calliden group

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ASX Announcement: Calliden Group Limited (CIX)

23 August 2012

Solid Improvement in Half Year Results & Announcement of New Agency Agreements

Calliden Group Limited (Calliden) today announced a significant turnaround in its results for the six months ended 30 June 2012, recording a small loss of $0.2m compared with a $4.3m loss for the same period last year.

The Group chose to increase reinsurance protections in 2012 to restrengthen its regulatory capital position following last year's extreme catastrophe losses and ahead of the introduction of APRA's new capital standards in January 2013.

The underwriting performance of the Group for this half year is much improved, including favourable catastrophe experience of $1.1m, better large and attritional claims, offset by the following factors:

- Increased catastrophe reinsurance costs of $1.3m;
- Additional reinsurance protection covering the unexpired risk at 31 December 2011 of $1.2m;
- Additional proportional reinsurance of $1.1m;
- Discount rate impact on reserves of $1.0m;
- Restructuring costs of $0.6m; and
- Lower investment income of $0.5m.

The result was achieved during the first six months of Calliden's transition to its new Managing General Agency (MGA) business model which targets around 50% of its premiums being underwritten on behalf of third party insurers.

Highlights of the first half include:

Implementation of the MGA strategy commencing with the transition of the commercial business pack to Great Lakes Australia (GLA), a subsidiary of the Munich Re Group rated AA- (very strong) in May 2012.

Premium underwritten on behalf of third party insurers (including GLA, Lloyd's of London and the State Government of NSW) during the half increased by over 65% to $18.9m.

Profit of $0.8m from the insurance operations of wholly owned insurer, Calliden Insurance Limited, compared with an insurance loss of $3.3m for the same period in 2011.

Strong Capital Adequacy Multiple (CAM) of 1.9 in Calliden Insurance Limited.

The new MGA business model is designed to provide the Group with two sources of revenue, with its written premium balanced between an agency and a smaller insurer, both supported by Group services. The resulting benefits to shareholders will include reduced profit volatility, a potential reduction in the Group's reliance on more costly reinsurance in its insurer enabling the payment of regular dividends in the future.

New Agency Deals Agreed with GLA

Calliden has been in negotiations with third party insurers to act as their agent in respect of a number of portfolios within the Group. In recent days, agreement was reached to underwrite the farm portfolio on behalf of GLA with effect from 1 January 2013.

The farm portfolio accounts for around 10% of annualised Gross Written Premium (GWP) and is distributed under the ARGIS brand through professional intermediaries.

Calliden has also agreed key terms with GLA in relation to expanding its current commercial proposition to middle market businesses, effectively increasing the size of risks that can be considered by more than 50%. This initiative is targeted for implementation in the first quarter of 2013. It will complement Calliden's existing commercial products and be distributed through the same network of professional intermediaries. The ability to provide our brokers with AA- (very strong) security for middle market customers provides an opportunity for Calliden to develop into a new area for the Group, expanding its target market.

As a result of both the farm and middle market initiatives being implemented in 2013, Calliden is confident of achieving its stated target of underwriting 50% of its portfolio as an agent on behalf of other insurers.

Operational Highlights

Detailed analysis of our portfolio's past and likely future performance has identified where prices need to increase to meet profit targets as well as opportunities for future new business growth. In the first half of 2012 this has led to:

- The finalisation of our commercial insurance pricing algorithm, which has been implemented for our commercial pack portfolio in August 2012;
- Further price increases being put through on our home insurance and strata portfolios;
- The discontinuation of our domestic landlords' product to reduce the aggregate natural perils exposure and improve underlying profitability; and
- Reducing our exposure to flood, bushfire and other natural perils through pricing, underwriting action and introducing exposure limits for geographic zones across a number of portfolios.

Outlook

The focus during the second half of the year will continue to be on achieving the Company's strategy of transitioning the Group to an MGA, underwriting policies on behalf of both Calliden Insurance Limited and external capital providers. In particular management will be focusing on:

- Improving the underlying profitability of Calliden's insurance portfolios;
- Preparing to transfer the farm book to an agency basis;
- Building a new middle market agency proposition for launch in the first quarter 2013;
- Designing and implementing the reinsurance programme for 2013;

- Ensuring the expense base is in correct proportion to the Company's revenue as an MGA; and
- Continuing to prepare for APRA's new regulatory capital regime.

Calliden believes its first half year result means it is on track for the lower end of its $1m to $3m profit guidance for the full year 2012.

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