

ASX Announcement: Calliden Group Limited (CIX)

6 November 2013

Update on 2013 Profit Target

Calliden Group Limited (CIX) has today advised that it expects the full year 2013 net profit after tax to be in a range between \$5m and \$7m. This range is lower than the target profit of \$10m set in May 2012 and referenced in previous announcements. Nevertheless, it continues to compare favourably to Calliden's full year 2012 reported profit of \$1.1m, and represents an uplift on the \$2m profit announced for the half year to June 2013.

In previous announcements Calliden has identified that the risks to the achievement of its 2013 profit target were 1) higher than expected insurer loss ratios, and 2) below forecast growth of agency revenue. These risk factors, in combination, are the primary cause of the revision to the Group's net profit expectation.

Builders Warranty Portfolio

While loss ratios continue to track largely to expectation, the Builders Warranty portfolio has been the exception and is a key driver of the below-expected second half profit performance. As a consequence, Calliden is allowing for further reserve strengthening in the Builders Warranty portfolio in the second half of 2013, with a total expected impact for the year of between \$3m and \$4m.

Mr Kirk said "The reserve strengthening in the Builders Warranty portfolio highlights the underlying volatility of the insurance operations, which has been the primary driver of our business restructure over the past 18 months. While we have de-risked just over 50% of the business by moving to a Managing General Agency model, we have some further work to do in relation to reducing this volatility.

Substantial progress has already been made regarding the Builders Warranty portfolio including:

- acting as an agent of the New South Wales government since stopping underwriting on our own behalf in 2010;
- the recently announced 100% proportional reinsurance arrangements with the South Australian and Western Australian governments taking effect from 1st October and 1st November respectively; and
- the announcement in early October of Calliden's departure from the Victorian Builders Warranty market after not being able to secure an agency or quota share arrangement with that government."

Agency Operations

We are achieving strong growth in our niche portfolios; however premium income in Home insurance underwritten by Calliden Insurance Limited is falling short of expectations. Our focus on reducing volatility by limiting exposure to flood and bushfire, combined with actions taken to ensure rate adequacy, has led to lower exposure and a reduction in premium income and therefore commission and fees. While this is disappointing a direct benefit of the insurer's focus on reducing the risk in Home from natural perils has been a much improved performance in relation to claims as evidenced by its low exposure to the recent NSW bushfires.

Update on NSW Bushfires

Calliden has received a single claim relating to its insurer book to-date, and a further claim relating to its agency book for which Calliden does not bear underwriting risk. The expected net cost of the recent bushfires to Calliden is \$0.5m including an allowance for claims incurred but not reported. This compares to a \$0.5m net cost to Calliden for the recent Melbourne storm activity, though in that instance there was no catastrophe event declared. Total losses from natural catastrophes in 2013 remain within the full year allowance.

Outlook

While our insurer remains susceptible to a range of underwriting risks, the long term growth of the agency operations is designed to reduce the overall volatility in reported profit for the Group. This reduced volatility, and a balance sheet that continues to strengthen (NTA currently \$0.22 per share), provides Calliden with considerable flexibility when determining a final payout ratio for 2013. Our dividend policy of paying out 60-80% of net profit was announced at the AGM in May this year.

While it is too early to gauge the outlook for the Group in 2014, the impact of reduced commission and fees on the home portfolio is estimated to be around \$1m to \$1.5m next year. We see no reason to change our earlier expectation for modest profit growth but it follows this will be on the lower number. Our strategy remains on track to deliver improved returns to shareholders over time through the regular payment of fully franked dividends.

A conference call will be held today at 12pm AEDT as an opportunity for shareholders and investors to discuss the above announcement. Conference call details are:

Toll Free Number: 1800 558 698
Local Number: +612 9007 3187
Conference ID: 729713

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ENDS



Event Conference details

Dear Attendee,

Meeting Title: CALLIDEN GROUP MARKET ANNOUNCEMENT

Date:	6 th November 2013
Start Time:	12:00PM -AEDT
Conference ID:	729713

Audio Access Dial in numbers:

Australia Toll Free	1 800 558 698		
Alternate Australia Toll Free	1 800 809 971		
Australia Local Number	+612 9007 3187	New Zealand	0800 453 055
China Wide	4001 200 659	Norway	800 69 950
Belgium	0800 72 111	Philippines	1800 1110 1462
Canada	1855 8811 339	Singapore	800 101 2785
France	0800 913 848	South Korea	00 798 142 063 275
Germany	0800 182 7617	Sweden	020 791 959
Hong Kong	800 966 806	South Africa	800999976
India	0008 0010 08443	Switzerland	800820030
Indonesia	001 803 019 3275	Taiwan	008 0112 7397
Ireland	1800 948 625	Thailand	001800 156 206 3275
Italy	800 793 500	UAE	8000 3570 2705
Japan	0053 116 1281	United Kingdom	0800 051 8245
Malaysia	1800 816 294	United States	1855 8811 339
Netherlands	0800 020 0715		

In Order to ask a question during the Live Question and Answer Session, Please press * then 1 on your telephone keypad in order to enter the Q&A queue. To withdraw your question simply key * then 2