

Dear fellow Shareholder

CALLIDEN ENTERS INTO SCHEME IMPLEMENTATION DEED WITH STEADFAST GROUP

I am writing to advise you that Calliden Group Limited ('Calliden') announced to the Australian Securities Exchange ('ASX') on 27 August 2014 that it has entered into a Scheme Implementation Deed with Steadfast Group Ltd ('Steadfast'), which is offering to acquire all the issued shares in Calliden. Separately, Steadfast has also entered into an arrangement with Munich Holdings of Australasia Pty Ltd ('MHA'), a subsidiary of Munich Re, for the immediate on-sale of Calliden Insurance Limited ('CIL') and some of the agency portfolios. The offer is subject to a series of conditions and must be approved by Calliden shareholders. A copy of our ASX Announcement is enclosed.

As a valued investor I wanted to write to you personally to provide you with some background and context to the Scheme.

Calliden has been trading now for nine years, during which it has navigated through the global financial crisis and a period of unprecedented natural catastrophes in Australia. It has collected more than \$1.7 billion in premiums both through its own insurer and on behalf of third party insurers from Lloyd's of London to Great Lakes Australia. More than 170,000 claims have been paid totalling in excess of \$900m to people and businesses when they most needed it, to rebuild their homes and livelihoods, repair their cars and protect them against claims from third parties. Your support as a shareholder throughout those nine years has been, and continues to be, greatly appreciated.

In 2011 the board undertook a comprehensive strategic review of the business. The aim of the review was to move to a business model that would be less capital intensive and allow higher payments of fully franked dividends based on a less volatile income stream. We are pleased to say that the process is now complete and the 3 year targets we set ourselves back then have been or are well on the way to being achieved.

Our agency operation Calliden Agency Services Limited ('CASL') has grown its commission and fee income from \$8.8m in 2011 to \$39.2m for the year ending 2013, and in the first 6 months of 2014 has grown revenue by over 37% compared to the prior corresponding period. Over the same period the full year profits for agency have grown from \$1.5m to \$8.2m, and the first half of 2014 has seen a doubling of agency profit compared with the same period last year.

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Our insurer, CIL, has seen a corresponding reduction in gross revenue and exposure, and is now a smaller and more focussed underwriter than previously. CIL's performance has significantly improved although it has continued to experience volatility mainly from development in run off lines of business.

Following the successful implementation of the MGA model, in 2013 we announced a new dividend policy which set a target payout ratio of 60-80% of net profit after tax. A special fully franked dividend was declared in 2013 increasing the payout ratio to 100% for the year and the interim fully franked dividend payment for 2014 has doubled compared to the same period last year.

As a listed company our progress since 2011 has not gone unnoticed and as a result our two largest and most long-standing business partners have made this offer. Both of these companies would have a detailed understanding of our business built over a number of years of working with us in their respective ways.

Steadfast and their affiliated brokers are our largest customer group. They were an early adopter of Calliden products and have grown to be a highly valued and significant trading partner. Our involvement with the Munich Re group pre-dates the launch of our insurer in 2005. They have been our major reinsurer every year and have subsequently become the largest third party insurer for our new agency business.

Today, Calliden includes a top three agency operation, CASL, and a smaller more focused insurer, CIL. Calliden is investing again for future growth both through linking to a number of automated insurance broker platforms and investing in new niche agency ventures.

Details of the Scheme

Steadfast are proposing, via a Scheme Implementation Deed, to acquire all of the issued shares in Calliden by way of a Scheme of Arrangement (Scheme). It is also proposed that, under a separate agreement, Steadfast will immediately on-sell Calliden's insurance operations to MHA.

The Scheme is conditional upon:

- An Independent Expert (appointed by the Calliden Board) opining that the Scheme is in the best interests of shareholders;
- Approval of the Scheme by Calliden shareholders and the Federal Court of Australia;
- Approval from the Treasurer of the Commonwealth of Australia under the Financial Sector (Shareholdings) Act 1998 and by the Australian Prudential Regulation Authority (APRA); and
- No material adverse change to Calliden's balance sheet or projected profits.

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Consideration

Steadfast is proposing a total payment to shareholders of 46.5 cents per share, comprising a cash payment of 41.5 cents for each Calliden share and a special dividend (to be paid by Calliden) of five cents per share, which is expected to be fully franked. Based on Calliden's share price prior to the date of the announcement, the total Offer Consideration represents a premium of:

- 34.8% to the ASX closing price of \$0.345 on 26 August 2014¹
- 29.6% to Calliden's volume weighted average price in the 30 days prior to 26 August 2014
- 29.9% to Calliden's 90 day volume weighted average price to 26 August 2014

The Board's View

After long and careful consideration the Board has decided to recommend that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the fulfilment of all conditions, in particular that the Independent Expert comes to the conclusion that the Scheme is in Calliden shareholders' best interests.

Subject to the same qualifications, each Director of Calliden intends to vote all of the shares held or controlled by them personally in favour of the Scheme.

What happens next?

Calliden will appoint an Independent Expert to review the Scheme and prepare a report which will express a view as to whether the Scheme is in the best interests of Calliden shareholders.

Calliden will deliver to all shareholders a Scheme Booklet (which will include details of the Scheme, recommendations from Calliden's Board and the Independent Expert's Report) by the end of October 2014. This will be after the various regulatory requirements have been satisfied and the first Court Hearing regarding the Scheme has taken place.

All Calliden shareholders will be offered the opportunity to vote on the Scheme at a specially convened meeting called a Scheme Meeting. For the Scheme to be approved, it must be voted for (in person or by proxy) by Calliden shareholders who represent at least 50% of shareholders voting, by number, and at least 75% by value. The Notice of Meeting (including an Explanatory Memorandum) will be delivered to all shareholders in due course. It is expected that the Scheme Meeting will be held in late November 2014.

¹ The date prior to announcement of the Scheme Implementation Deed

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There is no action required by shareholders at this stage and I will be writing to you again as we progress towards the Scheme Meeting. I recommend that you also keep yourself informed of the progress of the Scheme by seeking independent advice and by visiting the Calliden website (www.calliden.com.au).

In the meantime it is business as usual for Calliden and I would like to take this opportunity to thank you for your continued support of Calliden.

Yours sincerely



Richard Hill
Chairman

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