

ASX Announcement: Calliden Group Limited (CIX)

30 January 2012

Calliden Market Update on 2011 Preliminary Results and Outlook for 2012

Calliden Group Limited (**Calliden**) advises that its unaudited loss for the year ended 31 December 2011 is likely to range between \$11.5M and \$12.5M. The principal reasons for this deterioration from the \$4.3M loss at the half year are:

- A continuation of the unprecedented 2011 catastrophe activity with the Christmas day hail storm in Melbourne costing \$3M net;
- An increase in 2012 catastrophe reinsurance costs and retentions following the recent global and Australasian industry experience leading to an increase in the Liability Adequacy Test provision of \$5M in the second half;
- Reduction in the discount rate applied to our reserves for future claims to 3.4% as a result of the fall in Australian Government bond yields (despite our current returns of 6% from Australian bank deposits) requiring an increase in our claims reserves of \$2M;
- Strengthening our claims reserves by \$1.2M;
- Higher than expected large loss activity in the 4th quarter of \$5M;
- Restructuring costs of \$0.5M relating to our transition to the Managing General Agency (MGA) Model.

The \$8.3M profit from the sale of our 50% share in Claims Services Australia on the 6th December 2011 mitigated the impact of our insurance result.

Calliden is in the process of transitioning its business model to focus more on lower volatility underwriting agency business. A significant step in this process was announced on the 5th December when we advised that Calliden will underwrite its commercial business pack on behalf of the AA- rated Great Lakes Australia, part of the Munich Re Group. This arrangement came into effect on the 1st January 2012. As a result more than 30% of the Group's 2012 premium will be written on behalf of Great Lakes, Lloyds of London and NSW Government (in respect of NSW home warranty). The aim is to seek further MGA structured deals in the coming months to increase the proportion to 50% or more.

Calliden CEO Nick Kirk said, "In 2011 we started the transition to a less capital intensive and less volatile business model and this result will add impetus to that process. We are targeting a return to a modest profit in 2012 but it will be a transitional year for Calliden between risk carrying and agency. From 2013 onwards we aim to be producing a non volatile profit which will enable us to make maximum use of our franking credits."

Calliden's reinsurance program was successfully renewed with effect from 1 January 2012 including an increased proportional treaty of 60%. The proportional treaty has both a positive capital impact and reduces the impact of a more expensive catastrophe treaty. Calliden's net retention for catastrophe events will increase gradually from \$2.5M in January 2012 up to \$4M by year end 2012.

Calliden Insurance Limited's regulatory capital adequacy at 31.12.2011 stands between 1.45 and 1.50. Calliden's directors have resolved to increase Calliden Insurance Limited's capital by \$4.5M from existing resources which increases the capital adequacy multiple to between 1.60 to 1.65 in January.

The financial estimates above are subject to the completion of the 31 December year end accounts including actuarial review and audit.

A full analysis and review of Calliden's performance during 2011 will be provided at the time of the full year results release announcement scheduled for Thursday, 23 February 2012.

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