Sold in March 2014
- Profit of \$0.6m
- 500% return on original investment



- Launched 1 July 2014
- Motor cycle enthusiasts
- Expense of \$0.3m in HY 2014

# Outlook

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## STRATEGIC FOCUS

- Growing agency income
  - Connecting to contestable platform in Q4
- Develop new niche agency ventures
- Maintain dividend policy

## ENVIRONMENT

- Market competition increasing

## FORECAST

- Full year forecast unchanged at \$7.5m - \$9.5m<sup>1</sup>

**calliden**  
group