



Level7
100 Arthur Street
North Sydney NSW 2060



**Attention: ASX Company Announcements Platform
Lodgement of Market Briefing**

10 March 2011

Market Briefing

Calliden Group Limited MD on results, strategy and 2011 outlook

Interview with Nick Kirk (Managing Director)

Market Briefing

Calliden produced its highest ever profit of \$10.1 million for the 2010 financial year. The result appears to contain a number of one-off items that were both positive and negative. How representative is the reported result of the underlying earnings of the group, and what were the major contributors to the result?

Nick Kirk

The result is a good reflection of underlying earnings, and is primarily driven by improved insurance results from underwriting and lower costs. Gross written premium (GWP) was relatively flat at \$212 million, but we continue to focus on the bottom line improvements. We no longer underwrite NSW Builders Warranty insurance, as the government has taken this in-house, and this also contributed to the slight drop in GWP. Our net earned premium was up by 16% reflecting the change we made in our proportional reinsurance at the beginning of 2010.

The one-off items largely balanced out. It's worth pointing out that the one-off positive of \$2.5 million for the court case with Australian Unity was related to the level of claims reserves, and this amount would have otherwise come through as underwriting profit over the past couple of years. The sale of our 50% stake in Sports Underwriting Australia is a one-off benefit of \$1.1 million, although we still remain the underwriter of that business going forward.

The weather-related \$2.5 million increase in claims costs were as result of an unusually wet year due to the La Nina weather pattern.

The \$2 million of costs related to the restructure of the business are largely complete and we have centralised our back-office functions for a significant proportion of our business into Melbourne and Sydney.

The tax benefit of \$1.3 million is a reflection of our profit growth and, together with the liability adequacy tests impact of \$0.5 million, is recalculated annually.

Overall our insurance margin grew strongly to 8%, with expenses and underlying claims costs trending down.

Market Briefing

A final fully franked dividend of 1¢ was declared, which is in line with the previous year's dividend. Given the profit improvement, the large bank of franking credits and healthy capital position, what is the rationale for not paying a higher dividend? You have suggested a move to consider dividend payments twice a year, what is the dividend policy for Calliden going forward?



Nick Kirk

The dividend payment of 1¢ was considered as part of overall capital management. It's important, as a non-rated insurer, that we are well capitalised and our capital ratio is in the upper range compared to other insurers. At the end of December Calliden Insurance Limited was 2.6 times the minimum requirements and even after taking into account the catastrophes in January and February we remained at 2.0 times the minimum capital requirements.

We repaid \$20 million of debt from free cash flow during the year, and bought back \$1 million of shares on market.

We maintained the dividend at 1 cent fully franked.

There are different capital rules for the insurance business and the group as a whole and an anomaly causes a seasonal fluctuation in the regulatory capital calculation for the Group. The rules impact the regulatory capital in the first half and this, along with the recent unprecedented series of catastrophe events, means the Board has taken a conservative view on the dividend.

As a consequence we will in future consider dividends half yearly, subject of course to the capital needs of the Company and maintaining regulatory capital.

Market Briefing

The first quarter of 2011 has seen an unprecedented level of catastrophes. What is likely to be the impact of the catastrophes on the FY2011 result, and how is Calliden's reinsurance program impacted following the catastrophic events? What will happen to your reinsurance program if further catastrophes occur in 2011?

Nick Kirk

Calliden renewed its reinsurance program on 1 January 2011, on a similar basis to 2010, and there was a modest increase in the overall cost of the reinsurance program in the current financial year compared to the previous financial year. The program is entirely with reinsurers that have an A- or better rating.

It's true there has been an unprecedented level of catastrophic events during the first quarter of the current financial year. We have modelled the fully developed costs of these events and including reinstatement premiums on our catastrophe reinsurance programme the net impact is \$7.6 million. In addition we have purchased a further reinsurance back up layer at a cost of \$750,000. This total cost of \$8.35 million compares to our annual catastrophe budget allowance of \$6 million.

Our Catastrophe programme remains in place with a net retention of \$2 million. The back up layer we purchased will respond to further claims and has a net retention of \$3 million.

Market Briefing

You have outlined the strategy for Calliden, now that you have reached six years of development as an insurer. What are the key strategic objectives for the group? How can Calliden compete against the major insurers?

Nick Kirk

Our key strategy is to target small to medium enterprises and personal customers that use professional intermediaries to purchase insurance. This segment has had lower volatility as the risks are more homogeneous and premium rates have been more stable. The segment covers a wide range of businesses and economic activity and allows us to develop products for attractive niches and sectors. Working with intermediaries means that we don't incur the costs of building a consumer brand, as we only pay intermediaries when they sell our policies.



More and more business is being conducted online, which will lead to further cost reductions in the business, in line with our strategy to minimise costs to allow us to effectively compete in the insurance market. We are focused on building sales through on-line and agency distribution channels.

Calliden is already a top 15 insurer in Australia, and we are already achieving competitive cost and loss ratios compared to the majors. We believe our competitive position will continue to improve further as we pursue our strategy and move towards our target of being a top 10 insurer.

Market Briefing

A critical component of the strategy is the development of on-line underwriting capabilities. Can you provide some insights around what Calliden is doing in this area, and what it means for the group? Are there higher risks to earnings by using an automated underwriting process?

Nick Kirk

This is a key focus for Calliden, and in terms of our underwriting capabilities, 80% of our business is being written through on-line and specialist agency distribution. In 2010, 44% of our business was written through the on-line channels, a figure that has doubled over the past 18 months. We have developed Callibrate, our on-line system, which operates for commercial and home insurance. We intend to add more products onto Callibrate in the future and further increase the business written through this channel.

We believe our automated underwriting approach lowers our risks. The online initiatives and our new automated underwriting and pricing models increase our cost efficiencies and also produce a less subjective, more rigorous underwriting process.

It's worth noting that whilst we will have higher amortisation costs during 2011 due to the development work on systems, we will be achieving a \$1-2 million higher cash flow following our last conversion.

Market Briefing

Calliden recently announced an agreement with Ansvar Insurance (Ansvar). Can you explain what this means for Calliden and what is the expected timing for Calliden to receive premiums from this alliance?

Nick Kirk

We've reached an agreement with Ansvar to assist intermediaries affected by Ansvar's recent announcement to no longer provide home insurance products through brokers and authorised representatives.

We expect to renew around one third of Ansvar's existing portfolio, or \$9 million of GWP, with around \$6-7 million of this to be received in the current financial year, with the arrangement starting on 1 May 2011.

We see this arrangement as a complementary fit with our business and strategy, especially our online focus. We will have low incremental implementation costs, and should achieve some additional bottom line growth through the initiative.

Market Briefing

Calliden has stated its financial objective for 2011 is to maintain profits at current levels. Can you provide any more detail around the financial objectives for the group for 2011?



Nick Kirk

The business is well positioned for growth, but the first quarter catastrophes mean a flat result at around 2010 profit levels is a realistic target.

We have already incurred around \$2.3 million more in costs than we were budgeting for in 2011 related to the catastrophe events and the purchase of the additional reinsurance protection for the remainder of the year.

In terms of the investment strategy and outlook, we have moved the investment portfolio from fixed interest investments to bank deposits to allow us to generate a good return, without the portfolio experiencing the volatility related to fixed interest investments. We anticipate an improvement in investment yield in 2011.

Overall, we anticipate around 10% growth in GWP and further improvements to cost ratios and underlying insurance margins, excluding the catastrophe events, for 2011.

Market Briefing

Thank you Nick.

For further information, please contact Calliden Group Limited on +61-2 9551 1111 or visit www.calliden.com.au

DISCLAIMER: Market Eye Pty Ltd (Market Eye) has taken reasonable care in publishing the information contained in this Market Briefing. The information is provided in summary form, does not purport to be complete, and is not intended to be used as the basis for any investment decision. The reader of this Market Briefing is solely responsible for how they use the information, and Market Eye strongly advises that independent professional advice be sought prior to making any investment decision. Market Eye is not responsible for any consequence as a result of the use of this Market Briefing, including any loss or damage a reader or third party might suffer as a result of that use.

Some of the information contained in this Market Briefing contains "forward-looking statements" which may not directly or exclusively relate to historical facts. These forward-looking statements reflect Calliden Group Limited's (Calliden) current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of Calliden.

Actual results could differ materially from Calliden's current intentions, plans, expectations, assumptions and beliefs about the future. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks.