ASX Announcement: Calliden Group Limited (CIX)

29 August 2013

Calliden records a turnaround result for First Half 2013

Calliden Group Limited (**"Calliden"**) today announced a $2.0m profit for the half year ended 30 June 2013, a significant improvement on the $0.2m loss recorded for the same period in 2012. Consistent with the Company's new dividend policy, announced at the Annual General Meeting in May, the board has declared a fully franked interim dividend of 0.5 cents per share.

This result reflects the outcome of Calliden's strategic decision in 2011 to move its business profile more towards that of a Managing General Agent. The new model incorporates a smaller, better performing insurer together with a growing agency representing a range of insurers, including Calliden Insurance Limited ("CIL"). By the end of the 2013 financial year, Calliden will have achieved its target of underwriting at least half of its Gross Written Premium as an agent on behalf of other insurers.

Summary of Financial Results

$m (unless otherwise stated)	H1 2013	H1 2012	Change
Agency profit /(loss)	1.97	1.16	0.81
Insurance profit/(loss)	1.78	0.35	1.43
Other income & admin. expenses	0.44	0.61	(0.17)
EBITDA	**4.19**	**2.12**	**2.07**
Amortisation – customer relationships	(0.55)	(0.63)	0.08
Amortisation – systems development	(1.45)	(1.57)	0.12
Depreciation	(0.18)	(0.15)	(0.03)
Net profit/(loss) after tax	**2.01**	**(0.23)**	**2.24**
NTA per share (cents)	21.4	18.5	2.9

Highlights of the first half include:

- Substantial improvement in Calliden Insurance's underwriting performance as evidenced by a much improved combined operating ratio, which now stands at 98%, and an insurance margin of 5%;
- Strong growth in fee and commission revenue from agency operations resulting in a profit of $2m for that division;
- Continued improvement in both Calliden's and CIL's capital positions;
- Launch of a new middle market offering covering larger risks and underwritten by Great Lakes Australia; and
- Significant progress in implementing the internal restructure to support our operating model.

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Commenting on the results, Calliden Managing Director and CEO, Mr Kirk said "Calliden's first half performance is in line with our expectations and reflects our previous guidance. This highlighted that Calliden's FY13 profit would be strongly weighted towards the second half as the Group progressed through the second stage of its two year transition period.

In this context we are particularly pleased to announce our first interim dividend, breaking with past practice of paying one annual dividend based on our results at the end of the financial year. The board has declared a fully-franked interim dividend of 0.5 cents per share which will be paid on 30 September 2013 to those shareholders recorded on the register at 16 September 2013.

Operational Highlights

CIL reduced its reinsurance coverage for 2013 through a lower quota share cession, which will allow the Group to take advantage of the expected improvement in profitability resulting from portfolio management actions in 2012.

In the first half of 2013 the key operating highlights for Calliden's agency business were:

- completion of the transition of the business pack portfolio to an agency basis in May 2013;
- commencement of the transition of the farm portfolio to an agency basis from January 2013;
- the introduction of agency fees on the business pack, farm pack and home portfolios; and
- the launch of a "middle market" offering covering larger risks, underwritten by GLA.

In line with the transition to the new business model, Calliden wrote policies on behalf of three external insurers in the first half of 2013 including Great Lakes Australia ("GLA") part of the Munich Re Group, Lloyd's of London and the NSW Self-Insurance Corporation. Calliden's joint venture strata agency QUS began writing on behalf of W R Berkley from the 1 January 2013. In total Gross Written Premium ("GWP") underwritten by third party insurers increased by 195% from $17.8m in H1 2012 to $52.5m in H1 2013. By the end of 2013 more than half of Calliden's GWP is forecast to be underwritten externally to the Group.

A key focus for the Group in 2013 is working through a restructuring of the business to align the corporate structure to Group operations. This restructuring will continue throughout 2013 and into early 2014, and will see the consolidation of the Group's agency business into the wholly-owned subsidiary Calliden Agency Services Limited.

On 1 July 2013 Calliden launched a range of Accident and Health products underwritten by ACE Insurance. Calliden is an ideal partner for well capitalised insurers looking to grow their product distribution rapidly in a cost effective, risk managed manner, and we will continue to pursue new agency opportunities to complement our existing product suite.

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Capital Strength

Calliden's strategy to move some of its portfolio to an agency basis, together with solid underwriting performance in CIL, has seen further improvement in both Calliden's and CIL's capital positions. This is reflected in their Capital Adequacy Multiples ("CAM") of 2.0 times and 2.3 times respectively which continued to strengthen relative to 31 December 2012.

From 1 January 2013 new capital standards came into place for general insurers, with the previous Minimum Capital Requirement replaced with the Prescribed Capital Amount (PCA). The impact of this more risk sensitive capital calculation in Calliden has been fairly limited. As at 1 January 2013, the multiples of the new PCA were 1.9 times for Calliden and 2.1 times for CIL.

Outlook

The business remains focused on meeting its targeted profit of $10m for 2013. In the second half for our insurer this means continuing to focus on improving the underlying profitability of its portfolio, catastrophe activity to be within our remaining budget and no further strengthening of claims reserves. For our agency business the focus will continue to be growing agency revenue.

Mr Kirk said "This result shows that our decision to change Calliden's strategy to reduce the overall risk profile of the business to deliver a more predictable earnings stream, is starting to bear fruit. Furthermore it confirms our long term objective to improve returns to shareholders through the regular payment of fully-franked dividends."

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