calliden group

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ASX Announcement: Calliden Group Limited (CIX)

28 February 2013

Calliden 2012 Full Year Results

Calliden Group Limited (**Calliden**) today announced that its audited result for the year ended 31 December 2012 is a net profit of $1.1m, representing a significant improvement on the $10.2m loss recorded in 2011.

Highlights

- Reported profit of $1.1m in line with guidance
- Successful implementation of the transition to its new business model
- Insurance profit of $5.5m reflecting improved portfolio management and benign catastrophe experience
- Balance sheet strengthened with Capital Adequacy Multiple at 1.9 times
- Resumption of a fully-franked dividend of 0.4 cents per share

Summary of Results:

	2012	2011	Change
Group profit / (loss) ($m)	1.1	(10.2)	11.3
Group Gross Written Premium ($m)	224.5	268.4	(43.9)
Gross Loss Ratio (%)	62	94	32
Combined Operating Ratio (%)	99	119	20
Insurance Margin (%)	9	(15)	24
NTA per share (cents)	20	18	2

This result is in line with previous guidance. The Group's operating and financial results for 2012 reflect the impact of the decision to strengthen the capital base through additional reinsurance and the transition from being predominantly a general insurer to becoming a Managing General Agency ("MGA"). The MGA model incorporates a smaller, better performing insurer together with a growing agency representing a range of insurers, including Calliden Insurance Limited ("CIL").

Commenting on the results, Calliden Managing Director and CEO, Mr Kirk said "Calliden has achieved its 2012 aims of implementing the Managing General Agency strategy announced in 2011. We have rebuilt the capital strength of the insurer whilst at the same time returning the group to profitability. This has allowed Calliden to resume paying fully-franked dividends with a 0.4 cents per share declaration. The record date for this dividend is 13 March 2013 and payment date of 28 March 2013.

"The Group also undertook a restructuring of the business to align its operations with the MGA model. This restructuring will continue in 2013, as we see the consolidation of the Group's agency business in the wholly-owned subsidiary, Mansions of Australia Limited, which will be renamed Calliden Agency Services Limited," Mr Kirk said.

In line with the transition to an MGA, Calliden now writes policies on behalf of three external insurers: Great Lakes Australia ("GLA"), Lloyd's of London and the NSW Self-Insurance Corporation. The Group increased its Gross Written Premium ("GWP") underwritten by third party insurers by 132% from $22.7m in 2011 to $52.7m in 2012 and in 2013 almost half of Calliden's GWP is forecast to be underwritten externally to the Group.

Operational Highlights

During 2012, the Group undertook a number of portfolio management actions within its insurance operations, including:

- limiting aggregate exposures to natural perils;
- improved capability in geographic risk rating, leading to reduced exposure to acute flood and bushfire risks;
- the exiting of unprofitable lines; and
- increasing premiums to bring loss ratios to acceptable levels.

As a consequence, CIL's insurance book is structurally more profitable. Following the rebuilding of its capital base in 2012, CIL has been able to reduce its reinsurance coverage for 2013 through a lower quota share cession which will allow the Group to take advantage of this expected improvement in profitability.

In 2012 the key operating highlights for Calliden's agency business were:

- transitioning key insurance portfolios to operate on an agency basis on behalf of third party insurers - including the business pack portfolio from May 2012;
- preparation for the transition of the farm portfolio from January 2013;
- system development work to enable the introduction of agency fees; and
- implementation of the commercial on-line rating engine which will allow for better pricing of the business pack portfolio.

Strengthening of Capital

In 2012, Calliden implemented a strategy to rebuild its capital strength through additional reinsurance and to progressively move some of its portfolio to an agency basis. Consequently, Calliden's and CIL's capital positions have improved significantly, as reflected in their Capital Adequacy Multiples ("CAM").

- Calliden's CAM increased 58% to 1.9 times as at 31 December 2012 compared with 1.2 times as at 31 December 2011; and
- CIL's CAM increased 64% to 2.2 times as at 31 December 2012 compared with 1.4 times at 31 December 2011.

With effect from 1 January 2013, under APRA's new capital standards, the multiples of the new Prescribed Capital Amount remain strong at 1.9 times for Calliden and 2.1 times for CIL.

Outlook

Since 1 January 2013, the farm portfolio has been underwritten by GLA. This, together with our new middle market offering, will result in Calliden generating around 50% of its business in 2013 from policies underwritten by third party insurers. The Group will continue to pursue new agency opportunities to complement our existing product suite.

CIL will continue to focus on improving the underlying profitability of our underwritten portfolio and importantly, optimising our reinsurance programme to take advantage of the improved loss ratios arising from our portfolio management actions in 2012.

Mr Kirk said "The aim of our strategy is to reduce volatility in our results enabling the group to return to paying regular, fully-franked dividends to our shareholders."

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