

**CALLIDEN GROUP LIMITED**

A.B.N. 37 061 215 601

**CONSOLIDATED INTERIM FINANCIAL REPORT**

**FOR THE HALF YEAR ENDED 30 JUNE 2010**

**APPENDIX 4D**

**CALLIDEN GROUP LIMITED**  
A.B.N. 37 061 215 601  
**APPENDIX 4D**  
**HALF YEAR ENDED 30 JUNE 2010**

**1. Reporting period**

Report for the half year ended 30 June 2010. The previous corresponding period was the half year ended 30 June 2009.

**2. Results for announcement to the market**

	<b>1<sup>st</sup> Half 2010 \$'000</b>	<b>1<sup>st</sup> Half 2009 \$'000</b>	<b>Up / Down</b>	<b>Change %</b>	<b>Change \$'000</b>
Gross Written Premium	109,425	104,384	Up	4.8	5,041
Revenue from ordinary activities	187, 451	193,509	Down	3.1	6,058
Profit / (loss) from ordinary activities after tax attributable to members	6,457	2,433	Up	165.4	4,024
Net profit / (loss) attributable to members	6,457	2,433	Up	165.4	4,024

No dividend is proposed for the interim reporting period.

**3. Net tangible assets per share**

30 June 2010 - \$0.22

31 December 2009 - \$0.21

**4. Entities over which control has been gained or lost during the period**

Please refer to the attached Consolidated Interim Financial Report.

**5. Dividends**

Please refer to the attached Consolidated Interim Financial Report.

**6. Dividend reinvestment plan**

Calliden Group Limited has a Dividend Reinvestment Plan (the "Plan") which was approved by the members at an Annual General Meeting on 10 April 1997. The Plan has been suspended.

**7. Joint ventures and associate entities**

During the half year Calliden Group Limited held an interest in the following joint ventures and associates:

	<b>30 June 2010</b>	<b>31 December 2009</b>
	<b>% Held</b>	<b>% Held</b>
Arena Underwriting Pty Ltd	50	50
Claims Services Australia Pty Ltd	50	50
Property Claims Services Pty Ltd	50	50
Queensland Underwriting Solutions Pty Ltd	50	50
Sports Underwriting Australia Pty Ltd (sold 30 June 2010)	-	50

The company's aggregate share of profits of these entities for the half year ended 30 June 2010 is \$0.7m (30 June 2009: \$1.0m).

**8. Accounting standards applicable to foreign entities**

Not applicable.

**9. Audit dispute or qualification**

None.

**CALLIDEN GROUP LIMITED**

A.B.N. 37 061 215 601

**APPENDIX 4D  
ATTACHMENT A**

**CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED  
30 JUNE 2010**

**CALLIDEN GROUP LIMITED  
CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED  
30 JUNE 2010**

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Calliden Group Limited is a company limited by shares, incorporated and domiciled in Australia.  
Its registered office and principal place of business is Level 7, 100 Arthur St, North Sydney NSW 2060.

**DIRECTORS' REPORT**

The directors present their report together with the consolidated interim financial report of Calliden Group Limited, (the "Company") and its controlled entities (the "Group"), for the half year ended 30 June 2010 and the auditor's review report thereon.

**1. Directors**

The following directors held office during the half year and up to the date of this report:

<b>Director</b>	<b>Date of Appointment</b>	<b>Special Responsibilities</b>
RJ Hill	19 April 2000	Chairman Member of Risk Management Committee Member of Remuneration & Nomination Committee
MW Loomes	24 October 2000	Chairman of Audit Committee Chairman of Investment and Capital Committee Member of Risk Management Committee
JT Lowenstein	19 April 2000	Member of Risk Management Committee Member of Audit Committee Member of Investment and Capital Committee
NG Kirk	1 January 2005	Managing Director and Chief Executive Officer Member of Risk Management Committee Member of Investment and Capital Committee
JI Messenger	24 May 2007	Chairman of Risk Management Committee Member of Audit Committee Member of Remuneration & Nomination Committee
AV Connon	21 September 2007	Member of Risk Management Committee Member of Audit Committee Member of Investment and Capital Committee
GGM Smith	23 October 2008	Chairman of Remuneration & Nomination Committee Member of Risk Management Committee Member of Audit Committee

## DIRECTORS' REPORT (Continued)

### 2. Review of Operations

The result for the Group for the first half of 2010 is a net profit after tax of \$6.5m compared to \$2.4m in the corresponding period in 2009. The improved result reflects a strong underwriting performance with continued growth in selected areas and improved investment returns. There were also a number of other factors, both positive and negative, influencing the results this half including the 10<sup>th</sup> and 11<sup>th</sup> largest insurance losses in Australia's history.

The Melbourne and Perth hailstorms cost the insurance industry over \$1bn each however our claim costs were limited to \$2.0m for each event by our catastrophe reinsurance program. In addition to the claims costs we have also paid \$1.0m in reinstatement premiums on our reinsurance programme and increased claims management costs to our outsourced claims manager CSA. Our allowance for the costs of catastrophe events based on long term trends is split evenly between the first and second half year. Following these two major events we are between \$1.5m and \$2.5m over our first half year catastrophe cost allowance.

During the half year we successfully completed our second major systems conversion from an acquired legacy system on to our new Sirius software. We continue to progress with the remaining conversions in the second half. We have taken the opportunity to centralise our commercial package underwriting team into our Melbourne office together with our home insurance team. The administration of our Regional and Rural business will be incorporated in to our Melbourne operations in the second half of 2010. This, together with our central portfolio management approach, has led us to reconsider our approach to the liability adequacy test ("LAT"). We now consider the LAT on the basis of a single portfolio and as a result we have released \$1.2M at June from the LAT provision taken up in 2009.

We sold our 50% share in Sports Underwriting Australia Pty Ltd ("SUA") to our joint venture partners allowing us to focus on the underwriting while they continue to develop the agency business. The sale generated a profit of \$1.1m and we have a long term agency agreement whereby we will continue to underwrite the business.

Gross written premiums grew to \$109.4m, up 4.8% from the first half year of 2009, reflecting a mixture of new business growth and price increases. We are also seeing an increased trend in the volume of commercial package business being transacted electronically with 80% of eligible business now going through our Callibrate system.

Changes to the home warranty insurance market have seen us become an agent for the NSW government, increase our participation in WA and SA in partnership with State Governments and withdraw from Victoria following the State Government's decision to work solely with QBE.

## **DIRECTORS' REPORT** (Continued)

### **2. Review of Operations** (Continued)

Investment income improved with a return of \$4.8m, considerably up on last year's \$2.2m. The Group has continued its conservative strategy of investing in fixed interest securities due to the continued volatility in investment markets. The annualised return was 8.7% compared with 4.0% for the same period last year.

Our share of net profits from our joint ventures fell slightly from last year's \$1.0m to \$0.7m. This was mainly due to the change in accounting for IUA Pty Ltd ("IUA") which became a wholly owned subsidiary in July last year as well as a reduced contribution from Claims Services Australia Pty Ltd ("CSA") as a result of investment in people and infrastructure following a period of sustained growth.

We increased the deferred tax asset by \$0.8m which is in line with our position of recognising the tax benefit on one year's accounting profit. The Group still has approximately \$237.0m in unused tax losses that have not been recognised and have the potential to offset up to \$71.1m in tax expense in the future subject to the various tax rules being met.

Calliden Insurance Limited, our licensed insurer remains well capitalised at more than 2.2 times the minimum capital requirement.

### **3. Lead Auditor's Independence Declaration**

The lead auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the half year ended 30 June 2010.

### **4. Rounding Off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, amounts in the consolidated interim financial report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

Signed at Sydney this 26<sup>th</sup> day of August 2010 in accordance with a resolution of the directors.



**RJ Hill**  
**Chairman**



**LEAD AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

To: the directors of Calliden Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'A. Reeves', followed by a horizontal line.

Andrew Reeves

*Partner*

Sydney

26 August 2010

**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE HALF YEAR ENDED 30 JUNE 2010**

	Note	30 June 2010 \$'000	30 June 2009 \$'000
<b>GROSS WRITTEN PREMIUM</b>	2	<b>109,425</b>	104,384
Gross premium revenue	2	<b>109,037</b>	99,742
Reinsurance premium expense	3	<b>(53,343)</b>	(51,489)
Net premium revenue		<b>55,694</b>	48,253
Gross claims expense	3	<b>(82,770)</b>	(97,109)
Reinsurance and other recoveries revenue	2	<b>53,227</b>	71,910
Net claims incurred		<b>(29,543)</b>	(25,199)
Acquisition costs	3	<b>(31,171)</b>	(27,936)
Reinsurance and administration commissions revenue	2	<b>18,163</b>	18,551
Net acquisition costs		<b>(13,008)</b>	(9,385)
Other underwriting expenses	3	<b>(1,931)</b>	(5,337)
Levies and charges	3	<b>(10,343)</b>	(7,041)
Underwriting expenses		<b>(25,282)</b>	(21,763)
Investment income on assets backing insurance liabilities		<b>3,634</b>	1,611
<b>UNDERWRITING PROFIT</b>		<b>4,503</b>	2,902
Investment income on shareholders' funds		<b>1,124</b>	548
Share of net profits of joint ventures	2	<b>720</b>	1,054
Other income	2	<b>1,546</b>	93
Borrowing costs	3	<b>(745)</b>	(654)
Amortisation of identifiable intangibles	3	<b>(682)</b>	(610)
Administration and other expenses	3	<b>(809)</b>	(900)
<b>PROFIT BEFORE INCOME TAX</b>		<b>5,657</b>	2,433
Income tax benefit		<b>800</b>	-
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF CALLIDEN GROUP LIMITED</b>		<b>6,457</b>	2,433
		<b>Cents</b>	Cents
<b>Basic earnings per ordinary share</b>	5	<b>2.79</b>	1.05
<b>Diluted earnings per ordinary share</b>	5	<b>2.71</b>	1.01

The above Consolidated Interim Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2010**

	Note	30 June 2010 \$'000	31 December 2009 \$'000
<b>Assets</b>			
Cash and cash equivalents		14,065	8,989
Financial assets at fair value	6	106,997	116,452
Derivative financial instruments		22	233
Trade and other receivables		68,299	64,127
Reinsurance and other recoveries receivable		82,258	87,282
Other assets		10,589	12,485
Deferred reinsurance expense		52,783	52,965
Deferred acquisition costs		32,812	30,827
Deferred tax assets		2,912	2,112
Property, plant and equipment		3,298	3,657
Investments accounted for using the equity method		2,696	2,802
Intangible assets	8	49,545	49,753
<b>TOTAL ASSETS</b>		<b>426,276</b>	<b>431,684</b>
<b>Liabilities</b>			
Trade and other payables		21,482	28,108
Derivative financial instruments		369	-
Borrowings		25,000	25,000
Employee entitlements		1,340	1,295
Unearned premium liability		114,774	114,386
Unearned reinsurance commission		16,802	19,860
Outstanding claims	7	142,250	142,952
<b>TOTAL LIABILITIES</b>		<b>322,017</b>	<b>331,601</b>
<b>NET ASSETS</b>		<b>104,259</b>	<b>100,083</b>
<b>Equity</b>			
Issued capital		100,580	100,580
Treasury shares held in trust		(2)	(263)
Share-based payments reserve		553	940
Retained earnings / (accumulated losses)		3,128	(1,174)
<b>TOTAL EQUITY</b>		<b>104,259</b>	<b>100,083</b>

The above Consolidated Interim Statement of Financial Position should be read in conjunction with the accompanying notes.

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 30 JUNE 2010**

	Issued Capital \$'000	Treasury Shares Held in Trust \$'000	Share-based Payments Reserve \$'000	(Accumulated Losses) / Retained Earnings \$'000	Total \$'000
<b>For the half year ended 30 June 2010:</b>					
Balance at the beginning of the period	100,580	(263)	940	(1,174)	100,083
Dividend paid	-	-	-	(2,311)	(2,311)
Acquisition of shares by the Calliden Employee Share Trust	-	(58)	-	-	(58)
Share based payments expense	-	-	88	-	88
Vesting of share based remuneration	-	319	(475)	156	-
Total comprehensive income for the period	-	-	-	6,457	6,457
Balance at the end of the period	100,580	(2)	553	3,128	104,259
<b>For the half year ended 30 June 2009:</b>					
Balance at the beginning of the period	100,583	(380)	782	2,411	103,396
Decrease in issued capital	(3)	-	-	-	(3)
Dividend paid	-	-	-	(2,889)	(2,889)
Acquisition of shares by the Calliden Employee Share Trust	-	(191)	-	-	(191)
Share based payments expense	-	-	218	-	218
Vesting of share based remuneration	-	433	(334)	(99)	-
Total comprehensive income for the period	-	-	-	2,433	2,433
Balance at the end of the period	100,580	(138)	666	1,856	102,964

The above Consolidated Interim Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

### FOR THE HALF YEAR ENDED 30 JUNE 2010

	30 June 2010 \$'000	30 June 2009 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Premiums received	102,116	95,303
Reinsurance and other recoveries received	57,135	45,228
Acquisition costs paid	(28,622)	(27,165)
Reinsurance premium paid	(39,808)	(36,711)
Claims paid	(83,472)	(77,429)
Underwriting and administration expenses paid	(12,613)	(15,621)
Income tax paid	(53)	-
Interest received	3,605	5,035
Interest paid	(716)	(777)
Dividends received	600	50
Other operating expenses	(376)	(249)
<b>Net cash flows from operating activities</b>	<b>(2,204)</b>	<b>(12,336)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net proceeds from the sale of investments	11,077	15,149
Purchase of plant and equipment	(1)	(451)
Intangibles acquired	(1,534)	(1,898)
<b>Net cash flows from investing activities</b>	<b>9,542</b>	<b>12,800</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(2,311)	(2,889)
Share redemption	-	(3)
Repayment of loan from related parties	107	367
Outlays for purchase of treasury shares*	(58)	(191)
<b>Net cash flows from financing activities</b>	<b>(2,262)</b>	<b>(2,716)</b>
<b>Net movement in cash and cash equivalents</b>	<b>5,076</b>	<b>(2,252)</b>
Cash and cash equivalents at the beginning of the half year	8,989	9,062
<b>CASH AND CASH EQUIVALENTS AT END OF THE HALF YEAR</b>	<b>14,065</b>	<b>6,810</b>

\* The treasury shares are acquired to settle the Long Term Incentive scheme. The directors view this as an operating activity of the Group.

The above Consolidated Interim Statement of Cash Flows should be read in conjunction with the accompanying notes.

## CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2010

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1.1 Reporting entity

The consolidated interim financial report covers the economic entity of Calliden Group Limited, (the “Company”) and its controlled entities (the “Group“). The Company is a company domiciled in Australia.

The consolidated interim financial report was authorised for issue by the directors on 26 August 2010.

#### 1.2 Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules.

This consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group for the year ended 31 December 2009 and any public announcements made by the Group during the half year in accordance with continuous disclosure obligations arising under the *Corporations Act 2001*. The consolidated annual financial report of the Group for the year ended 31 December 2009 is available upon request from the Company’s registered office at Level 7, 100 Arthur Street, North Sydney, NSW 2060 or at [www.calliden.com.au](http://www.calliden.com.au).

#### 1.3 Basis of preparation

The consolidated interim financial report is presented in Australian dollars.

The Consolidated Interim Statement of Financial Position is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity.

All accounting policies have been applied consistently to all periods presented and throughout the Group, and the accounting policies have not changed since the previous annual financial year.

The consolidated interim financial report is prepared on an accrual basis and is based on historical cost except for financial assets that are stated at their fair value and outstanding claims and related reinsurance recoveries that are discounted to present value using a risk free rate.

Certain comparative amounts have been reclassified to conform with the current year’s presentation.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.4 Segment Information**

The Group operates in one business and geographical segment conducting general insurance business in Australia, hence no segment information is presented.

**1.5 Critical accounting judgements and estimates**

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used and certain judgements are made.

The estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. Estimates and judgments are continually re-evaluated. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and the future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgement or complexity are:

Insurance contracts related:

- Claims;
- Reinsurance and other recoveries on outstanding claims; and
- Liability adequacy test.

Other:

- Intangible assets and goodwill impairment testing;
- Acquired intangible assets initial measurement and determination of useful life; and
- Share based remuneration.

The determination of the financial impact of each of these areas on the financial performance and position for the current reporting period has involved estimates and assumptions based on judgements. The judgement has been applied in a manner consistent with that used for the annual report for the year ended 31 December 2009.

The accounting judgements made during the half year reporting period that did not involve estimations are considered to have had no significant impact on the amounts recognised in the interim financial report (30 June 2009: nil).

**NOTE 2 REVENUE**

	<b>30 June 2010 \$'000</b>	30 June 2009 \$'000
<i>(i) General Insurance Revenue</i>		
Gross written premium	<b>109,425</b>	104,384
Movement in unearned premium liability	<b>(388)</b>	(4,642)
Gross premium revenue	<b>109,037</b>	99,742
Reinsurance and other recoveries revenue	<b>53,227</b>	71,910
Reinsurance and administration commissions revenue	<b>18,163</b>	18,551
<b>Total General Insurance Revenue</b>	<b>180,427</b>	190,203
<i>(ii) Investment Income</i>	<b>4,758</b>	2,159
<i>(iii) Share of Net Profits of Joint Ventures</i>	<b>720</b>	1,054
<i>(iv) Other Income*</i>	<b>1,546</b>	93
<b>Total Revenue</b>	<b>187,451</b>	193,509

\* Other Income for the half year ended 30 June 2010 includes the gain on sale of Sports Underwriting Australia Pty Ltd (\$1.1m) and the Commercial Strata Portfolio to Queensland Underwriting Solutions Pty Ltd (\$0.2m). Refer to Note 10.

**NOTE 3 EXPENSES**

Profit before income tax includes the following specific expenses:

Reinsurance premium expense	<b>53,343</b>	51,489
Gross claims expense	<b>82,770</b>	97,109
Acquisition costs	<b>31,171</b>	27,936
Other underwriting expenses	<b>1,931</b>	5,337
Levies and charges	<b>10,343</b>	7,041
Borrowing costs	<b>745</b>	654
Amortisation of identifiable intangibles	<b>682</b>	610
Administration and other expenses	<b>809</b>	900
<b>Total Expenses</b>	<b>181,794</b>	191,076

Expenses include:

Actuarial, audit and other professional fees	<b>612</b>	973
Depreciation of property, plant and equipment	<b>298</b>	322
Amortisation of systems development costs	<b>1,015</b>	662
Investment expenses	<b>196</b>	220

**NOTE 4 DIVIDENDS****(a) Ordinary shares**

	<b>30 June 2010 \$'000</b>	31 December 2009 \$'000
Dividends paid during the half year	<b>2,311</b>	2,889

The final dividend for 2009 was paid on 25 March 2010. It was fully franked and amounted to 1.00 cent per share (2009: 1.25 cents). No dividend is proposed for the interim reporting period.

**NOTE 5 EARNINGS PER SHARE**

	<b>30 June 2010 Cents</b>	30 June 2009 Cents
<b>(i) Ordinary Shares</b>		
Basic earnings per ordinary share *	<b>2.79</b>	1.05
Diluted earnings per ordinary share	<b>2.71</b>	1.01

\* The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 *Earnings per Share*. If the amounts relating to those shares are excluded from both the numerator and denominator, the basic earnings per ordinary share for the half year ended 30 June 2010 would be reduced to 2.71 cents (30 June 2009: 1.01 cents).

	<b>30 June 2010 \$'000</b>	30 June 2009 \$'000
<b>(ii) Reconciliation of Profit used in Calculating Earnings per Share</b>		
Profit from continuing operations attributable to the ordinary equity holders of the Company	<b>6,457</b>	2,433
Profit used in calculating basic and diluted earnings per share	<b>6,457</b>	2,433

**NOTE 5 EARNINGS PER SHARE** (Continued)

	<b>30 June 2010 Number of shares</b>	30 June 2009 Number of shares
<i>(iii) Reconciliation of Weighted Average Number of Ordinary Shares used in Calculating Earnings per Share</i>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<b>231,086,812</b>	231,086,812
Performance rights on issue	<b>7,572,997</b>	10,034,405
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<b>238,659,809</b>	241,121,217

The Company acquires any shares required for the Long Term Incentive scheme on-market which does not increase the shares on issue. The presentation of the performance rights as an increase of shares on issue is mandated by the accounting standards. The treasury shares held in trust presented in the Consolidated Interim Statement of Financial Position will reverse when the Company's obligations are settled.

**NOTE 6 FINANCIAL ASSETS AT FAIR VALUE**

	<b>30 June 2010 \$'000</b>	31 December 2009 \$'000
<b><i>Investments</i></b>		
Current	<b>14,858</b>	21,777
Non-current	<b>92,139</b>	94,675
Total Financial Assets at Fair Value	<b>106,997</b>	116,452

All the financial assets at fair value are fixed interest securities.

**NOTE 7    OUSTANDING CLAIMS**

	<b>30 June 2010 \$'000</b>	31 December 2009 \$'000
<b>Gross Outstanding Claims</b>		
Current	<b>75,708</b>	77,371
Non-current	<b>66,542</b>	65,581
<b>Total Gross Outstanding Claims</b>	<b>142,250</b>	142,952
Case estimates	<b>77,937</b>	84,297
IBNR	<b>65,555</b>	61,261
Central estimate	<b>143,492</b>	145,558
Claims handling expenses	<b>3,259</b>	2,921
Risk margin	<b>5,541</b>	4,967
	<b>152,292</b>	153,446
Discount to present value	<b>(10,042)</b>	(10,494)
<b>Total Gross Outstanding Claims</b>	<b>142,250</b>	142,952

**Liability Adequacy Test**

The application of the liability adequacy test ("LAT") in respect of net premium liabilities has identified a deficiency of \$0.2m as at 30 June 2010 (31 December 2009: \$1.4m).

Following the recent systems conversion and internal restructure of the business, we have reviewed our business and the portfolios at which we perform the Liability Adequacy Test ("LAT"). We have determined that our portfolio contains broadly similar risks that are managed together and have therefore changed the level at which we perform the LAT to a single portfolio. At June 2010, this has meant that the impairment of DAC of December 2009 was reduced by \$1.2m which has increased the Group profit.

For the purposes of the LAT, the present value of the expected future cash flows of future claims including the risk margin for the Group is \$39.2m (31 December 2009: \$37.2m) comprising the discounted central estimate of \$37.0m (31 December 2009: \$34.2m) and a risk margin of \$2.2m (31 December 2009: \$3.0m).

The LAT has been applied using a probability of adequacy of 75%.

**NOTE 8 INTANGIBLE ASSETS**

	Note	30 June 2010 \$'000	31 December 2009 \$'000
<b>Intangible Assets</b>			
Goodwill	9	34,371	34,371
Customer Relationships*		8,343	9,070
Systems Development Costs*		6,831	6,312
<b>Total Intangible Assets</b>		<b>49,545</b>	<b>49,753</b>

\* These figures are net of accumulated amortisation of \$7.9m (31 December 2009: \$6.2m)

**NOTE 9 GOODWILL****(a) Impairment tests for goodwill**

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to business segment.

A segment-level summary of the goodwill allocation is presented below:

Cash Generating Unit	30 June 2010 \$'000	31 December 2009 \$'000
Underwriting	27,694	23,685
Distribution	6,677	10,686
<b>Total Goodwill</b>	<b>34,371</b>	<b>34,371</b>

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 2.5%. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

At 30 June 2010, a component of the goodwill previously shown in the Distribution CGU has been re-allocated to the Underwriting CGU due to the integration of the Rural and Regional business within the existing Calliden Insurance Limited portfolio. This follows the recent systems conversion to our main underwriting platform.

**NOTE 9**      **GOODWILL** (Continued)**(b)**      *Key assumption used for value-in-use calculations*

The following describes the key assumptions on which the Board has based its cash flow projections to undertake impairment testing of goodwill:

- Cash flow forecast: forecast profits for the first five years are used to derive a medium-term cash flow proxy.
- Discount rate: discount rate of 12% per annum (p.a), calculated based on weighted average cost of capital, were applied in 2010 and 2009.
- GWP terminal profit growth rate at year 2015 and beyond is based on the Board's expectation for future performance in both the Underwriting CGU and the Distribution CGU.
- Investment return from assets backing insurance liabilities is expected to be at 7.0% p.a over the cycle.

These assumptions have been used for the analysis of each CGU as applicable within the business segment.

**(c)**      *Impact of possible changes in key assumptions*

The carrying value of identified intangible assets, as well as net tangible assets are deducted from the values generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill.

The recoverable amount of the goodwill of the Underwriting CGU is estimated to be \$68.2m. This exceeds the carrying amount of the Underwriting CGU's goodwill at 30 June 2010 by \$40.5m.

If the discount rate applied to the cash flow projections of the Underwriting CGU was 16.8% p.a instead of 12.0% p.a, the recoverable amount of the Underwriting CGU's goodwill would equal its carrying amount. The directors do not consider any reasonable changes in any key assumptions would cause impairment.

The recoverable amount of the goodwill of the Distribution CGU is estimated to be \$13.3m. This exceeds the carrying amount of the CGU's goodwill at 30 June 2010 by \$6.6m.

If the discount rate applied to the cash flow projections of the Distribution CGU was 19.9% p.a instead of 12.0% p.a, the recoverable amount of the Distribution CGU's goodwill would equal its carrying amount. The directors do not consider any reasonable changes in any key assumptions would cause impairment.

**(d)**      *Impairment charge*

There is no impairment charge as no impairment was indicated.

**NOTE 10 RELATED PARTIES****Disposal of Commercial Strata Portfolio**

On 28 January 2010, Calliden Insurance Limited sold its Commercial Strata portfolio to Queensland Underwriting Solutions Pty Ltd ("QUS") which is a related party for \$547,750. The sale of the portfolio is to be recognised in three phases. The first two phases have been recognised, and these represent 80% of the sale price. The recognition of the third phase is subject to a pro rata adjustment based on retention of the portfolio as specified in the sale agreement. Based on the current hurdle rates, management do not expect the criteria of the third phase to be met. As such the Company has not recognised the final purchase consideration. The gain on sale based on the first two phases was \$195,938 which is included in Other Income in the Consolidated Interim Statement of Comprehensive Income.

The Company has also offered a loan facility for the amount of \$547,750 to QUS to finance this transaction. The term of the loan is for 3 years from the draw down date of 28 January 2010 and the interest rate charged is 10% per annum on the outstanding amount, payable quarterly. The interest charged and received as at 30 June 2010 is \$11,480. The outstanding loan amount is \$273,875 as at 30 June 2010.

**Disposal of Sports Underwriting Australia Pty Ltd Joint Venture**

On 30 June 2010, the Company sold its 50% joint venture interest in Sports Underwriting Australia Pty Ltd ("SUA") to the remaining shareholders for \$1,200,000 which was paid on 30 July 2010. The gain on sale of these shares was \$1,100,000. Calliden Insurance Limited will continue to underwrite the business under a long term agency agreement.

**NOTE 11      CONTINGENT ASSETS AND LIABILITIES**

The Company has guaranteed to pay all of the debts of all of its subsidiaries as and when they fall due.

On 13 April 2010, Justice Einstein of the Supreme Court of New South Wales handed down a judgment in favour of the Company in its legal proceedings against Australian Unity Limited (“AU”) relating to a dispute arising from the purchase of the general insurance business of Australian Unity (operated by Australian Unity General Insurance Limited and Mansions of Australia Limited) by the Company in July 2007. The Company alleged AU breached the terms of the Share Sale Deed which provided for the adjustment of the purchase price on completion having regard to the estimated value of the relevant insurance liabilities at that time. The time for appealing this judgement has now elapsed.

The parties have received directions from the court to allow the purchase price to be determined. As at the date of this report the parties have not agreed the process to allow the determination of the final purchase price. The Company has since filed for further clarification from the court to enforce the completion audit and hence the determination of the final purchase price. There are still many variables and uncertainties around the final outcome which means that we are unable to reliably measure the purchase price and hence are unable to include an amount in these accounts.

The directors are not aware of any other contingent assets or liabilities.

**NOTE 12      EVENTS SUBSEQUENT TO INTERIM BALANCE DATE**

In July 2010, the Company negotiated a new bank loan of \$20.0m and repaid \$5.0m of its existing loan of \$25.0m. The new loan is unsecured hence no assets are being pledged as security. The term of the loan is for 2 years from the draw down date of 28 July 2010. There have been no breaches of any covenants of the existing loan facility. The Group has sufficient cash and investments on hand to repay the loan if required.

There were no other material events occurring after the reporting date that the directors are aware of as at the date of this report.

## DIRECTORS' DECLARATION

In the opinion of the directors of Calliden Group Limited ("the Company"):

1. the consolidated interim financial statements and notes 1 to 12, are in accordance with the *Corporations Act 2001*, including:
  - (a) giving a true and fair view of the financial position of the Group as at 30 June 2010 and of its performance for the half year ended on that date; and
  - (b) complying with Australian Accounting Standard, AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 26<sup>th</sup> day of August 2010 in accordance with a resolution of the directors.



**RJ Hill**  
**Chairman**



## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF CALLIDEN GROUP LIMITED

### Report on the financial report

We have reviewed the accompanying consolidated interim financial report of Calliden Group Limited, which comprises the Consolidated Interim Statement of Financial Position as at 30 June 2010, Consolidated Interim Statement of Comprehensive Income, Consolidated Interim Statement of Changes in Equity and Consolidated Interim Statement of Cash Flows for the interim period ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half year's end or from time to time during the half year period.

### Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the consolidated interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the consolidated interim financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the consolidated interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2010 and its performance for the half year period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Calliden Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a consolidated interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequentially does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF CALLIDEN  
GROUP LIMITED (Continued)**

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated interim financial report of Calliden Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the half year period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



KPMG



Andrew Reeves

*Partner*

Sydney

26 August 2010