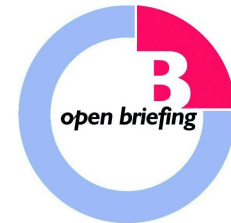


**Attention ASX Company Announcements Platform  
Lodgement of Open Briefing®**



**corporatefile.com.au**

Calliden Group Limited  
Level 7, 100 Arthur Street  
North Sydney, NSW 2060

---

**Date of lodgement:** 21-Aug-2008

**Title:** Open Briefing®. Calliden. CEO on H1 08 Results

**Record of interview:**

**corporatefile.com.au**

Calliden Group Limited today reported net profit of \$3.6 million for the first half ended June 2008, up from a loss of \$0.6 million for the first half of 2007. The previous first half did not include the Australian Unity general insurance businesses, which were acquired at the end of July 2007. What was the contribution of the AU businesses and what was the contribution of the underlying business?

**CEO Nick Kirk**

The result was our second consecutive half-year profit and was up by 90 percent from the second half of 2007. The major underlying reason for the increase in profitability was our increased scale and diversity resulting from the acquisitions we've made over the previous two years, including the purchase of the AU general insurance businesses. However, given the ongoing integration process, it's no longer appropriate, or possible, to break out the results of a particular acquired entity.

The first half was relatively benign in terms of weather and large individual claims, and the continuing good performance of our long-tail lines, in the first half and in prior periods, contributed to the result. In addition, the performance of our joint venture claims management and agency businesses significantly increased their contribution to \$0.8 million, up from \$0.2 million and equivalent to over 20 percent of our profit.

On the negative side, we suffered a \$1.6 million loss from our investments in listed equities through managed funds in the first quarter and integration costs

were \$3.6 million, including \$1.6 million in costs related to consolidating the reinsurance programme.

**corporatefile.com.au**

Gross written premium (GWP) was \$97.6 million, up from \$28.3 million. Compared with the second half of 2007, GWP was up only 2 percent. To what extent did this reflect your planned exit from less profitable business? What has been the underlying growth of the continuing portfolio?

**CEO Nick Kirk**

Our consistent overall objective remains building the bottom line rather than simply focussing on the top line.

Certainly we took advantage of our increased scale to exit a number of unprofitable portfolios and in addition we withdrew from underwriting crop insurance which represented \$7 million of premium in the second half of 2007. The underlying growth of more profitable lines was around \$10 million in the period.

**corporatefile.com.au**

The consensus net profit forecast for the current year ending December 2008 is \$7 million, implying an expectation that second half earnings will equal those of the first half. Can you comment?

**CEO Nick Kirk**

This sort of analysis is complicated by a number of factors. The first half was impacted by a number of positive and negative one-offs. One was the \$1.6 million loss on investments we experienced in the first quarter. We wouldn't expect a repeat of that in the second half given our more defensive investment position. Another was the \$1.6 million reinsurance cost, which was the last instalment of our payments relating to the consolidation of our reinsurance programmes, and so won't recur. Integration costs will recur in the second half, particularly bearing in mind that we purchased the remaining 50 percent of the regional and rural underwriting agency ARGIS towards the end of the first half, but at a lower level than the first half.

Finally, the first half was relatively benign from a weather and large loss perspective. We also benefited from reserve releases from our long-tail lines, which have continued to perform well. In addition our regional and rural portfolio, which represents around 20 percent of our turnover, has traditionally been seasonal with larger numbers of claims, relating to both weather and fire, in the second half of the year. While we've strengthened our reinsurance to mitigate the impact of both weather and second-half short-tail deterioration, we can't completely eliminate volatility in our loss ratios. As such we are reluctant to make any specific forecast about the second half.

**corporatefile.com.au**

In an environment where the larger players have begun to raise their premiums, what has been the trend in Calliden's actual premiums, and what is the expected trend over the remainder of the year? What is the potential upside for earnings?

**CEO Nick Kirk**

The area most in need of premium increases is short-tail commercial. There are signs in the market of movement, and small increases are now achievable in some portfolios. But we're yet to see consistent premium increases across the board in that sector. On the other hand, in personal lines in both home insurance and motor, rates are increasing, as are rates in regional and rural lines.

We expect those rate increases to continue, so clearly there's some upside for us going forward. However, we must stress that a premium increase today takes a full 12 months to work through to the bottom line. Earnings coming through today relate to business that was written up to 12 months ago.

**corporatefile.com.au**

In the first half Calliden had operating cash outflow of \$12.7 million compared with outflow of \$1.0 million in the previous corresponding period. This reflected reinsurance premium paid of \$60.0 million, up from \$18.1 million. What did the higher payment relate to and what is the expected level of reinsurance expense going forward?

**CEO Nick Kirk**

We paid a lot more reinsurance premium in the first half and in addition paid claims from last year's storms in advance of recoveries from our reinsurers. This will normalise over time as reinsurance recoveries are paid in the second half on the storm claims and on any claims on the quota share that applied from October last year when we consolidated our reinsurance programmes.

Calliden Limited has always placed reinsurance on a conservative basis covering our exposures through to expiry rather than for a 12-month period. Bringing the acquired portfolios in line with this has meant the quota share has been applied to each new risk and renewal from October onwards, so we're paying for reinsurance up-front, in advance of future recoveries. With the weather events of the last quarter of 2007, these placements proved prudent as they reduced our exposure to multiple storm events. We paid a large number of these storm claims in the first half and we're seeking recovery from reinsurers in accordance with standard industry terms.

First-half cash flow was also impacted by our purchase of the remaining 50 percent of ARGIS, which reduced our investable funds by \$4.5 million.

**corporatefile.com.au**

Calliden's first-half expense ratio was 21.5 percent down from 34.9 percent in the previous period and 23.7 percent in the 2007 second half. Is the first-half expense ratio indicative of the expected level going forward? In an increasingly inflationary environment, what is the outlook for expenses?

**CEO Nick Kirk**

Our first half expenses included continuing integration costs of \$2 million excluding the reinsurance costs. In addition, the one-off \$1.6 million of reinsurance spend also impacted the ratio in the first half. Our expenses will stabilise over time but we don't expect any major savings until our single insurance system comes on line. That's still another 18 months or so away.

**corporatefile.com.au**

You booked net investment income of \$3.4 million in the first half, down from \$4.8 million in the second half of 2007. The result included the loss of \$1.6 million on your equity holdings. You've indicated that you've now exited equities. What was behind that decision and would you consider investing in equities in future?

**CEO Nick Kirk**

We progressively reduced our growth assets following last year's AU acquisition, under which we inherited a more aggressive portfolio. Our first quarter loss on equities was \$1.9 million at its lowest point but had recovered to \$1.6 million by the time we exited. The decision was simple. We believed that holding growth assets in the current environment introduced too much volatility when we saw our priority as building the bottom line. There'll be a time when having a proportion of equities in our investment funds makes sense and the board has a specific investment sub-committee that keeps our investment philosophy under constant review.

**corporatefile.com.au**

As of 30 July, Vianova, a specialist fixed interest investment manager 50 percent owned by Australian Unity, has become your investment manager. What was the selection process and what is Vianova's mandate?

**CEO Nick Kirk**

We requested tenders from six fixed interest fund managers. Three of those managers went on to present to the board investment committee, which decided Vianova was the best fit in terms of the criteria we'd specified. Its mandate has been set by the board investment committee and will be reviewed quarterly.

**corporatefile.com.au**

You've indicated you'll assess dividend policy at year end. What will be the key developments that might trigger a first dividend payment?

**CEO Nick Kirk**

Our board is very conscious that our combination of tax losses and franking credits put us in a very good position in terms of paying dividends. However, given we're part of the way through a corporate restructure that will move us from having two insurers to one, the amount of capital within the group isn't certain at this point. We therefore feel it prudent to progress with the restructure before making any decision on the dividend.

Additionally, APRA is making some changes to the regulatory environment in terms of statutory capital for insurance groups. Until we have more information on that, we're not in a position to make a decision on dividends.

The board will look at the position at the end of the year when we have more clarity on those two issues and therefore our future capital needs.

**corporatefile.com.au**

What are your management priorities over the remainder of the year?

**CEO Nick Kirk**

Our management priorities are very clear. First, we want to continue to build financial stability in the group by remaining focused on increasing our bottom

line strength. We believe that's best for all our stakeholders and best for the future growth of the business.

Second, we want to simplify the business. Our group is the outcome of around 16 individual transactions over the last three years. Not surprisingly, there's a degree of complication in the business as a result. We want to reduce those complexities, for example by moving from having two insurers to one, by repatriating ARGIS, which is now a New Zealand company operating in Australia, and continuing to integrate systems.

Finally, we want to unlock the potential in the combined group by expanding our cross-selling, maximising our distribution and creating a more cohesive single identity.

**corporatefile.com.au**

Thank you Nick.

---

For more information about Calliden Group, please visit [www.calliden.com.au](http://www.calliden.com.au) or call Nick Kirk, on +61 (2) 9551 1102.

To receive future Open Briefings by e-mail, visit [www.corporatefile.com.au](http://www.corporatefile.com.au)

**DISCLAIMER:** Corporate File Pty Ltd has taken reasonable care in publishing the information contained in this Open Briefing®. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Corporate File Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.