

**CALLIDEN GROUP LIMITED
AND ITS CONTROLLED ENTITIES**
A.C.N. 061 215 601

**Appendix 4E
Preliminary Final Report
Period Ended 31 December 2010**

1. Reporting period

Report for the year ended 31 December 2010. The previous corresponding period was the year ended 31 December 2009.

2. Results for announcement to the market

					2009		2010
					\$000		\$000
Gross Written Premium	down	3%	from	217,843	to	211,641	
Revenue from ordinary activities	down	8%	from	379,025	to	350,281	
Profit / (loss) after tax attributable to members	up	n/a	from	(396)	to	10,124	
Net profit / (loss) attributable to members	up	n/a	from	(396)	to	10,124	

3. Statements of Financial Performance

Please refer to attached Consolidated Financial Report.

4. Statements of Financial Position

Please refer to attached Consolidated Financial Report.

5. Statements of Cash Flows

Please refer to attached Consolidated Financial Report.

6. Dividends

A dividend of 1.0 cent per share was paid on 10 March 2010. (2009: 1.25 cents per share)
Subsequent to the end of the year, the Directors have declared a fully franked dividend of 1.0 cent per share. The record date for the dividend is 9 March 2011.

7. Dividend reinvestment plan

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

8. Statements of Retained Earnings

Please refer to attached Consolidated Financial Report.

9. Net tangible assets per security

31 December 2010 \$0.23

31 December 2009 \$0.21

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

Please refer to attached Consolidated Financial Report.

**CALLIDEN GROUP LIMITED
AND ITS CONTROLLED ENTITIES**
A.C.N. 061 215 601

11. Joint venture entities

Please refer to attached Consolidated Financial Report.

12. Other relevant information

Please refer to attached Consolidated Financial Report.

13. Accounting standards applied to foreign entities

Not Applicable.

14. Commentary of results for the period

Please refer to attached Consolidated Financial Report.

15. Audited Consolidated Financial Report

The Consolidated Financial Report has been audited. Please see attached Consolidated Financial Report for a copy of the audit report.

16. Audit dispute or qualification

None.

Consolidated Financial Report 2010

Calliden Group Limited and controlled entities

ACN 061 215 601

**CALLIDEN GROUP LIMITED
CONSOLIDATED FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2010**

TABLE OF CONTENTS

FIVE YEAR FINANCIAL SUMMARY	2
DIRECTORS' REPORT	3
LEAD AUDITOR'S INDEPENDENCE DECLARATION	24
STATEMENTS OF COMPREHENSIVE INCOME	25
STATEMENTS OF FINANCIAL POSITION	26
STATEMENTS OF CHANGES IN EQUITY	27
STATEMENTS OF CASH FLOWS.....	29
NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	30
NOTE 2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES.....	44
NOTE 3 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES.....	46
NOTE 4 REVENUE	48
NOTE 5 EXPENSES	49
NOTE 6 CLAIMS INCURRED	50
NOTE 7 INCOME TAX	51
NOTE 8 DIVIDENDS.....	52
NOTE 9 EARNINGS PER SHARE	53
NOTE 10 CASH AND CASH EQUIVALENTS.....	54
NOTE 11 INVESTMENTS	56
NOTE 12 TRADE AND OTHER RECEIVABLES	58
NOTE 13 REINSURANCE AND OTHER RECOVERIES RECEIVABLE.....	58
NOTE 14 DEFERRED REINSURANCE EXPENSE	59
NOTE 15 DEFERRED ACQUISITION COSTS.....	59
NOTE 16 DEFERRED TAX ASSETS.....	59
NOTE 17 PROPERTY, PLANT AND EQUIPMENT	60
NOTE 18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	61
NOTE 19 OTHER FINANCIAL ASSETS	63
NOTE 20 INTANGIBLE ASSETS.....	64
NOTE 21 TRADE AND OTHER PAYABLES	66
NOTE 22 BORROWINGS.....	67
NOTE 23 EMPLOYEE ENTITLEMENTS.....	67
NOTE 24 UNEARNED REINSURANCE COMMISSION	68
NOTE 25 UNEARNED PREMIUM LIABILITY.....	68
NOTE 26 OUTSTANDING CLAIMS	70
NOTE 27 EQUITY	74
NOTE 28 SHARE-BASED PAYMENTS	76
NOTE 29 AUDITOR'S REMUNERATION	79
NOTE 30 COMMITMENTS.....	79
NOTE 31 RELATED PARTY DISCLOSURES	80
NOTE 32 FINANCIAL RISK MANAGEMENT	82
NOTE 33 CAPITAL MANAGEMENT	88
NOTE 34 CONTINGENT LIABILITIES.....	90
NOTE 35 EVENTS SUBSEQUENT TO REPORTING DATE	90
DIRECTORS' DECLARATION	91
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CALLIDEN GROUP LIMITED	92

FIVE YEAR FINANCIAL SUMMARY

	2010	2009	2008	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross written premium	211,641	217,843	200,026	124,426	51,757
Gross premium revenue	219,510	208,740	199,501	110,526	29,715
Reinsurance premium expense	(102,701)	(107,778)	(93,687)	(51,024)	(17,324)
Net premium revenue	116,809	100,962	105,814	59,502	12,391
Gross claims expense	(142,035)	(178,093)	(111,080)	(74,956)	(18,083)
Reinsurance and other recoveries revenue	83,648	122,524	53,211	38,321	12,847
Net claims incurred	(58,387)	(55,569)	(57,869)	(36,635)	(5,236)
Net acquisition costs	(23,797)	(18,341)	(23,849)	(11,164)	529
Underwriting expenses	(30,312)	(30,485)	(25,944)	(15,427)	(13,917)
Investment income on assets backing insurance liabilities	4,998	4,010	8,890	4,067	1,560
Underwriting profit / (loss)	9,311	577	7,042	343	(4,673)
Investment income on shareholders' funds	1,905	2,041	3,597	4,209	4,358
Share of net profit of joint ventures	1,266	1,589	1,558	549	15
Other income	4,634	2,206	1,782	862	-
Borrowing costs	(1,367)	(1,285)	(2,222)	(884)	-
Amortisation of identifiable intangibles	(2,955)	(2,703)	(1,984)	(1,064)	(352)
Administration and other expenses	(4,308)	(2,892)	(2,732)	(2,730)	(1,702)
Profit / (loss) before income tax	8,486	(467)	7,041	1,285	(2,354)
Income tax benefit / (expense)	1,638	71	2,106	(3)	-
Net profit / (loss)	10,124	(396)	9,147	1,282	(2,354)
Shareholders' equity	107,046	100,083	103,396	94,648	78,636
Total assets	380,251	431,684	394,490	391,503	152,591
PREMIUM GROWTH					
Gross written premium	(3%)	9%	61%	140%	335%
Net premium	16%	(5%)	78%	380%	889%
INSURER RATIOS (excl statutory charges)					
Gross claims ratio	71%	93%	60%	69%	61%
Net claims ratio	61%	66%	62%	64%	43%
Net acquisition ratio	35%	38%	40%	42%	108%
Combined operating ratio	96%	104%	102%	106%	151%
Insurance margin	8%	1%	7%	1%	(38%)
SHARE INFORMATION					
Dividends per share - fully franked (cents)	1.00	1.25	-	-	-
Basic earnings per share (cents)	4.45	(0.17)	3.96	0.60	(1.20)
Share price at 31 Dec (\$) (ASX: CIX)	0.28	0.31	0.40	0.58	0.54
Market capitalisation at 31 Dec (\$'000)	63,578	71,637	92,438	132,880	107,510
Net assets per share (\$)	0.47	0.43	0.45	0.41	0.39
Net tangible assets per share (\$)	0.23	0.21	0.25	0.28	0.37

Some amounts have been reclassified in prior years to be consistent with the current year presentation. This has had no effect on net profit. Insurer ratios are presented excluding statutory charges as this is considered a more appropriate reflection of underlying business performance.

DIRECTORS' REPORT

The directors present their report together with the financial report of Calliden Group Limited (the "Company") and the consolidated financial report of the Group, being the Company and its controlled entities, for the year ended 31 December 2010 and the audit report thereon.

1. Directors

The following directors held office during the year:

Director	Date of Appointment	Special Responsibilities
RJ Hill	19 April 2000	Chairman Member of Risk Management Committee Member of Remuneration and Nominations 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 and Nominations 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 and Nominations Committee Member of Risk Management Committee Member of Audit Committee

DIRECTORS' REPORT (continued)

1.1 Experience and Qualifications of Directors

Richard James Hill B.A, LL.B, LL.M

Age 64. Chairman. Independent Non-Executive Director

Richard Hill has extensive investment banking and management experience. He was a founding partner of Hill Young & Associates and formerly held a number of senior executive positions in Hong Kong and New York with Wardley Holdings Limited, a wholly owned subsidiary of Hong Kong & Shanghai Banking Corporation. He was admitted as an attorney in New York State, USA and registered by the US Securities and Exchange Commission and the Ontario Securities Commission. He is the Chairman of Sirtex Medical Limited* (since August 2006) and a director of Pelorus Property Group Ltd* (since July 2006) and Biota Holdings Limited* (since November 2008).

Maurice William Loomes B.Comm (Econ Hons), F Fin

Age 63. Independent Non-Executive Director

Maurice Loomes has an extensive background in investment analysis and strategy, and for a number of years was a senior executive with Guinness Peat Group Plc.* He is Chairman of Canberra Investment Corporation Limited* (director since September 1994). He is also a director of Ariadne Australia Limited* (since May 2004). He is a former director of Tower Limited.*

Jack Theseus Lowenstein M.A (Oxon)

Age 54. Non-Executive Director

Jack Lowenstein has extensive experience in funds management. He is a director of Hunter Hall International Limited* (director since March 2004) and a director of Hunter Hall Global Value Limited* (since December 2003). He is also Chairman of Kontiki Capital Limited, a Fiji-based regional investment bank.

Nicholas George Kirk Associate, Chartered Insurance Institute and Chartered Insurer (UK)

Age 49. Executive Director

Nick Kirk has more than 25 years insurance experience in Australia, continental Europe and the UK. He was previously with Vero where he held a number of General Management roles most latterly responsible for their Specialty Businesses in Australia. Prior to Vero he held a number of Senior Underwriting Management roles internationally with the Royal & Sun Alliance Group.

John Ian Messenger ANZIIF (Snr Assoc), CIP

Age 65. Independent Non-Executive Director

John Messenger has extensive insurance, property and risk management experience. He was previously the Managing Director of MLC Insurance Limited and Chief Executive Officer of Corporate Risk Management for the Lend Lease Group.* He is a director of Territory Insurance Office (since February 2002). He is a former director of Investa Properties Group Limited.

DIRECTORS' REPORT (continued)

Anthony Vincent Connon BA (Oxon), FCA, FAICD

Age 60. Non-Executive Director

Tony Connon is a chartered accountant with over 30 years experience in various industries, having held senior finance and administration positions with PriceWaterhouse, Grindlays Australia Limited, Elders Finance Group and The Australian Wheat Board. Since 1995, he has been the Chief Financial Officer of Australian Unity Limited and is an Executive Director of all its operating subsidiaries. He is the honorary treasurer of Friendly Societies Australia Inc. and a member of the board of the Lord Mayor's Charitable Foundation.

Gordon Geoffrey Marsden Smith

Age 58. Independent Non-Executive Director

Gordon Smith has an extensive background in the financial services industry in New Zealand and more recently Australia, with involvement in banking, insurance and the rural sector. He is currently a director of Doubleshot Group Limited a New Zealand financial services company and a member of a Taskforce reviewing the New Zealand Accident Compensation Commission . He was formerly Chief Executive Officer of Farmers Mutual Group in New Zealand and a director of eight related Group companies including Farmers Mutual Insurance Limited in Australia and the Insurance Council of New Zealand.

* The companies denoted with * are listed on the Australian Securities Exchange

1.2 Attendance at Board and Board Committee Meetings

	Board	Audit [*]	Risk Management	Investment and Capital ^{**}	Remuneration and Nominations ^{***}
Meetings held for the year ended 31 December 2010 (written resolutions circulated)	11	9	4	3	3
Director attendances					
RJ Hill	10	n/a	4	n/a	3
MW Loomes	10	8	3	3	n/a
JT Lowenstein	8	7	2	3	n/a
NG Kirk	10	n/a	4	3	n/a
JI Messenger	10	9	4	n/a	3
AV Connon	11	9	4	2	n/a
GGM Smith	10	9	4	n/a	3

* RJ Hill and NG Kirk are not members of the Audit Committee

** RJ Hill, JI Messenger and GGM Smith are not members of the Investment and Capital Committee

*** MW Loomes, JT Lowenstein, NG Kirk and AV Connon are not members of the Remuneration and Nominations Committee

DIRECTORS' REPORT (continued)

1.3 Directors' Benefits

No director of the Company has, since the end of the preceding financial year, received or become entitled to receive a benefit other than a benefit included in the total amount of remuneration received, or due and receivable, by directors and disclosed in Section 5, or by reason of a contract made by the Company or its controlled entities with the director, or with a firm of which the director is a member, or with an entity in which the director has a substantial financial interest.

1.4 Term and Rotation

The Company's constitution states that each year one-third of directors, being the directors with the longest term served since election must stand for re-election or retire. In addition, any other director except the Managing Director, who has been in office for three years or more since last re-election, must stand for re-election or retire.

2. Company Secretary

Charles Barrie Whattam was appointed company secretary in July 2007. He is a practising solicitor with 13 years experience working both in private practice as a solicitor at Clayton Utz and as a corporate counsel at Marsh Pty Ltd.

3. Principal Activities and Review of Operations

3.1 Principal Activities

The Group's focus for the 2010 financial year continued with the underwriting of general insurance through its authorised insurance subsidiary, Calliden Insurance Limited, and the investment management of shareholders' and insurance funds. The Group also has ownership interests in underwriting agencies and claims handling companies, all of which the Group has dealings with.

There were no significant changes in the nature of the activities of the Group during the year.

3.2 Review of Operations

2010 saw a number of significant events for Calliden including the sale of its 50% shareholding in Sports Underwriting Australia ("SUA") and settling its dispute with Australian Unity. A further two underwriting systems were successfully converted during the year which will lead the way to reduced costs and better underwriting capability in 2011. Calliden became an agent for the NSW Home Warranty Insurance Fund following the State Government's decision to underwrite that class of business. We also rationalised our office structure centralising our operations into two main centres in Sydney and Melbourne.

DIRECTORS' REPORT (continued)

3.3 General Insurance

The consolidated result for the year ended 31 December 2010 is a profit of \$10.1m (2009: \$0.4m loss). The Group recorded gross written premium ("GWP") of \$211.6m (2009: \$217.8m). 2010 saw a significant improvement compared to 2009 with a drop in quota share reinsurance from 50% to 40% having its full impact on net earned premium in 2010, climbing from \$101.0m to \$116.8m. The lower loss ratio (61% down from 66%) came about from targeted rate increases driving a lower loss ratio on attritional losses and a lower large claims environment in 2010.

3.4 Investment Activities

The Group maintained a conservative investment strategy during the year with \$92.5m (2009: \$106.7m) invested in fixed interest securities and \$13.0m in term deposits (2009: \$10.0m). Investment income earned was \$6.9m (2009: \$6.1m). The Group also holds a number of joint venture investments. The Group's share of net profits from joint ventures was \$1.3m (2009: \$1.6m). The sale of the Group's 50% shareholding in SUA also generated a profit of \$1.1m.

3.5 Fee For Service Activities

The Group acts as an agent for both Lloyds of London and the State Government of NSW through Mansions of Australia Limited and Calliden Insurance Limited respectively. Mansions wrote \$12.0m of premium in 2010 (2009: \$11.9m) and earned \$1.7m in commission (2009: \$2.1m). Calliden Insurance Limited became an agent of the NSW Home Warranty Insurance Fund from 1 July 2010 when this class of business was taken over by the State Government. Calliden Insurance Limited earned \$1.5m in commission in 2010 (2009: nil).

3.6 Significant Changes in the State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review, other than those disclosed above.

4. Dividend

On 24 February 2010, the directors declared a fully franked dividend of 1.0 cent per share (2009: 1.25 cents per share) which was paid on 25 March 2010. On 24 February 2011, the directors declared a fully franked dividend of 1.0 cent per share. This dividend has not been provided for and will be recognised in subsequent financial reports.

DIRECTORS' REPORT (continued)

5. Remuneration Report – Audited

The remuneration report is prepared in accordance with Section 300A of the Corporations Act 2001.

5.1 Company Performance and Consequences of Performance on Shareholder Wealth

	2010	2009	2008	2007	2006
Net profit / (loss) attributable to shareholders of parent (\$m)	10.1	(0.4)	9.1	1.3	(2.4)
Opening share price for the year (\$)	0.31	0.40	0.58	0.54	0.35
Closing share price for the year (\$)	0.28	0.31	0.40	0.58	0.54
(Decrease) / increase in share price for the year (\$)	(0.03)	(0.09)	(0.18)	0.04	0.19
Highest share price for the year (\$)	0.32	0.40	0.58	0.62	0.54
Lowest share price for the year (\$)	0.21	0.29	0.26	0.43	0.35
Dividends paid (\$m)	2.3	2.9	-	-	-
Return of capital (\$m)	1.0	-	-	-	-

5.2 Non-Executive Director Remuneration

A. Principles used to determine the nature and amount of remuneration

Non-Executive Directors' fees are determined by the Board following recommendations by the Remuneration and Nominations Committee within the maximum aggregate amount of \$750,000 set in the Company's constitution.

The remuneration of the Non-Executive Directors is not linked to the performance of the Company in order to maintain their independence and impartiality. In determining fee levels the Board takes into account:

- the Company's existing remuneration policies;
- independent professional advice;
- fees paid by comparable companies in highly regulated industries;
- the general time commitment required from directors and the responsibilities associated with discharging the duties attaching to the role of director; and
- the level of remuneration necessary to attract and retain directors of a suitable calibre.

The Company does not pay Non-Executive Director retirement benefits other than statutorily prescribed superannuation contributions.

DIRECTORS' REPORT (continued)

5.2 Non-Executive Director Remuneration (continued)

Non-Executive Directors' remuneration includes amounts paid, payable, provided or otherwise made available, directly or indirectly, by the Company or any related party during the year to indemnify directors, but does not include insurance premiums paid by the Company or related parties in respect of directors' and officers' liability insurance or legal expense insurance, as the insurance policies do not specify premiums paid in respect of individual directors.

B. Details of remuneration

Details of actual remuneration paid to Non-Executive Directors for the financial year are set out in the following table.

	Year	Director's Fees \$	Superannuation \$	Total \$
RJ Hill	2010	140,000	-	140,000
	2009	140,000	-	140,000
MW Loomes	2010	72,000	6,480	78,480
	2009	72,000	6,480	78,480
JT Lowenstein	2010	72,000	-	72,000
	2009	72,000	-	72,000
JI Messenger	2010	72,000	6,480	78,480
	2009	72,000	6,480	78,480
AV Connon	2010	72,000	-	72,000
	2009	72,000	-	72,000
GGM Smith	2010	72,000	-	72,000
	2009	72,000	-	72,000
Total	2010	500,000	12,960	512,960
	2009	500,000	12,960	512,960

5.3 Managing Director and Senior Executive Remuneration

In accordance with the Corporations Act and Accounting Standards, this report contains specific disclosures in relation to the remuneration for the Managing Director and for each of the persons set out below, who were the Senior Executives with authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the financial year. This group of executives includes the five most highly remunerated Company and Group executives during the financial year and, together with the directors, are the same persons identified as key management personnel for the purposes of *AASB 124 Related Party Disclosures*.

DIRECTORS' REPORT (continued)

5.3 Managing Director and Senior Executive Remuneration (continued)

Current Executives	Position	Date of Appointment as Executive
NG Kirk	Chief Executive Officer and Managing Director	29 March 2004 (Chief Executive Officer) 1 January 2005 (Managing Director)
PA Bailey*	Group Executive, Underwriting	1 October 2005
AR Diggelmann	Chief Financial Officer	15 August 2005
S Dossetor	Group Executive, Claims, Strategy & Planning	1 November 2010
SJ Fay	Group Executive, Commercial Agency	10 May 2004
GT Hickey	Group Executive, Shared Services & Business Efficiency	9 January 2006
MJ Hooton	Group Executive, Marketing & Distribution	5 October 2004
I Mabbutt	Group Executive, Specialty Personal Lines	17 March 2010
RF Walliser	Group Executive, Retail	1 August 2007

* Left the Group on 31 March 2010

A. Principles used to determine the nature and amount of remuneration

Remuneration levels for the Managing Director and Senior Executives are competitively set to attract and retain appropriately qualified and experienced executives. The Company obtains independent advice on the remuneration packages and trends.

Remuneration structures are designed to reward the achievement of strategic objectives and creation of value for shareholders.

Executives' remuneration includes amounts paid, payable, provided or otherwise made available, directly or indirectly by the Company or any related party during the year to indemnify executives, but does not include insurance premiums paid by the Company or related parties in respect of directors' and officers' liability insurance or legal expense insurance, as the insurance policies do not specify premiums paid in respect of individual executives.

DIRECTORS' REPORT (continued)

B. Components of remuneration 2010

Remuneration includes a mix of fixed remuneration ('not at-risk') and short-term and long-term performance-based incentives ('at-risk') elements.

Fixed remuneration is made up of annual salary, company superannuation contributions, and other benefits, including reportable fringe benefits tax. These values are set by reference to appropriate benchmark information for each role.

At-risk performance-based elements are tied to the achievement of specific business objectives. Short-term incentives ("STI") are based on both individual and Group performance. Long-term incentives ("LTI") are based on the performance of the Group.

Rates and entitlements for the year ended 31 December 2010 are detailed in Section E of the Remuneration Report.

C. At-Risk Incentives

Variable remuneration is an important part of executives' packages and ensures that significant proportions of total annual remuneration align with Group performance and shareholder value.

Short-Term Incentive ("STI")

The STI is a performance-based cash bonus calculated as a percentage of the total of cash salary (Managing Director) or fixed remuneration (Senior Executives). The STI commenced in 2005.

The aims of the STI are to:

- align the interests of executives and the shareholders of the Group;
- provide an attractive variable remuneration component to executives contingent on achievement of objectives and performance hurdles;
- ensure that executives are rewarded and recognised for their contribution to the Group; and
- attract, motivate and retain talent.

For 2010, no STI was payable unless the financial performance of the Group achieved a minimum threshold level. The Managing Director's STI was based on the financial performance of the Group. For other executives, subject to Group threshold performance, up to 100% of the maximum STI is based on achievement of agreed Key Performance Indicators determined by the Managing Director at the commencement of each year as well as other factors deemed to be appropriate by the Board Remuneration and Nominations Committee.

DIRECTORS' REPORT (continued)

C. At-Risk Incentives (continued)

Long-Term Incentive ("LTI")

Eligibility and purpose

Eligible senior executives are invited to participate in the Calliden LTI Plan (the "Plan"). The Plan is intended to link rewards for executives with the performance of the Group and provide a mechanism to encourage the retention of key senior executives. The Plan commenced in 2005.

Performance rights

Under the Plan, participating executives may receive annual grants of performance rights. Subject to the rules of the Plan, each performance right entitles the executive holding that right to receive, for no consideration, one fully-paid ordinary share in the Company at the end of the performance period if performance criteria specified by the Board are satisfied over the performance period. Currently, no new shares have been issued for the Plan and those required to satisfy vesting requirements are purchased on the Australian Securities Exchange ("ASX").

Number of performance rights

In 2010, no LTI grant has been made to any executives. The Board resolved to postpone consideration of any such grant until after the 2010 result is known.

The basis on which numbers of performance rights are determined has been, in 2009 and previous years, by dividing the value of the LTI component of each executive's remuneration by the weighted average price of the Company's shares over the five trading days prior to the grant date. For the 2009 grant, the LTI component ranged from 50% of salary to 120% of salary plus superannuation.

Fair Value Per Share

AASB 2 Share Based Payment requires a 'fair value' calculation of the rights granted at measurement date based on market prices and taking into account the terms and conditions upon which the instruments were granted (vesting conditions). The approach to the fair value calculation differs depending on the nature of the vesting conditions of the rights.

Valuation of Rights with Market Vesting Conditions

These reflect the fair value estimate of the rights at the grant date, and the value is not subsequently updated.

An adapted Black-Scholes methodology is employed to estimate the fair value of rights issued with market vesting conditions. Due to the complexity of the vesting conditions, a Monte Carlo simulation approach is adopted and this is used for all of the 2008 rights as well as for the half of the 2009 rights that depend on share price.

The value of each 2008 right subject to market vesting conditions is \$0.198. The value of each 2009 right subject to market vesting conditions is \$0.103.

DIRECTORS' REPORT (continued)

Valuation of Rights with Non-market Vesting Conditions

These reflect the expected number of rights that will vest, with the best estimate of the number of rights that will vest being revised at each valuation date. This is used for the half of the 2009 rights that depend on earnings per share.

The value of each 2009 right subject to market vesting conditions is \$0.259.

DIRECTORS' REPORT (continued)

C. At-Risk Incentives (continued)

The following table summarises the details and terms associated with LTI grants to executives as well as the overall outcomes.

LTI Grant	2010	2009	2008	2007
Grant date	n/a	19 June 2009	30 May 2008	25 May 2007
Performance period ¹	n/a	3 Years	3 Years	3 Years
Performance test/s ²	n/a	Net Assets (NA) + Average annual EPS	Net Assets (NA)	Net Tangible Assets (NTA) + 20% of NTA
Vesting date ³	n/a	n/a	n/a	05 March 2010
Rights granted ⁴	n/a	4,118,914	2,186,355	1,424,200
Lapsed or forfeited rights ⁵	n/a	n/a	n/a	508,660
Vested rights	n/a	n/a	n/a	915,540
% Vested as a proportion of maximum available	n/a	n/a	n/a	64.3%

1. The performance period over which entitlements are determined is generally three calendar years commencing from 1 January in the year of grant.
2. The number of performance rights for which executives actually receive shares (i.e. that "vest") are determined according to the Group's performance over the performance period, as measured by the performance tests set for the relevant grant. These tests are subject to determination by the Board for each grant.
3. The vesting date occurs after the Board determines the extent to which the performance tests have been satisfied and the proportion of the maximum available rights which may vest as shares.
4. The numbers of rights granted reflect the maximum number of rights which may vest at the end of the performance period.
5. If the performance criteria for vesting of performance rights are not satisfied over the performance period, those performance rights will lapse.

Performance rights also lapse and an executive will forfeit any performance rights or shares held under the Plan if the executive:

- is dismissed for cause; or
- in the Board's reasonable opinion, acts fraudulently or dishonestly, is in serious breach of duty to the Company or commits an act of harassment or discrimination; or
- in the Board's reasonable opinion, has brought the Company into serious disrepute.

Performance rights lapse if an executive ceases employment with the Company except in the case of death, total and permanent disability or redundancy that occurs after the first 12 months of the performance period relevant to the performance rights. If any of these latter circumstances apply, the Board may, at its discretion, allocate shares for a proportion of the performance rights held by an executive at the time. To date, the Board has never exercised such discretion.

At the discretion of the Board, performance rights may vest on a pro rata basis on a change of control of the Company (generally an entity acquiring more than 50% of the issued shares of the Company).

DIRECTORS' REPORT (continued)

C. At-Risk Incentives (continued)

Performance rights granted and vested

A summary of the number of performance rights that have been granted to executives in accordance with the LTI and the numbers which have ultimately vested (where known), the minimum possible value is nil:

LTI Grant		2010	2009	2008	2007
NG Kirk	Granted	nil	1,663,011	1,276,531	719,700
	Vested	n/a	n/a	n/a	462,655
PA Bailey*	Granted	nil	466,490	214,847	184,198
	Vested	n/a	n/a	n/a	118,411
AR Diggelmann	Granted	nil	344,532	105,785	89,119
	Vested	n/a	n/a	n/a	57,290
S Dossetor	Granted	nil	nil	nil	nil
	Vested	n/a	n/a	n/a	n/a
SJ Fay	Granted	nil	335,385	102,977	83,521
	Vested	n/a	n/a	n/a	53,691
GT Hickey	Granted	nil	368,162	169,561	145,598
	Vested	n/a	n/a	n/a	93,597
MJ Hooton	Granted	nil	466,490	214,847	184,198
	Vested	n/a	n/a	n/a	118,411
I Mabbutt	Granted	nil	108,970	nil	nil
	Vested	n/a	n/a	n/a	n/a
RF Walliser	Granted	nil	365,874	101,807	17,866
	Vested	n/a	n/a	n/a	11,485
Total	Granted	nil	4,118,914	2,186,355	1,424,200
	Vested	n/a	n/a	n/a	915,540

* Left the Group on 31 March 2010.

DIRECTORS' REPORT (continued)

D. Service agreements

Key terms

The major provisions of the service agreements for the Managing Director and Senior Executives of the Company and the Group are as follows:

	Date of appointment as Executive	Term of agreement	Renewal of agreement	Notice to be given by executive	Notice to be given by the Company
NG Kirk	29-Mar-04	Rolling 12 month contract	Every 12 months	12 months	12 months (or payment in lieu)
PA Bailey*	1-Oct-05	Indefinite	n/a	3 months	12 months (or payment in lieu)
AR Diggelmann	15-Aug-05	Indefinite	n/a	3 months	6 months (or payment in lieu)
S Dossetor	1-Nov-10	Indefinite	n/a	3 months	6 months (or payment in lieu)
SJ Fay	10-May-04	Indefinite	n/a	3 months	6 months (or payment in lieu)
GT Hickey	9-Jan-06	Indefinite	n/a	3 months	3 months (or payment in lieu)
MJ Hooton	5-Oct-04	Indefinite	n/a	3 months	12 months (or payment in lieu)
I Mabbutt	17-Mar-10	Indefinite	n/a	3 months	3 months (or payment in lieu)
R F Walliser	1-Aug-07	Indefinite	n/a	3 months	6 months (or payment in lieu)

* Left the Group on 31 March 2010.

Termination payments with respect to all Executives consist of statutory entitlements and, at the discretion of the Board, bonuses to which the employee has not yet become entitled.

DIRECTORS' REPORT (continued)

E. Details of remuneration

(i) Summary table

Details of the nature and amount of each major element of the emoluments for the Managing Director and each of the Senior Executives with authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the financial year are as below:

		Salary	Super	Total Fixed	STI*	LTI**	Total	Performance Related
Current Executives		\$	\$	\$	\$	\$	\$	%
NG Kirk	2010	387,966	34,034	422,000	-	112,539	534,539	21
	2009	394,089	23,005	417,094	-	216,535	633,629	34
PA Bailey***	2010	445,005	6,315	451,320	-	-	451,320	-
	2009	280,734	25,266	306,000	-	47,883	353,883	14
AR Diggelmann	2010	218,806	19,692	238,498	-	12,869	251,367	5
	2009	211,926	19,073	230,999	-	25,398	256,397	10
S Dossetor****	2010	23,853	2,147	26,000	-	-	26,000	-
	2009	-	-	-	-	-	-	-
SJ Fay	2010	213,302	19,197	232,499	-	12,527	245,026	5
	2009	206,422	18,578	225,000	-	24,306	249,306	10
GT Hickey	2010	223,853	20,147	244,000	-	17,472	261,472	7
	2009	221,560	19,940	241,500	-	37,820	279,320	14
MJ Hooton	2010	283,028	25,472	308,500	-	22,139	330,639	7
	2009	280,734	25,266	306,000	-	47,883	353,883	14
I Mabbutt****	2010	141,804	12,762	154,566	-	1,868	156,434	1
	2009	-	-	-	-	-	-	-
RF Walliser	2010	231,651	20,849	252,500	-	12,973	265,473	5
	2009	224,770	20,229	244,999	-	17,385	262,384	7
Total	2010	2,169,268	160,615	2,329,883	-	192,387	2,522,270	8
Total	2009	1,820,235	151,357	1,971,592	-	417,210	2,388,802	17

* The STI figures presented above are the amounts incurred in their respective years but paid in the following year.

** The LTI is explained in section 5.3.C of this Directors' Report. No other LTI or share-based payments were made to key Management Personnel. The amounts reported are calculated based on the number of performance rights offered for each year multiplied by an estimated vesting price prorated over the vesting period. The total represents the sum of the value of the performance rights outstanding on this basis. The estimate of the percentage of performance rights that vest and the estimated vesting price are determined using an external valuation. The ultimate value of the LTI will be determined by the prevailing share price on the date that the shares vest.

*** Includes salary up to date of departure and termination payment in accordance with terms of service agreement.

**** Refer to section 5.3 of this Directors' Report for date of appointment.

DIRECTORS' REPORT (continued)**(ii)** Sign-on payments

No sign-on payments were made to executives during 2010 (2009: nil).

(iii) Other payments

No other payments were made to executives during 2010 (2009: nil).

(vi) Other benefits

No other benefits were received by executives during 2010 (2009: nil).

(v) Termination payments to former executives

A termination payment was made to Mr Peter Bailey of \$374,821 on 31 March 2010 in accordance with the terms of his service agreement (2009: nil).

6. Options and Rights Granted to Directors and Senior Executives

Apart from the performance rights issued pursuant to participation in the LTI plan, no options or rights were granted to or exercised by directors or senior executives during or since the end of the year.

DIRECTORS' REPORT (continued)

7. Directors' Interests in Share Capital

The relevant interest of each director in the share capital of the companies within the Group, as notified by the directors to the ASX at the date of this report:

		Balance at the start of the year	Movement during the year		Balance at the end of the year
			Sales	Purchases	
Directors					
RJ Hill	2010	600,000	-	-	600,000
	2009	600,000	-	-	600,000
JT Lowenstein	2010	450,000	-	-	450,000
	2009	450,000	-	-	450,000
NG Kirk*	2010	1,104,610	-	462,654	1,567,264
	2009	579,723	-	524,887	1,104,610
Jl Messenger	2010	50,000	-	-	50,000
	2009	25,642	-	24,358	50,000
MW Loomes	2010	-	-	-	-
	2009	-	-	-	-
AV Connon	2010	-	-	-	-
	2009	-	-	-	-
GGM Smith	2010	-	-	50,000	50,000
	2009	-	-	-	-
Total	2010	2,204,610	-	512,654	2,717,264
	2009	1,655,365	-	549,245	2,204,610

*These figures include 1,438,765 shares held in trust in accordance with employee share schemes and long-term incentive plans. Refer to section 5.3 for details of the long-term incentive plan which NG Kirk is a participant in. NG Kirk has 1,276,531 performance rights from 2008 that may vest in 2011 which would subsequently increase his beneficial ordinary share holding by that amount. There were no options or rights over ordinary shares granted or exercised by directors during or since the end of the year, or outstanding as at the date of this report.

DIRECTORS' REPORT (continued)

8. Executives' Interests in Share Capital

The relevant interest of each executive in the share capital of the companies within the Group, as notified by the executives to the ASX at the date of this report:

		Balance at the start of the year	Movement during the year		Balance at the end of the year
			Sales	Purchases	
Executives					
PA Bailey*	2010	252,851	346,262	118,411	25,000
	2009	100,295	-	152,556	252,851
AR Diggelmann	2010	163,204	-	57,290	220,494
	2009	89,418	-	73,786	163,204
S Dossetor**	2010	5,334	-	-	5,334
	2009	5,334	-	-	5,334
SJ Fay	2010	147,949	-	53,690	201,639
	2009	82,754	-	65,195	147,949
GT Hickey	2010	205,164	-	93,596	298,760
	2009	205,164	-	-	205,164
MJ Hooton	2010	357,358	-	118,411	475,769
	2009	201,945	-	155,413	357,358
I Mabbutt**	2010	137,342	-	-	137,342
	2009	137,342	-	-	137,342
RF Walliser	2010	15,000	-	11,485	26,485
	2009	15,000	-	-	15,000
Total	2010	1,284,202	346,262	452,883	1,390,823
	2009	837,252	-	446,950	1,284,202

* Left the Group on 31 March 2010.

** These shares were acquired prior to appointment as an executive.

These amounts include shares purchased by the executives and any vested shares held in trust in accordance with long-term incentive or employee share schemes.

The Calliden Share Trading policy, including risk measures, applies to all executives' interests in share capital.

9. Options or Rights Over Ordinary Shares Granted to Non-Directors

There were no options or rights over ordinary shares granted or exercised during or since the end of the year, or outstanding as at the date of this report.

DIRECTORS' REPORT (continued)

10. Subsequent Events

On 24 February 2011, the directors declared a fully franked dividend of 1.0 cent per share. (2009: 1.0 cent per share).

Calliden was impacted by six catastrophe events during January and February 2011. These are considered to be non-adjusting events under Australian International Financial Reporting Standards ("AIFRS") and are therefore not reflected in the Statements of Comprehensive Income. The Group has substantial reinsurance protection in place to mitigate the impact of these events. The maximum event retention per event is \$2.0m. The Lockyer Valley, Ipswich and Brisbane events are treated as one event under Calliden's reinsurance treaties and have triggered the maximum event retention. The regional flooding in Victoria from 12 January and the flash flooding in Melbourne on 4 February 2011 are also likely to reach the maximum event retention. Calliden's exposure to Cyclone Yasi and the Perth bushfires is limited and is expected to be well below the reinsurance retention for each event. Under the reinsurance contract, the Group has one free reinstatement and is liable to pay for reinstatements thereafter.

There were no other material and unusual events or transactions occurring after the reporting date that the directors are aware of as at the date of this report that would significantly affect the Group's operations of, the results of those operations or the state of affairs of the Group in future financial years.

11. Likely Developments

Information about likely developments in the Group's operations and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

12. Indemnification and Insurance of Officers

12.1 Indemnification

The Company's constitution contains an indemnity in favour of every officer and past officer (including the directors, secretaries and other officers). To the fullest extent permitted by law, the indemnity extends to any liability incurred in the relevant capacity and to legal costs and expenses incurred in defending an action for such liability.

In addition, the Company has entered into a deed of indemnity with each current director and certain former directors indemnifying them on a continuing basis, to the maximum extent permitted by law and the Company's constitution, against all liabilities and payments (including legal expenses) incurred or paid in connection with their position as director or employee of the Company or a controlled entity.

As at the date of this report, no director or officer of the Company has received the benefit of an indemnity from the Company during or since the end of the year.

DIRECTORS' REPORT (continued)

12.2 Insurance

Under the Company's constitution and the deeds of indemnity, the Company is required to pay to the fullest extent permitted by the law the premium on a contract insuring the indemnified persons against liability incurred in respect of the relevant office. The insurance must be maintained for a minimum of seven years after the date the person ceases to hold office. The Company has paid insurance premiums in respect of insurance contracts for directors' and officers' liability and legal expenses for all current and former directors and officers of the Company and its controlled entities. Disclosure of the details of the liability covered or the amount of the insurance premium is prohibited by the relevant insurance contract.

13. Environmental Regulation

The Group's operations are not significantly impacted by any environmental regulations under either Commonwealth or State legislation. The Group is not aware of any breach of those environmental regulations.

14. Auditor's Independence and Disclosure of Non-Audit Services

The Board has considered the position and, in accordance with the advice received from the Audit Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24, which forms part of the Directors' Report.

During the prior year KPMG, the Group's auditor, performed certain other services in addition to their audit services as shown below:

	Consolidated		Company	
	2010	2009	2010	2009
		\$		\$
Indirect tax services	-	17,500	-	17,500
Rationalisation of corporate structure	-	10,000	-	10,000
Total	-	27,500	-	27,500

DIRECTORS' REPORT (continued)**15. Rounding Off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

Signed at Sydney this 24th day of February 2011 in accordance with a resolution of 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 audit for the financial year ended 31 December 2010 there has been:

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

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'A. Reeves', with a horizontal line extending to the right.

Andrew Reeves
Partner

Sydney

24 February 2011

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	Consolidated		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
GROSS WRITTEN PREMIUM	4	211,641	217,843	-	-
Gross premium revenue	4	219,510	208,740	-	-
Reinsurance premium expense	5	(102,701)	(107,778)	-	-
Net premium revenue		116,809	100,962	-	-
Gross claims expense	5,6	(142,035)	(178,093)	-	-
Reinsurance and other recoveries revenue	4,6	83,648	122,524	-	-
Net claims incurred	6	(58,387)	(55,569)	-	-
Acquisition costs	5	(58,117)	(56,256)	-	-
Reinsurance and administration commission revenue	4	34,320	37,915	-	-
Net acquisition costs		(23,797)	(18,341)	-	-
Other underwriting expenses	5	(10,476)	(13,111)	-	-
Levies and charges	5	(19,836)	(17,374)	-	-
Underwriting expenses		(30,312)	(30,485)	-	-
Investment income on assets backing insurance liabilities		4,998	4,010	-	-
UNDERWRITING PROFIT		9,311	577	-	-
Investment income on shareholders' funds		1,905	2,041	5,598	6,391
Share of net profits of joint ventures	4	1,266	1,589	-	-
Fee and other income	4	4,634	2,206	1,255	1
Borrowing costs	5	(1,367)	(1,285)	(1,367)	(1,285)
Amortisation of identifiable intangibles	5	(2,955)	(2,703)	(1,592)	(1,411)
Management fee income	4	-	-	40,075	42,048
Administration and other expenses	5	(4,308)	(2,892)	(40,766)	(42,159)
PROFIT / (LOSS) BEFORE INCOME TAX		8,486	(467)	3,203	3,585
Income tax benefit	7	1,638	71	1,638	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE MEMBERS OF CALLIDEN GROUP LIMITED		10,124	(396)	4,841	3,585
		Cents	Cents		
Basic earnings per ordinary share	9	4.45	(0.17)		
Diluted earnings per ordinary share	9	4.41	(0.16)		

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	Consolidated		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Assets					
Cash held for operational purposes	10	10,305	13,355	303	527
Investments	11	105,480	116,685	-	18,129
Trade and other receivables	12	54,473	59,763	7,793	8,956
Reinsurance and other recoveries receivable	13	69,796	87,282	-	-
Prepayments		783	677	783	677
Deferred levies and charges		9,493	11,806	-	-
Deferred reinsurance expense	14	41,667	52,965	-	-
Deferred acquisition costs	15	28,201	30,827	-	-
Deferred tax assets	16	3,750	2,112	3,750	2,112
Property, plant and equipment	17	2,848	3,657	2,848	3,586
Investments accounted for using the equity method	18	2,592	2,802	-	-
Other financial assets	19	-	-	101,174	101,334
Intangible assets	20	50,863	49,753	8,832	6,312
TOTAL ASSETS		380,251	431,684	125,483	141,633
Liabilities					
Trade and other payables	21	12,401	28,108	10,833	8,500
Borrowings	22	5,000	25,000	5,000	25,000
Employee entitlements	23	948	1,295	948	1,111
Unearned premium liability	25	106,517	114,386	-	-
Unearned reinsurance commission	24	14,540	19,860	-	-
Outstanding claims	26	133,799	142,952	-	-
TOTAL LIABILITIES		273,205	331,601	16,781	34,611
NET ASSETS		107,046	100,083	108,702	107,022
Equity					
Issued capital	27	99,615	100,580	99,615	100,580
Treasury shares held in trust	27	(2)	(263)	(2)	(263)
Share-based payments reserve	28	160	940	160	940
Retained earnings / (accumulated losses)		7,273	(1,174)	8,929	5,765
TOTAL EQUITY		107,046	100,083	108,702	107,022

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Issued Capital	Treasury Shares Held In Trust	Share-based Payments Reserve	Retained Earnings / (Accumulated Losses)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED					
For the year ended 31 December 2010:					
Balance at the beginning of the year	100,580	(263)	940	(1,174)	100,083
Total comprehensive income	-	-	-	10,124	10,124
Transactions with owners in their capacity as owners:					
Decrease in issued capital	(965)	-	-	-	(965)
Dividend paid	-	-	-	(2,311)	(2,311)
Acquisition of shares by the Calliden Employee Share Trust	-	(58)	-	-	(58)
Share-based payments expense	-	-	173	-	173
Vesting of share-based remuneration	-	319	(953)	634	-
Balance at the end of the year	99,615	(2)	160	7,273	107,046
For the year ended 31 December 2009:					
Balance at the beginning of the year	100,583	(380)	782	2,411	103,396
Total comprehensive income	-	-	-	(396)	(396)
Transactions with owners in their capacity as owners:					
Decrease in issued capital	(3)	-	-	-	(3)
Dividend paid	-	-	-	(2,889)	(2,889)
Acquisition of shares by the Calliden Employee Share Trust	-	(316)	-	-	(316)
Share-based payments expense	-	-	492	-	492
Vesting of share-based remuneration	-	433	(334)	(99)	-
Reversal of IUA Pty Ltd equity accounted profits (pre-acquisition)	-	-	-	(201)	(201)
Balance at the end of the year	100,580	(263)	940	(1,174)	100,083

STATEMENTS OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

	Issued Capital	Treasury Shares Held In Trust	Share-based Payments Reserve	Retained Earnings / (Accumulated Losses)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
COMPANY					
For the year ended 31 December 2010:					
Balance at the beginning of the year	100,580	(263)	940	5,765	107,022
Total comprehensive income	-	-	-	4,841	4,841
Transactions with owners in their capacity as owners					
Decrease in issued capital	(965)	-	-	-	(965)
Dividend paid	-	-	-	(2,311)	(2,311)
Acquisition of shares by the Calliden Employee Share Trust	-	(58)	-	-	(58)
Share-based payments expense	-	-	173	-	173
Vesting of share-based remuneration	-	319	(953)	634	-
Balance at the end of the year	99,615	(2)	160	8,929	108,702
For the year ended 31 December 2009:					
Balance at the beginning of the year	100,583	(380)	782	5,168	106,153
Total comprehensive income	-	-	-	3,585	3,585
Transactions with owners in their capacity as owners					
Decrease in issued capital	(3)	-	-	-	(3)
Dividend paid	-	-	-	(2,889)	(2,889)
Acquisition of shares by the Calliden Employee Share Trust	-	(316)	-	-	(316)
Share-based payments expense	-	-	492	-	492
Vesting of share-based remuneration	-	433	(334)	(99)	-
Balance at the end of the year	100,580	(263)	940	5,765	107,022

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums received		217,338	214,793	-	-
Reinsurance and other recoveries received		100,201	81,456	-	-
Acquisition costs paid		(54,525)	(56,159)	-	-
Reinsurance premium paid		(68,395)	(71,973)	-	-
Claims paid		(151,188)	(141,688)	-	-
Underwriting and administration expenses paid		(38,232)	(34,133)	(41,308)	(44,099)
Income tax paid		(53)	-	-	-
Management fees received		-	-	40,075	42,048
Interest received		7,099	8,393	93	86
Interest paid		(1,537)	(1,369)	(1,537)	(1,369)
Dividends received from joint ventures		1,375	1,450	4,465	5,450
Fee income received		1,250	-	-	-
Other operating income		2	-	2	-
Other operating expenses		(1,419)	(510)	-	-
Net cash flows from operating activities	10	11,916	260	1,790	2,116
CASH FLOWS FROM INVESTING ACTIVITIES					
Net proceeds from sale of investments		11,067	5,410	19,168	-
Proceeds from sale of property, plant and equipment		37	-	37	-
Purchase of plant and equipment		(72)	(552)	(72)	(552)
Intangibles acquired		(4,112)	(3,582)	(4,112)	(3,567)
Investments in joint ventures		-	(162)	-	(162)
Proceeds from disposal of joint venture		1,200	-	1,200	-
Investment in controlled entities, net of cash acquired		-	(331)	-	(1,970)
Net cash flows from investing activities		8,120	783	16,221	(6,251)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend paid		(2,311)	(2,889)	(2,311)	(2,889)
Share redemption		(965)	(3)	(965)	(3)
Repayment of loan provided to joint ventures		248	597	248	597
Proceeds of loan from subsidiaries		-	-	4,851	5,759
Repayment of borrowings		(20,000)	-	(20,000)	-
Outlays for purchase of treasury shares*		(58)	(316)	(58)	(316)
Net cash flows from financing activities		(23,086)	(2,611)	(18,235)	3,148
Net movement in cash and cash equivalents		(3,050)	(1,568)	(224)	(987)
Cash and cash equivalents at the beginning of the year		13,355	14,923	527	1,514
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	10,305	13,355	303	527

*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 Statements of Cash Flows should be read in conjunction with the accompanying notes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report prepared in accordance with the requirements of Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Australian Securities Exchange (“ASX”) Listing Rules.

The financial report covers the economic entity of Calliden Group Limited, its controlled entities and its interest in jointly controlled entities (referred to as the “Group”), and Calliden Group Limited as an individual parent entity (referred to as the “Company”).

The financial report was authorised for issue by the board of directors on 24 February 2011.

1.1 Basis of Preparation

The financial report is presented in Australian dollars, which is the functional and presentation currency of the Company.

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

The Statements of Financial Position are prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the amount of the item that is expected to be outstanding longer than 12 months is included within the relevant note to the financial statements.

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

1.1.1 Compliance with IFRS

International Financial Reporting Standards (“IFRS”) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board (“IASB”). IFRS forms the basis of the Australian Accounting Standards. This financial report of the Company and the Group complies with IFRS.

The existing IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB continues to work on a project to issue a standard that does include such criteria. Until the issuance of the standard, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.1.2 Critical Accounting Estimates

The preparation of financial reports requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are detailed in Note 2.

1.1.3 New Standards and Interpretations Issued But Not Yet Adopted

Title	Description	Operative Date
AASB 124	Related Party Disclosures (Revised)	1 January 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements	1 January 2011
AASB 9	Financial Instruments	1 January 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013

The Australian Accounting Standards, interpretations and amendments detailed in the table above are not mandatory for the Group or the Company until the operative dates stated, however, early adoption is permitted.

The Group and the Company will apply the amendments detailed above for the reporting periods beginning on the operative dates set out above. The application of these standards is not expected to have a material impact on either the Group's or the Company's financial statements, except for *AASB 9 Financial Instruments*, which may change the classification and measurement of financial assets.

1.1.4 Historical cost convention

The financial report has been prepared under the historical cost convention except for financial assets and liabilities (including derivative instruments) 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.

1.1.5 Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

The principal accounting policies adopted in the preparation of the financial report are set out below.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.2 Basis of Consolidation

1.2.1 Subsidiaries and Controlled Entities

From 1 January 2010, the Group has applied revised *AASB 127 Consolidated and Separate Financial Statements* in accounting for subsidiaries and controlled entities. Application of the revised standard was made in accordance with its transitional provisions and has had no impact on the current or prior period financial statements. There was no impact on earnings per share.

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of Calliden Group Limited as at 31 December 2010 and the results of all subsidiaries for the year then ended.

A controlled entity is any entity controlled by Calliden Group Limited. Control exists where Calliden Group Limited has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control commences. They are de-consolidated from the date that control ceases. Investments by the Company in controlled entities are carried at cost of acquisition.

Intragroup balances, transactions and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial report. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the economic entity.

1.2.2 Joint Ventures

Investments in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Company. Under the equity method, the share of the profit or losses of a joint venture is recognised in the consolidated Statements of Comprehensive Income. Joint ventures are those entities over which the consolidated entity has joint control, established by contractual agreement.

1.3 Classification of Insurance Contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

1.4.1 Premium Revenue

Premium revenue from general insurance business includes amounts charged to policyholders, including fire services levy but excluding stamp duties, goods and services tax ("GST") and other amounts collected on behalf of third parties.

Premium revenue, including that on unclosed business (business written but not processed to the insurance system due to a delay in the issue of a policy or bordereau by the originating agent or broker), is recognised in the Statements of Comprehensive Income when it has been earned, that is, from the attachment date over the period of the contract using the daily pro-rata method.

The proportion of premium received or receivable not earned in the Statements of Comprehensive Income at the reporting date is recognised in the Statements of Financial Position as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on information provided by different intermediaries, and allowing for any changes in the pattern of new business and renewals.

1.4.2 Reinsurance and Other Recoveries Revenue

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, and claims incurred but not reported are recognised as revenue.

Recoveries receivable are assessed in a manner consistent with the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts.

1.4.3 Reinsurance Commission Revenue

Reinsurance commission revenue is recognised in the Statements of Comprehensive Income over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of the risks ceded.

1.4.4 Interest Revenue

Interest revenue is recognised in the Statements of Comprehensive Income using the effective interest method when the Group has control of the right to receive the interest payment.

1.4.5 Dividend Revenue

Dividend revenue is recognised in the Statements of Comprehensive Income on the date the Group's right to receive payments is established which in the case of quoted securities is the ex-dividend date.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4.6 Trust Distribution Revenue

The Group established a unit trust named CIX Investment Trust ("CIX") during 2008 to manage its investment activities. The trust is managed by Vianova Asset Management Pty Ltd, and invests in cash and fixed interest securities. The Company's subsidiary Calliden Insurance Limited is the only unitholder. The units in the trust are marked to market on a monthly basis and the movement in fair value of the units is recognised in the Statements of Comprehensive Income as investment income.

The trust also uses derivatives to exploit arbitrage opportunities and market anomalies, as well as to take outright views on market direction. A futures contract obliges its owner to buy a specific underlying financial instrument at a specified price on the contract maturity date (or to settle the value for cash). Futures are exchange traded.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the reference rate or index relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. These fluctuations are recognised through the Statements of Comprehensive Income.

1.4.7 Fee For Service Revenue

Fee for service revenue is recognised in the Statements of Comprehensive Income on an accrual basis.

1.5 Liability Adequacy Test ("LAT")

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability (net of reinsurance) less related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in the Statements of Comprehensive Income with the corresponding impact in the Statements of Financial Position recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised in the Statements of Financial Position as an unexpired risk liability.

1.6 Outwards Reinsurance

Premiums ceded to reinsurers under reinsurance contracts held by the Group are recorded as an outwards reinsurance expense and are recognised in the Statements of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of risk ceded. Accordingly, a proportion of outwards reinsurance premium is treated as prepaid and disclosed as deferred reinsurance expense in the Statements of Financial Position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.7 Outstanding Claims Liability

The estimation of outstanding claims is the Group's most critical accounting estimate. The Group has taken all reasonable steps to ensure the central estimate is the best estimate of the expected liabilities for outstanding claims and related expenses based on information currently available and exhibits no bias either towards a pessimistic or an optimistic outcome. However, given the uncertainty involved it is likely that the final outcome will differ from the original claims liability established.

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Group, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported, claims incurred but not enough reported, and anticipated claims handling expenses.

The expected future payments are discounted to present value using the risk free rate that relates to the term of the obligation. The risk free rates are based on the observed yields on Commonwealth Government securities at the reporting date.

The gross claims expense or income in the Statements of Comprehensive Income comprises claims paid and the change in the liability for outstanding claims, both reported and unreported, including the risk margin and claims handling expenses.

1.8 Acquisition Costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statements of Comprehensive Income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning patterns of the corresponding premium revenue.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.9 Investments

Investments comprise assets held to back insurance liabilities and assets that represent shareholders' funds. Insurance liabilities are defined as outstanding claims and unearned premium liabilities net of reinsurance.

All investments are designated at fair value through profit or loss on initial recognition. They are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. Changes in the fair value from the previous reporting date are recognised as realised or unrealised investment gains or losses in the Statements of Comprehensive Income.

Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset.

Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

For securities traded in an active market, fair value is determined by reference to published closing bid price quotations. For securities not traded, and securities that are traded in a market that is not active, fair value is determined using valuation techniques generally by reference to the fair value of recent arm's length transactions involving the same or similar instruments.

1.10 Receivables

Trade receivables are recognised initially at fair value and subsequently remeasured at amortised cost using the effective interest method, less provision for impairment (refer to Note 1.12).

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statements of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statements of Comprehensive Income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.11 Fire Services Levy and Other Charges

A liability for fire services levy and other charges is recognised on business written to the reporting date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the unearned premium portion recorded as deferred levies and charges.

1.12 Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. The carrying amount of the asset is increased to its recoverable amount to the extent that the increment does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years.

1.13 Taxation

1.13.1 Income Tax

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

1.13.2 Tax Consolidation Legislation

The Company and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004 and are therefore taxed as a single entity.

The head entity, Calliden Group Limited, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Calliden Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

1.13.3 Nature of Tax Sharing Arrangements

The head entity and other members of the tax consolidated group, have entered into a tax sharing arrangement which sets out the sharing obligations of members of the tax consolidated group in respect of tax amounts. No amounts have been recognised in the financial reports in respect of this agreement as payment of any amounts under this agreement is considered remote.

1.13.4 Goods and Services Tax ("GST")

Revenues and expenses are recognised net of the amount of GST, unless the GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In this case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the Statements of Financial Position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash flows are presented in the Statements of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1.14 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statements of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash and subject to an insignificant risk of changes in values, net of outstanding bank overdrafts.

1.15 Property, Plant and Equipment

Property, plant and equipment are carried at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the Statements of Comprehensive Income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- | | |
|--|--------------|
| • Leasehold improvements, furniture and fittings | 13 1/3 years |
| • Office equipment | 5 - 10 years |
| • Motor vehicles | 4 – 5 years |
| • Computing assets – software, hardware, network | 3 - 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note 1.12).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statements of Comprehensive Income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.16 Business Combinations

From 1 January 2010, the Group has applied revised *AASB 3 Business Combinations*. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the Statements of Comprehensive Income as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their net present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

1.17 Intangible Assets

1.17.1 Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Bargain purchase arising on an acquisition is recognised directly in the Statements of Comprehensive Income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.17.2 Systems Development Costs

Costs incurred in developing and tailoring the Group's policy administration systems that will contribute to future period financial benefits through revenue generation and / or cost reduction are capitalised. Costs capitalised include direct costs of service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over five years (2009: four years).

Systems development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

1.17.3 Customer Contracts and Relationships

Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill. The customer contracts and relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses (Refer to Note 1.12). Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from five to ten years.

1.17.4 Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the Statements of Comprehensive Income when incurred.

1.18 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statements of Comprehensive Income on a straight-line basis over the period of the lease.

1.19 Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured and are normally settled within 30 days of the due date.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.20 Employee Entitlements

1.20.1 Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave represent present obligations resulting from employees' services provided to the reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay at the reporting date including related on-costs, such as workers compensation insurance and payroll tax.

1.20.2 Superannuation

All employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statements of Comprehensive Income as incurred.

1.20.3 Long Service Leave

The liability for long service leave is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Commonwealth Government securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

1.21 Share-based Payments

The fair value of performance rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the performance rights. The fair value of the performance rights granted is valued by the Appointed Actuary, taking into account the terms and conditions upon which the performance rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest are projected to vest subject to the performance criteria and the proportion of the performance period remaining.

1.22 Borrowing Costs

Borrowing costs are expensed when incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.23 Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

When equity instruments are reacquired, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the Statements of Comprehensive Income and the consideration paid including any directly attributable incremental costs, net of income taxes, is recognised directly in equity.

1.24 Treasury Shares Held in Trust

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity, net of any tax effects. Repurchased shares are classified as treasury shares held in trust and are presented as a deduction from total equity. When treasury shares held in trust are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

In the Company's financial statements the transactions of the Company sponsored employee share plan trust are treated as being executed directly by the Company (as the trust acts as the Company's agent).

1.25 Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at reporting date.

1.26 Earnings Per Share

1.26.1 Basic Earnings Per Share

Basic earnings per share are determined by dividing the net result attributable to members of the parent entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

1.26.2 Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account amounts unpaid on ordinary shares and any reduction in earnings per share that may arise from the probable exercise of rights outstanding during the financial year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.27 Segment Reporting

Operating segments are reported on a 'management approach' basis, under which segment information is presented in a manner consistent with the internal reporting provided to the Chief Executive Officer (being the chief operating decision maker). The Chief Executive Officer, who is responsible for allocating resources and assessing performance of the operating segments, is primarily focused on results and performance on a Group basis.

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

NOTE 2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually re-evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas in which estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described below.

2.1 The Ultimate Liability Arising from Claims Made Under Insurance Contracts

A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group.

The estimated net cost of claims includes direct expenses to be incurred in settling claims net of the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims liabilities, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be reported until many years after the events giving rise to the claims that have occurred. Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. Short-tail claims are typically reported soon after the claim event, and hence, tend to display lower levels of volatility.

NOTE 2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical Group and industry experience that assumes that the development pattern of the current claims will be consistent with past Group experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims.

Details of specific actuarial techniques and assumptions used and analysis of the outstanding claims liability at the reporting date are described in Note 26. A reconciliation of movements in deferred acquisition costs is provided in Note 15 and analysis of the liability adequacy test is provided in Note 25.

2.2 Assets Arising From Reinsurance Contracts and Other Recoveries

Estimates of reinsurance and other recoveries are also determined using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due and these amounts can be reliably measured. Analysis of reinsurance recoveries is provided in Note 13.

2.3 Annual Impairment Tests

The Group tests annually whether goodwill and identifiable intangibles have suffered any impairment, in accordance with the accounting policy stated in Note 1.17. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 20 for details of these assumptions and the potential impact of changes to the assumptions.

2.4 Deferred Tax Assets

The Group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. If the entity fails to satisfy the tests, carried forward losses of \$3.8m that are currently recognised as deferred tax asset would have to be written off to income tax expense.

NOTE 3 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Group are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, compliance risk and operational risk. The Group's policies and procedures in respect of managing insurance risks are set out below.

3.1 Objectives in Managing Risks Arising From Insurance Contracts and Policies for Mitigating those Risks

The Group has an objective to control insurance risk and thereby reduce the volatility of operating profits and losses. The Group's risk management framework is the principal means by which insurance risks, and all other identified risks, are managed.

The Group has developed a Risk Management Strategy ("RMS") that outlines the risk management framework, and a Reinsurance Management Strategy ("ReMS") that outlines the Group's management of risk in respect to reinsurance. These policies are in accordance with APRA Prudential Standards and have been approved by the Board.

Risks arising from entering into insurance contracts are specifically addressed as part of the Group's risk management framework. Each identified risk is analysed according to an established risk management process and appropriate treatment strategies are adopted in order to manage the Group's exposure to risk.

Key aspects of the process established in the risk management framework to mitigate risk include:

- The maintenance and use of management information systems, which provide up to date, reliable data on the risks to which the business is exposed;
- Actuarial models, using information from the management information systems, are used to review premium adequacy and monitor claims patterns. Past experience, relevant industry benchmarks and statistical methods are used as part of the process;
- Documented procedures are followed for underwriting and accepting insurance risks, including risk retention limits;
- A regular program of audits of underwriting and claims management practices including reviews of agents and intermediaries;
- Reinsurance (both Quota Share and Excess of Loss) is used to limit the Group's exposure to claims and catastrophes. When selecting a reinsurer, the security of the reinsurer is carefully considered. In order to assess this, the Group uses rating information from the public domain or gathered through other investigations;
- In order to limit concentrations of credit risk, in purchasing reinsurance the Group has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or group of related reinsurers;

NOTE 3 INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES (continued)

- The mix of assets in which the Group invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments; and
- The diversification of business over major classes of insurance seeks to balance exposure to individual classes of business.

Quota share reinsurance treaties are in operation for all classes of business. Property per risk and casualty excess of loss cover applies along with catastrophe and clash of retentions cover. In addition, aggregate stop loss cover applies on property classes.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the exposure profile it insures. The risk on any policy will vary according to many factors such as location, risk management programs and occupation etc. Underwriting risk is partially managed by the Group issuing contracts for each policy which include the terms and conditions associated with the policy.

3.2 Terms and Conditions of Insurance Business

The terms and conditions of insurance contracts written are entered into on a standard form basis. There are no specific contract terms and conditions that are expected to have a material impact on the financial reports. The Group develops contract terms that are specific to each product written.

3.3 Concentration of Insurance Risk

The Group writes general insurance business across a number of classes and industries, ensuring the portfolio is sufficiently diversified such that there is no undue concentration by risk class or by industry. The Group also writes business across broad geographical regions within Australia. Regular reviews are undertaken to gauge the Group's geographic accumulation exposure. Catastrophe reinsurance is purchased to ensure that any accumulation of losses from one area is protected.

3.4 Development of Claims

There is a possibility that changes may occur in the estimate of the Group's claims liability, and that the liability held may be inadequate or excessive. The risk of the liability being inadequate is monitored by way of half-yearly actuarial reporting and mitigated by the inclusion of a risk margin.

NOTE 4 REVENUE

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
(i) General Insurance Revenue				
Gross written premium	211,641	217,843	-	-
Movement in unearned premium liability	7,869	(9,103)	-	-
Gross premium revenue	219,510	208,740	-	-
Reinsurance and other recoveries revenue*	83,648	122,524	-	-
Reinsurance commission revenue	34,320	37,915	-	-
Total General Insurance Revenue	337,478	369,179	-	-
(ii) Investment Income				
Dividend revenue	-	-	4,465	5,450
Interest revenue	7,042	8,757	93	73
Total Investment Revenue	7,042	8,757	4,558	5,523
Net changes in fair value of investments				
- Realised net (losses) and gains	(561)	3,545	2,099	-
- Unrealised net gains and (losses)	422	(6,251)	(1,059)	868
Total Investment Income	6,903	6,051	5,598	6,391
(iii) Share of Net Profit of Joint Ventures				
	1,266	1,589	-	-
Total share of net profit	1,266	1,589	-	-
(iv) Fee and Other Income				
Management fee income	-	-	40,075	42,048
Fee for service revenue	1,565	-	153	-
Agency commission revenue	1,732	2,112	-	-
Other income	1,337	94	1,102	1
Total Other Income	4,634	2,206	41,330	42,049
Total Revenue	350,281	379,025	46,928	48,440

*Included in reinsurance and other recoveries revenue in 2010 is \$2.5m recovered from the settlement of the legal dispute with Australian Unity Limited.

NOTE 5 EXPENSES

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit / (loss) before income tax includes the following specific expenses:				
Gross claims expense	142,035	178,093	-	-
Reinsurance premium expense	102,701	107,778	-	-
Acquisition costs	58,117	56,256	-	-
Other underwriting expenses	10,476	13,111	-	-
Levies and charges	19,836	17,374	-	-
Borrowing costs	1,367	1,285	1,367	1,285
Amortisation expense	2,955	2,703	1,592	1,411
Administration and other expenses*	4,308	2,892	40,766	42,159
Total Expenses	341,795	379,492	43,725	44,855

* All administration expenses are initially incurred by the Company and recharged to other Group entities. Direct administration expenses and a share of corporate overheads are recharged at cost based on estimates of time incurred and an analysis of actual expenditure.

Included in acquisition costs are employee benefits expenses of \$21.9m (2009: \$22.8m) and depreciation expense of \$0.8m (2009: \$0.7m).

NOTE 6 CLAIMS INCURRED

	2010			2009		
	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000
CONSOLIDATED						
Gross claims incurred - undiscouted	150,369	(7,181)	143,188	172,958	9,368	182,326
Discount movement	(4,040)	2,887	(1,153)	(4,041)	(192)	(4,233)
Gross claims incurred - discounted	146,329	(4,294)	142,035	168,917	9,176	178,093
Reinsurance and other recoveries – undiscouted*	(84,149)	28	(84,121)	(114,592)	(10,739)	(125,331)
Discount movement	1,700	(1,227)	473	2,139	668	2,807
Reinsurance and other recoveries - discounted	(82,449)	(1,199)	(83,648)	(112,453)	(10,071)	(122,524)
Net Claims Incurred - discounted	63,880	(5,493)	58,387	56,464	(895)	55,569

Current year amounts relate to risks borne in the current financial year. Prior years' amounts relate to a reassessment of risks borne in all previous financial years. The (release) or strengthening of claims reserves in prior years is due to (favourable) or unfavourable experience compared to previously assumed loss ratios, along with revisions of actuarial assumptions.

There were releases from the previous year's reserves due to better than expected experience over the 12 months to 31 December 2010.

*Included in reinsurance and other recoveries - prior year in 2010 is \$2.5m recovered from the settlement of the legal dispute with Australian Unity Limited.

NOTE 7 INCOME TAX

7.1 Numerical Reconciliation of Income Tax Benefit to Prima Facie Tax Payable / (Receivable)

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit / (loss) from continuing operations before income tax benefit	10,124	(467)	4,841	3,514
Tax at the Australian tax rate of 30% (2009: 30%)	3,038	(140)	1,452	1,054
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
- Net non-deductible / assessable items	840	1,104	527	(910)
- Tax losses recouped from prior years	(3,878)	(964)	(1,979)	(144)
- Tax losses transferred to other group entities	-	-	-	-
- Reversal of deferred tax liability	(1,638)	(71)	(1,638)	-
Income tax attributable to profit from ordinary activities	(1,638)	(71)	(1,638)	-
Income tax benefit attributable to profit / (loss) from ordinary activities is made up of:				
Current Tax	-	(71)	-	-
Deferred Tax	(1,638)	-	(1,638)	-
Income Tax Benefit	(1,638)	(71)	(1,638)	-

7.2 Deferred Tax Asset Recognised

A deferred tax asset of \$3.8m (2009: \$2.1m) (refer to Note 16) was recognised as carried forward tax losses. This represents the balance that the directors believe is probable of being recovered.

7.3 Deferred Tax Asset Not Recognised

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Unused tax losses for which no deferred tax asset has been recognised	234,995	247,495	234,995	247,495
Potential tax benefit @ 30%	70,498	74,249	70,498	74,249

These potential future income tax benefits for tax losses and other temporary differences will only be obtained if:

- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised in accordance with Division 166 of the Income Tax Assessment Act 1997;
- the Group continues to comply with the conditions for deductibility imposed by the law; specifically the continuity of ownership and same business tests; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

NOTE 7 INCOME TAX (continued)

7.4 Tax Consolidation

Effective 1 January 2004, the Company and its wholly-owned Australian controlled entities implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in Note 1.14.2.

NOTE 8 DIVIDENDS

	Company	
	2010	2009
	\$'000	\$'000
(i) Ordinary Shares		
Final dividend for the year ended 31 December 2009 of 1.0 cent per fully paid share paid on 25 March 2010.		
Fully franked based on tax paid @ 30% - 1.0 cent per share (2009: 1.25 cents per share)	2,311	2,889
(ii) Dividends Not Recognised At Reporting Date		
In addition to the above dividends, since year end the directors have declared a dividend of 1.0 cent per fully paid ordinary share, (2009: 1.0 cent) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 24 March 2011 out of retained earnings at 31 December 2010, but not recognised as a liability at year end is	2,271	2,311
(iii) Franked Dividends		
The franked portions of the final dividends recommended after 31 December 2010 will be franked out of existing franking credits.		
	Consolidated and Company	
	2010	2009
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	27,209	27,611

The above amounts represent the balance of the franking account as at the reporting date, adjusted for:

- (a) Franking credits that will arise from the payment of the amount of the provision for income tax;
- (b) Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (c) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

NOTE 8 DIVIDENDS (continued)

The consolidated amounts include franking credits that would be available to the Company if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend declared by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$973,140 (2009: \$990,372).

NOTE 9 EARNINGS PER SHARE

	Consolidated	
	2010	2009
	Cents	Cents

(i) Ordinary Shares

Basic earnings per ordinary share *	4.45	(0.17)
Diluted earnings per ordinary share	4.41	(0.16)

* 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 year ended 31 December 2010 would be reduced to 4.41 cents (2009: (0.16) cents).

	2010	2009
	\$'000	\$'000

(ii) Reconciliation of Earnings used in Calculating Earnings per Share

Profit / (loss) from continuing operations attributable to the ordinary equity holders of the Parent	10,124	(396)
Profit / (loss) used in calculating basic and diluted earnings per share	10,124	(396)

	2010	2009
	Number	Number

(iii) Reconciliation of Weighted Average Number of Ordinary Shares used in Calculating Earnings per Share

Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	227,065,914	231,086,812
Performance rights on issue	2,340,363	9,771,539
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	229,406,277	240,858,351

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 Statements of Financial Position will reverse when the Company's obligations are settled.

NOTE 10 CASH AND CASH EQUIVALENTS

10.1 Composition

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash held for operational purposes	10,305	13,355	303	527
Total Cash and Cash Equivalents	10,305	13,355	303	527

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short term money held for investment readily convertible to cash. There are no cash balances held that are not available for use in normal operations. The net carrying amount of cash and cash equivalents represents the maximum exposure to credit risk at reporting date and is equivalent to the fair value of the assets because of the negligible credit risk.

10.2 Reconciliation to Cash at the End of the Year

The carrying amount of cash and cash equivalents presented in the Statements of Financial Position is the same as that used for the purposes of the Statements of Cash Flows as there are no bank overdrafts used.

NOTE 10 CASH AND CASH EQUIVALENTS (continued)

10.3 Reconciliation of Profit for the Year to Net Cash Flows from Operating Activities

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit / (loss) for the year	10,124	(396)	4,841	3,585
Adjustments for:				
Depreciation of property and equipment	781	671	786	656
Amortisation of intangible assets	2,955	2,703	1,592	1,411
Share of net profits of joint ventures	109	(139)	-	-
Gains on sale of joint ventures	(1,100)	-	(1,100)	-
Changes in fair value of investments	139	2,705	(1,040)	(868)
Share-based payments	173	492	173	492
Loss on sale of non-current assets	64	27	-	27
Gain on sale of property, plant and equipment	-	-	(14)	-
Disposals of portfolio assets	46	-	-	-
Total adjustments	3,167	6,459	397	1,718
Change in operating assets / liabilities:				
Decrease / (increase) in trade and other receivables	5,040	(4,277)	(503)	(614)
Decrease / (increase) in reinsurance and other recoveries	17,486	(37,214)	-	-
Increase in prepayments	(106)	(174)	(106)	(174)
Decrease / (increase) in deferred levies and charges	2,315	(1,869)	-	-
Decrease / (increase) in deferred reinsurance expense	11,298	(2,282)	-	-
Decrease / (increase) in deferred acquisition costs	2,626	(610)	-	-
Increase in deferred tax assets	(1,638)	-	(1,638)	-
Decrease in trade and other payables	(15,707)	(5,084)	(1,039)	(2,076)
Decrease in employee entitlements	(347)	(139)	(162)	(323)
(Decrease) / increase in unearned premium liability	(7,869)	9,103	-	-
(Decrease) / increase in unearned reinsurance commission	(5,320)	338	-	-
(Decrease) / increase in outstanding claims	(9,153)	36,405	-	-
	(1,375)	(5,803)	(3,448)	(3,187)
Net Cash Flows from Operating Activities	11,916	260	1,790	2,116

NOTE 11 INVESTMENTS

11.1 Composition

	Consolidated		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current	30,918	22,010	-	2,365
Non-current	74,562	94,675	-	15,764
Total Investments	105,480	116,685	-	18,129

Interest bearing investments

Short term cash held for investment	13,673	12,170	-	-
Government and semi-government bonds	53,311	55,306	-	-
Corporate bonds	21,250	38,300	-	-
Other fixed interest	17,327	10,676	-	-
Unlisted unit trust	-	-	-	18,129
	105,561	116,452	-	18,129

Derivatives

Exchange traded equity derivatives	(81)	233	-	-
	(81)	233	-	-
Total Investments	105,480	116,685	-	18,129

11.2 Determination of fair value

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. There has been no change during the current reporting period in the processes used for the determination of the fair value for investments. The fair value of investments has continued to be principally valued using independently sourced valuations that do not involve the exercise of judgement by management.

The following table separates the total investments balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

Fair value hierarchy

Level 1: valuation is based on quoted prices in active markets for identical assets and liabilities;

Level 2: valuation is based on quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques are applied in which any significant input is not based on observable market data.

There were no transfers between any levels in the fair value hierarchy.

Term deposits \$13.0m (2009: \$10.0m) have been categorised in the level 1 fair value hierarchy.

NOTE 11 INVESTMENTS (continued)

CONSOLIDATED	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2010				
Short term cash held for investment	13,673	-	-	13,673
Government and semi-government bonds	-	53,311	-	53,311
Corporate bonds	-	21,250	-	21,250
Other fixed interest	-	17,327	-	17,327
Exchange traded equity derivatives	(81)	-	-	(81)
Total Investments	13,592	91,888	-	105,480
2009				
Short term cash held for investment	12,170	-	-	12,170
Government and semi-government bonds	-	55,306	-	55,306
Corporate bonds	-	38,300	-	38,300
Other fixed interest	-	10,676	-	10,676
Exchange traded equity derivatives	233	-	-	233
Total Investments	12,403	104,282	-	116,685

All investments in the Company have been disposed during the year hence no fair value hierarchy is disclosed in 2010 (2009: All investments were classified as Level 2).

NOTE 12 TRADE AND OTHER RECEIVABLES

12.1 Composition

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Premium receivables	45,340	50,671	-	-
Less: Provision for impairment	(300)	(350)	-	-
Net Premium Receivables	45,040	50,321	-	-
Receivables from controlled entities	-	-	6,430	7,848
Receivables from related parties	360	623	885	623
	360	623	7,315	8,471
Reinsurance receivables	4,411	3,284	-	-
Interest receivables	1,069	1,127	-	-
Other receivables	3,693	4,408	478	485
Less: Provision for impairment	(100)	-	-	-
Total Trade and Other Receivables	54,473	59,763	7,793	8,956

12.2 Determination of fair value

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

NOTE 13 REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current	37,441	54,838	-	-
Non-current	32,355	32,444	-	-
Total Reinsurance and Other Recoveries Receivable	69,796	87,282	-	-
Expected future recoveries undiscounted on:				
- Outstanding claims	75,848	92,861	-	-
Discount to present value	(6,052)	(5,579)	-	-
Total Reinsurance and Other Recoveries Receivable	69,796	87,282	-	-

NOTE 14 DEFERRED REINSURANCE EXPENSE

14.1 Reconciliation of Movement in Deferred Reinsurance Expense

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening balance	52,965	50,682	-	-
Reinsurance premiums deferred during the year	91,403	110,061	-	-
Reinsurance premiums expensed for the year	(102,701)	(107,778)	-	-
Closing balance	41,667	52,965	-	-

The carrying value of Deferred Reinsurance Expense is expected to be expensed within 12 months from the reporting date.

NOTE 15 DEFERRED ACQUISITION COSTS

15.1 Reconciliation of Movement in Deferred Acquisition Costs

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening balance	30,827	30,216	-	-
Acquisition costs deferred during the year	57,421	56,867	-	-
Acquisition costs expensed for the year	(58,117)	(54,871)	-	-
Write down for liability adequacy test deficiency	(1,930)	(1,385)	-	-
Closing balance	28,201	30,827	-	-

The carrying value of Deferred Acquisition Costs is expected to be amortised within 12 months from the reporting date.

NOTE 16 DEFERRED TAX ASSETS

	Consolidated and Company \$'000
At 1 January 2009	2,112
At 31 December 2009	2,112
Credited to the Statements of Comprehensive Income	1,638
At 31 December 2010 *	3,750

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

NOTE 17 PROPERTY, PLANT AND EQUIPMENT

	Consolidated and Company				
	Leasehold Improvements	Computing Assets	Office Equipment	Motor Vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
(i) Composition					
2010					
Cost	3,455	1,137	272	94	4,958
Accumulated depreciation	(863)	(1,058)	(139)	(50)	(2,110)
Closing balance as at 31 December 2010	2,592	79	133	44	2,848
(ii) Reconciliation of Movements for 2010					
Opening balance as at 1 January 2010	3,063	318	169	107	3,657
Additions	7	3	63	-	73
Disposals*	-	(42)	(38)	(21)	(101)
Depreciation**	(478)	(200)	(61)	(42)	(781)
Closing balance as at 31 December 2010	2,592	79	133	44	2,848
(iii) Composition of Comparatives					
2009					
Cost	3,449	1,181	250	178	5,058
Accumulated depreciation	(386)	(863)	(81)	(71)	(1,401)
Closing balance as at 31 December 2009	3,063	318	169	107	3,657
(iv) Reconciliation of Movements for 2009					
Opening balance as at 1 January 2009	2,760	567	216	174	3,717
Additions	552	-	-	-	552
Acquisitions through business combinations***	-	48	38	-	86
Disposals	-	(14)	(13)	-	(27)
Depreciation**	(249)	(283)	(72)	(67)	(671)
Closing balance as at 31 December 2009	3,063	318	169	107	3,657
2008					
Cost	2,897	1,222	257	178	4,554
Accumulated depreciation	(137)	(655)	(41)	(4)	(837)
Closing balance as at 31 December 2008	2,760	567	216	174	3,717

* The disposals for the consolidated entity include \$78,000 relates to IUA Pty Ltd which used to hold certain fixed assets.

** The depreciation expense for the consolidated entity is \$7,000 (2009: \$15,000) higher than the Company due to IUA Pty Ltd which used to hold certain fixed assets.

***The acquisitions through business combinations for the consolidated entity include \$86,000 due to IUA Pty Ltd which used to hold certain fixed assets. These assets were transferred to the Company in March 2010.

There are no items of property, plant and equipment pledged as security for liabilities.

NOTE 18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Equity accounted investments of the consolidated group are detailed below:

18.1 Composition

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Investment in joint ventures	2,592	2,802	-	-
Total Investments Accounted for using the Equity Method	2,592	2,802	-	-

Investments in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Company (refer to Note 19).

18.2 Investment in Joint Ventures

Joint Ventures	Country of Incorporation	Ownership Interest		Carrying Amount of Investments in Joint Ventures and Associates	
				Consolidated	
		2010 %	2009 %	2010 %	2009 %
Arena Underwriting Pty Ltd	Australia	50	50	62,901	28,110
Claims Services Australia Pty Ltd	Australia	50	50	2,112,358	2,265,420
Property Claims Services Pty Ltd	Australia	50	50	360,295	278,308
Queensland Underwriting Solutions Pty Ltd	Australia	50	50	56,815	-
Sports Underwriting Australia Pty Ltd*	Australia	-	50	-	229,909
Investment in Joint Ventures				2,592,369	2,801,747

* 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. As part of the sale agreement a dividend of \$124,000 was paid. Calliden Insurance Limited continues to underwrite the business under a long-term agency agreement.

NOTE 18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(continued)

18.3 Share of Joint Ventures' Assets and Liabilities

	Consolidated	
	2010	2009
	\$'000	\$'000
Current assets	1,704	2,401
Non-current assets	868	766
Total assets	2,572	3,167
Current liabilities	1,127	1,693
Non-current liabilities	481	364
Total liabilities	1,608	2,057
Net assets	964	1,110

18.4 Share of Joint Ventures' Income and Expenses

	Consolidated	
	2010	2009
	\$'000	\$'000
Income	12,345	10,733
Expenses	(11,005)	(9,084)
Income Tax	(74)	(60)
Share of Joint Ventures' Profit after Tax	1,266	1,589

Dividends distributed from joint ventures was \$1.25m (2009: \$1.45m).

18.5 Share of Joint Ventures' Commitments

There are no capital commitments arising from the investment in joint ventures.

18.6 Share of Joint Ventures' Contingent Liabilities

There are no contingent liabilities arising from the investment in joint ventures.

NOTE 19 OTHER FINANCIAL ASSETS

Investments held by the parent company are detailed below:

19.1 Composition

	Consolidated		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Investment in subsidiaries	-	-	99,218	99,278
Investment in joint ventures	-	-	1,956	2,056
Total Other Financial Assets	-	-	101,174	101,334

These financial assets are carried at cost and are reviewed annually for impairment.

19.2 Subsidiaries and Joint Ventures

Subsidiaries	Country of Incorporation	Ownership Interest		Book Value of Company Investment	
		2010	2009	2010	2009
		%	%	\$	\$
ARGIS Pty Limited *	Australia	100	100	-	-
Calliden Insurance Limited	Australia	100	100	75,745,361	75,745,361
CIX Investment Trust	Australia	100	100	-	-
Dawes Underwriting Australia Pty Limited	Australia	100	100	2,433,838	2,493,838
IUA Pty Limited	Australia	100	100	5,413,900	5,413,900
Mansions of Australia Limited	Australia	100	100	15,625,000	15,625,000
Investment in Subsidiaries				99,218,099	99,278,099

*Owned by Mansions of Australia Limited

Joint Ventures	Country of Incorporation	Ownership Interest		Book Value of Investments in Joint Ventures	
		2010	2009	2010	2009
		%	%	\$	\$
Arena Underwriting Pty Ltd	Australia	50	50	60,000	60,000
Claims Services Australia Pty Ltd	Australia	50	50	1,633,908	1,633,908
Property Claims Services Pty Ltd	Australia	50	50	162,502	162,502
Queensland Underwriting Solutions Pty Ltd	Australia	50	50	100,000	100,000
Sports Underwriting Australia Pty Ltd*	Australia	-	50	-	100,000
Investment in Joint Ventures				1,956,410	2,056,410

* On 30 June 2010, the Company disposed its 50% share in Sports Underwriting Australia Pty Ltd ("SUA").

The consolidated financial statements incorporate the assets, liabilities and results of the above subsidiaries in accordance with the accounting policy described in Note 1.2. The proportion of ownership investment is equal to the proportion of voting power held. The class of shares of all the ownership investment is ordinary.

NOTE 20 INTANGIBLE ASSETS

	Consolidated			Total \$'000
	Goodwill	Customer Relationships	Systems Development Costs	
	\$'000	\$'000	\$'000	
(i) Composition				
2010				
Cost	34,371	11,987	13,642	60,000
Accumulated amortisation	-	(4,327)	(4,810)	(9,137)
Closing balance as at 31 December 2010	34,371	7,660	8,832	50,863
(ii) Reconciliation of Movements for 2010				
Opening balance as at 1 January 2010	34,371	9,070	6,312	49,753
Additions	-	-	4,112	4,112
Disposal*	-	(47)	-	(47)
Amortisation	-	(1,363)	(1,592)	(2,955)
Closing balance as at 31 December 2010	34,371	7,660	8,832	50,863
(iii) Composition of Comparatives				
2009				
Cost	34,371	12,048	9,530	55,949
Accumulated amortisation	-	(2,978)	(3,218)	(6,196)
Closing balance as at 31 December 2009	34,371	9,070	6,312	49,753
(iv) Reconciliation of Movements for 2009				
Opening balance as at 1 January 2009	29,959	9,642	4,156	43,757
Additions	15	-	3,567	3,582
Acquisitions through business combinations	4,397	720	-	5,117
Amortisation	-	(1,292)	(1,411)	(2,703)
Closing balance as at 31 December 2009	34,371	9,070	6,312	49,753
2008				
Cost	29,959	11,328	5,963	47,250
Accumulated amortisation	-	(1,686)	(1,807)	(3,493)
Closing balance as at 31 December 2008	29,959	9,642	4,156	43,757

*Disposal relates to Calliden Insurance Limited 's sale of its Commercial Strata portfolio to Queensland Underwriting Solutions Pty Ltd. Refer to Note 31.

During 2010, the Group reviewed the useful life estimates of Systems Development Costs and subsequently changed them from four to five years. The impact of the change in estimates was a decrease in the amortisation expense of \$0.28m in the second half of 2010.

The Company's intangible assets are solely Systems Development Costs.

NOTE 20 INTANGIBLE ASSETS (continued)

20.1 Impairment Tests for Goodwill

For each category, an impairment trigger review was conducted and where necessary the recoverable amount of particular assets determined.

A summary of the goodwill allocation to its cash-generating unit ("CGU") is presented below:

Cash-generating units	2010 \$'000	2009 \$'000
Underwriting	29,220	23,685
Distribution	5,151	10,686
Total Goodwill	34,371	34,371

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 an estimated growth rate of 2.3%. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

At 31 December 2010, a component of the goodwill previously shown in the Distribution CGU has been reallocated 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 one underwriting platform.

20.2 Key Assumptions 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 rates of 12% p.a, calculated based on weighted average cost of capital, were applied in 2010 and 2009.
- GWP terminal profit growth rate at year 2016 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 7.0% p.a over the cycle.

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

NOTE 20 INTANGIBLE ASSETS (continued)

20.3 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 \$69.6m. This exceeds the carrying amount of the Underwriting CGU's goodwill at 31 December 2010 by \$40.4m.

If the discount rate applied to the cash flow projections of the Underwriting CGU was 16.4% 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 \$12.0m. This exceeds the carrying amount of the CGU's goodwill at 31 December 2010 by \$6.8m.

If the discount rate applied to the cash flow projections of the Distribution CGU was 22.4% 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.

20.4 Impairment Charge

There is no impairment charge as no impairment was indicated.

NOTE 21 TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Trade creditors	5,310	16,792	2,783	4,134
Reinsurance premiums payable	6,538	11,316	-	-
Payables to controlled entities	-	-	7,960	4,366
Other payables	553	-	90	-
Total Trade and Other Payables	12,401	28,108	10,833	8,500

The carrying value of Trade and Other Payables is expected to be settled within 12 months from reporting date.

NOTE 22 BORROWINGS

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Bank loan	5,000	25,000	5,000	25,000
Total Borrowings	5,000	25,000	5,000	25,000

* 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 bank 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 27 July 2010. The interest rate as at 31 December 2010 is 8.00% and is reset quarterly. There have been no breaches of any covenants. The Group has sufficient cash and investments on hand to repay the loan if required. The Company has repaid \$15.0m of the \$20.0m new loan negotiated in July 2010 during the year. Information about the Group's and the parent entity's exposure to risks arising from borrowings are set out in Note 32.

NOTE 23 EMPLOYEE ENTITLEMENTS

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee Entitlements				
Provision for employee entitlements				
Current - annual leave	474	743	474	636
Non-current - long service leave	474	552	474	475
Total Employee Entitlements	948	1,295	948	1,111

23.1 Calliden Group Limited Employee Share Offer

No shares were offered under the Employee Share Offer during the year ended 31 December 2010 (2009: nil).

NOTE 24 UNEARNED REINSURANCE COMMISSION

24.1 Reconciliation of Movement in Unearned Reinsurance Commission

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening balance	19,860	19,522	-	-
Reinsurance commission deferred in the year	29,000	38,253	-	-
Reinsurance commission earned for the year	(34,320)	(37,915)	-	-
Closing balance	14,540	19,860	-	-

The carrying value of Unearned Reinsurance Commission is expected to be earned within 12 months from reporting date.

NOTE 25 UNEARNED PREMIUM LIABILITY

25.1 Composition

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current	106,312	113,768	-	-
Non-current	205	618	-	-
Total Unearned Premium Liability	106,517	114,386	-	-

25.2 Reconciliation of Movement in Unearned Premium Liability

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening balance	114,386	105,283	-	-
Written premium deferred during the year	211,641	217,843	-	-
Written premium earned for the year	(219,510)	(208,740)	-	-
Closing balance	106,517	114,386	-	-

NOTE 25 UNEARNED PREMIUM LIABILITY (continued)

25.3 Liability Adequacy Test

The liability adequacy test ("LAT") has been conducted using the central estimate of the premium liabilities calculated for reporting to APRA (refer to Note 33), adjusted as appropriate, together with an appropriate margin for uncertainty for each portfolio of contracts. The test is based on prospective information and is heavily dependent on assumptions and judgements.

Following the recent systems conversion and internal restructure of the business, management has reviewed the business and portfolios on which the LAT is performed. It has been determined that the portfolio contains broadly similar risks that are managed together and therefore management has changed the level at which the LAT is performed to a single portfolio. The application of the LAT has identified a deficiency of \$1.9m as at 31 December 2010 (31 December 2009: \$1.4m). The deficiency was recognised in the Statements of Comprehensive Income by way of a write down of deferred acquisition costs.

	2010		2009	
	Total	Casualty	Property	Total
	\$'000	\$'000	\$'000	\$'000
Unearned premium liability	106,517	33,156	81,230	114,386
Fire services levy	(9,493)	-	(11,806)	(11,806)
Related deferred acquisition costs	(30,131)	(10,502)	(21,710)	(32,212)
Related deferred reinsurance commission	14,540	6,480	13,380	19,860
Related deferred reinsurance asset	(41,667)	(17,624)	(35,341)	(52,965)
Total provision available	39,766	11,510	25,753	37,263
Actuarial Estimate of Future Liabilities				
Central estimate of present value of expected future cash flows arising from future claims	62,772	17,894	49,133	67,027
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(24,339)	(8,993)	(23,780)	(32,773)
Risk margin	3,263	1,131	1,785	2,916
Total actuarial estimate of future liabilities	41,696	10,032	27,138	37,170
Net (Deficiency) / Surplus	(1,930)	1,478	(1,385)	93
Deficiency recognised in the Statements of Comprehensive Income:				
Write down of deferred acquisition costs	(1,930)	-	(1,385)	(1,385)
Risk margin percentage	9%	13%	7%	9%

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

NOTE 26 OUTSTANDING CLAIMS

26.1 Gross Outstanding Claims

	Consolidated	
	2010 \$'000	2009 \$'000
Current	66,309	77,371
Non-current	67,490	65,581
Total Gross Outstanding Claims	133,799	142,952
Case estimates	71,397	84,297
IBNR	65,394	61,261
Central estimate	136,791	145,558
Claims handling expenses	3,228	2,921
Risk margin	5,426	4,967
	145,445	153,446
Discount to present value	(11,646)	(10,494)
Total Gross Outstanding Claims	133,799	142,952

26.2 Discount Rates and Term to Settlement

	Consolidated	
	2010	2009
Discount Rate	5.3%	5.0%
Weighted average term to settlement	1.79 years	1.65 years

26.3 Risk Margin

The overall risk margin was determined by the Appointed Actuary based on the uncertainty of the outstanding claims estimates for each class and allowing for diversification between different business classes. The uncertainty for each class was established using benchmarking, supplemented by analysis of the history of Calliden Insurance Limited.

The assumptions regarding uncertainty for each class were applied to the net central estimate, and the results were aggregated allowing for diversification in order to arrive at an overall provision which is intended to have a 75% probability of sufficiency.

The overall risk margin applied was 9% (2009: 7%).

NOTE 26 OUTSTANDING CLAIMS (continued)

26.4 Reconciliation of Movement in Discounted Outstanding Claims Liability

	Consolidated					
	Gross \$'000	2010 Reinsurance \$'000	Net \$'000	Gross \$'000	2009 Reinsurance \$'000	Net \$'000
Opening balance	142,952	(87,282)	55,670	106,547	(50,067)	56,480
Claims incurred during the year	142,663	(83,976)	58,687	180,082	(122,955)	57,127
Change in discount rate	(628)	328	(300)	(1,989)	431	(1,558)
Incurred claims recognised in the Statements of Comprehensive Income	142,035	(83,648)	58,387	178,093	(122,524)	55,569
Claim (payments) / recoveries during the year	(151,188)	101,134	(50,054)	(141,688)	85,309	(56,379)
Closing balance	133,799	(69,796)	64,003	142,952	(87,282)	55,670

NOTE 26 OUTSTANDING CLAIMS (continued)

26.5 Claims Development

The following table shows the development of net undiscounted outstanding claims relative to the ultimate expected claims for the five most recent accident years.

	Accident Year					Total \$'000
	2006 and prior \$'000	2007 \$'000	2008 \$'000	2009 \$'000	2010 \$'000	
Estimate of ultimate claims cost:						
At end of accident year	9,364	69,562*	55,212	49,841	60,923	
One year later	263,160*	67,881	55,680	47,477		
Two years later	256,704	66,250	53,815			
Three years later	260,990	63,612				
Four years later	258,523					
Current estimate of cumulative claims costs	258,523	63,612	53,815	47,477	60,923	484,350
Cumulative payments	(253,152)	(56,691)	(45,464)	(37,280)	(31,255)	(423,842)
Outstanding claims – undiscounted	5,371	6,921	8,351	10,197	29,668	60,508
Discount	(439)	(657)	(896)	(1,240)	(2,334)	(5,566)
Outstanding claims	4,932	6,264	7,455	8,957	27,334	54,942
Run-off						407
Claims handling expense						3,228
Net risk margin						5,426
Total net outstanding claims liability						64,003
Reinsurance and other recoveries on outstanding claims liability						69,796
Total gross outstanding claims per the Statements of Financial Position						133,799

* The Calliden Insurance Limited portfolio comprises the amalgamation of a number of portfolios. The historical claims development for the Australian Unity General Insurance Ltd ("AU") portfolio acquired during 2007 is shown in the 2006 accident year after one year, and in the 2007 accident year at the end of that year.

26.6 Actuarial Methods and Assumptions

The valuation of the Group's insurance liabilities is undertaken on a large number of separate classes of business, elected to group similar types of risk together.

NOTE 26 OUTSTANDING CLAIMS (continued)

26.6.1 Undiscounted Outstanding Claims Liability

A range of different actuarial methods is used depending on the nature of the class of business, and the extent and duration of Company experience available. Where possible the assumptions are based on the Company's own experience, but if necessary assumptions are guided by industry data or benchmarks relating to similar businesses.

For all segments the undiscounted outstanding claims liability is established by adding an amount in respect of incurred but not reported ("IBNR") and incurred but not enough reported ("IBNER") claims to the case estimates established. The IBNR/ER includes an allowance for any consistent under or over-estimation in the case estimates.

26.6.2 Discounted Outstanding Claims Liability

Discounting is applied to all outstanding claims liabilities. The projected cash flows in each future period are calculated from the undiscounted outstanding claims liability, and the discounted present value determined using the discount rate disclosed in Note 26.2.

The discount rate is derived from market yields on Commonwealth Government securities at the reporting date having similar duration to the liability cash flows. A single discount rate which is equivalent to the yield curve is adopted.

26.6.3 Non-Reinsurance Recoveries

Salvage and subrogation recoveries are significant for motor business. For all motor classes, separate estimates have been made for recoveries, based on payment and case estimate data.

26.6.4 Claims Handling Expenses

The liability includes allowance for claim handling expenses ("CHE") equal to:

- (i) 3.5% (2009: 3.5%) of gross outstanding claims for portfolios where the claims are handled in house; and
- (ii) 1.5% (2009: 1.5%) of gross outstanding claims for portfolios where the claims are handled by third party administrators who are paid upfront to manage the claim until finalisation.

These assumptions have been derived following an analysis of the actual and budgeted expenses of the Group.

NOTE 26 OUTSTANDING CLAIMS (continued)

26.6.5 Sensitivity Analysis

Sensitivity of the discounted net outstanding claims estimate and profit / (loss) impact from changes in key assumptions is shown in the following table:

Variable	Movement in Variable	Change in Outstanding Claims Liability			Profit / (Loss) Impact Before Tax
		Gross	Net	Net	
		\$'000	\$'000	%	\$'000
Base		133,799	64,003		
Loss Ratio	+10%	5,183	2,479	3.9%	(2,479)
	-10%	(5,183)	(2,479)	(3.9%)	2,479
Incurred Claims Development Factor	+5%	2,319	1,109	1.7%	(1,109)
	-5%	2,277	(1,089)	(1.7%)	1,089
Discount Rate	+1%	(2,124)	(1,016)	(1.6%)	1,016
	-1%	2,339	1,119	1.7%	(1,119)
CHE Ratio	+1%	1,375	1,375	2.1%	(1,375)
	-1%	(1,375)	(1,375)	(2.1%)	1,375
Stop Loss Recoveries	No Stop Loss Recoveries	-	5,820	9.1%	(5,820)

NOTE 27 EQUITY

27.1 Share Capital

	Consolidated		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
227,065,914 (2009: 231,086,812) issued ordinary shares, fully paid	99,615	100,580	99,615	100,580

Ordinary shares in the Company have no par value and entitle the holder to participate in dividends and the proceeds on winding up in proportion to the number of shares held after all other creditors. They are entitled to one vote per share at shareholders' meetings.

NOTE 27 EQUITY (continued)

27.2 Movements in Ordinary Share Capital

Date	Details	Number of shares	Issue price \$	Balance \$'000
1 January 2009	Balance	231,095,189		100,583
18 February 2009	Share buy-back	(8,144)	0.305	(2)
23 February 2009	Share buy-back	(233)	0.300	(1)
31 December 2009	Balance	231,086,812		100,580
27 August 2010	Share buy-back	(416,666)	0.240	(100)
30 August 2010	Share buy-back	(350,000)	0.240	(84)
31 August 2010	Share buy-back	(400,000)	0.240	(96)
2 September 2010	Share buy-back	(1,299,557)	0.240	(312)
3 September 2010	Share buy-back	(683,833)	0.240	(164)
6 September 2010	Share buy-back	(700,000)	0.240	(168)
23 September 2010	Share buy-back	(170,842)	0.240	(41)
31 December 2010	Balance	227,065,914		99,615

27.3 Treasury Shares Held in Trust

Details	Consolidated and Company	
	2010 \$'000	2009 \$'000
Opening balance	(263)	(380)
Vesting of shares	319	433
Acquisition of shares	(58)	(316)
Closing balance	(2)	(263)

The reserve represents shares purchased to satisfy future Long-Term Incentive ("LTI") obligations.

NOTE 28 SHARE-BASED PAYMENTS

Details	Consolidated and Company	
	2010 \$'000	2009 \$'000
Opening balance	940	782
Transfer from the reserve upon vesting of rights / shares	(953)	(334)
Charged to Statements of Comprehensive Income	173	492
Closing balance	160	940

Eligible senior executives are invited to participate in the Calliden Long-Term Incentive Plan (the "Plan"). The Plan is intended to link rewards for executives with the performance of the Group and to provide a mechanism to encourage the retention of key senior executives. The Plan commenced in 2005.

Performance rights

Under the Plan, participating executives may receive annual grants of performance rights. Subject to the rules of the Plan, each performance right entitles the executive holding that right to receive, for no consideration, one fully-paid ordinary share in the Company at the end of the performance period if performance criteria specified by the Board are satisfied over the performance period. Currently, no new shares are issued for the Plan and those required to satisfy vesting requirements are purchased on the Australian Securities Exchange ("ASX").

Number of performance rights

In 2010, no LTI grant has been made to any executives. The Board resolved to postpone consideration of any such grant until after the 2010 result is known.

The basis on which numbers of performance rights are determined has been, in 2009 and previous years, by dividing the value of the LTI component of each executive's remuneration by the weighted average price of the Company's shares over the five trading days prior to the grant date. For the 2009 grant, the LTI component ranged from 50% of salary to 120% of salary plus superannuation.

NOTE 28 SHARE-BASED PAYMENTS (continued)

Performance periods and performance tests

The following table summarises the details and terms associated with LTI Grants to executives as well as the overall outcomes.

LTI Grant	2010	2009	2008	2007
Grant date	n/a	19 June 2009	30 May 2008	25 May 2007
Performance period ¹	n/a	3 Years	3 Years	3 Years
Performance test/s ²	n/a	Net Assets (NA) + Average annual EPS	Net Assets (NA)	Net Tangible Assets (NTA) + 20% of NTA
Vesting date ³	n/a	n/a	n/a	05 March 2010
Rights granted ⁴	n/a	4,118,914	2,186,355	1,424,200
Lapsed or forfeited rights ⁵	n/a	n/a	n/a	508,660
Vested rights	n/a	n/a	n/a	915,540
% Vested as a proportion of maximum available	n/a	n/a	n/a	64.3%

1. The performance period over which entitlements are determined is generally three calendar years commencing from 1 January in the year of grant.
2. The number of performance rights for which executives actually receive shares (i.e. that "vest") are determined according to the Group's performance over the performance period, as measured by the performance tests set for the relevant grant. These tests are subject to determination by the Board for each grant.
3. The vesting date occurs after the Board determines the extent to which the performance tests have been satisfied and the proportion of the maximum available rights which may vest as shares.
4. The numbers of rights granted reflect the maximum number of rights which may vest at the end of the performance period.
5. If the performance criteria for vesting of performance rights are not satisfied over the performance period, those performance rights will lapse.

Performance rights also lapse and an executive will forfeit any performance rights or shares held under the Plan if the executive:

- is dismissed for cause;
- in the Board's reasonable opinion, acts fraudulently or dishonestly, is in serious breach of duty to the Company or commits an act of harassment or discrimination; or
- in the Board's reasonable opinion, has brought the Company into serious disrepute.

Performance rights lapse if an executive ceases employment with the Company except in the case of death, total and permanent disability or redundancy that occurs after the first 12 months of the performance period relevant to the performance rights. If any of these latter circumstances apply, the Board may, at its discretion, allocate shares for a proportion of the performance rights held by an executive at the time. To date, the Board has never exercised such discretion.

At the discretion of the Board, performance rights may vest on a pro rata basis on a change of control of the Company (generally an entity acquiring more than 50% of the issued shares of the Company).

NOTE 28 SHARE-BASED PAYMENTS (continued)

Performance rights granted and vested

A summary of the number of performance rights that have been granted to executives in accordance with the LTI and the numbers which have ultimately vested (where known):

LTI Grant		2010	2009	2008	2007
NG Kirk	Granted	nil	1,663,011	1,276,531	719,700
	Vested	n/a	n/a	n/a	462,655
PA Bailey	Granted	nil	466,490	214,847	184,198
	Vested	n/a	n/a	n/a	118,411
AR Diggelmann	Granted	nil	344,532	105,785	89,119
	Vested	n/a	n/a	n/a	57,290
S Dossetor	Granted	nil	nil	nil	nil
	Vested	n/a	n/a	n/a	n/a
SJ Fay	Granted	nil	335,385	102,977	83,521
	Vested	n/a	n/a	n/a	53,691
GT Hickey	Granted	nil	368,162	169,561	145,598
	Vested	n/a	n/a	n/a	93,597
MJ Hooton	Granted	nil	466,490	214,847	184,198
	Vested	n/a	n/a	n/a	118,411
I Mabbutt	Granted	nil	108,970	nil	nil
	Vested	n/a	n/a	n/a	nil
RF Walliser	Granted	nil	365,874	101,807	17,866
	Vested	n/a	n/a	n/a	11,485
Total	Granted	nil	4,118,914	2,186,355	1,424,200
	Vested	n/a	n/a	n/a	915,540

NOTE 29 AUDITOR'S REMUNERATION

	Consolidated		Company	
	2010 \$	2009 \$	2010 \$	2009 \$
(i) Audit Services – KPMG Australia				
Audit and review of financial reports	304,350	354,350	105,050	105,100
Other regulatory audit services:				
APRA review and audit	45,000	45,000	15,000	15,000
Actuarial peer review services	26,500	26,500	-	-
Australian Financial Services Licences	9,850	9,850	-	-
Fire Services Levy	6,300	6,300	-	-
ACT Worker's Compensation review	-	1,250	-	1,250
	392,000	443,250	120,050	121,350
(ii) Other Services – KPMG Australia				
Indirect tax services	-	17,500	-	17,500
Rationalisation of corporate structure	-	10,000	-	10,000
Total Auditor's Remuneration	392,000	470,750	120,050	148,850

NOTE 30 COMMITMENTS

	Consolidated and Company	
	2010 \$'000	2009 \$'000
Within one year		
Lease of premises	979	1,048
Lease of computer equipment	896	1,059
Later than one year but not later than five years		
Lease of premises	1,273	2,279
Lease of computer equipment	1,867	2,957
Total Commitments	5,015	7,343

NOTE 31 RELATED PARTY DISCLOSURES

31.1 Parent Entity

The parent entity within the Group is Calliden Group Limited.

31.2 Subsidiaries

Investments in subsidiaries are set out in Note 21.

31.3 Inter-company Transactions

Transactions between the Company and its controlled entities during the years ended 31 December 2010 and 31 December 2009 consisted of:

- Management fees have been charged to the subsidiaries below for administration and support services provided during the year and these are usually settled on a monthly basis:

	2010 \$	Company 2009 \$
Aggregate amounts included in the determination of the operating result before income tax from these transactions:		
ARGIS Pty Limited	86,508	2,398,551
Calliden Insurance Limited	35,660,719	35,739,464
Dawes Underwriting Australia Pty Limited	1,494,250	1,749,731
IUA Pty Limited	1,149,978	981,247
Mansions of Australia Limited	1,683,477	1,179,194
Total Management Fees	40,074,932	42,048,187
Aggregate amounts receivable from / (payable to) entities in the wholly-owned Group at reporting date:		
ARGIS Pty Limited	80,758	(1,973,489)
Calliden Insurance Limited	(9,488,753)	(2,392,383)
Dawes Underwriting Australia Pty Ltd	1,147,518	2,413,824
IUA Pty Ltd	(569,788)	15,411
Mansions of Australia Limited	5,201,998	5,419,211

- The Company has lent \$1,850,000 (2009: \$1,850,000) to Dawes Underwriting Australia Pty Ltd. No interest has been charged and the loan is repayable on demand.
- The Company has lent \$6,300,000 (2009: \$6,300,000) to Mansions of Australia Limited. No interest has been charged and the loan is repayable on demand.

NOTE 31 RELATED PARTY DISCLOSURES (continued)

31.4 Related Party Transactions

- The Company has lent \$319,500 (2009: \$532,500) to Claims Services Australia Pty Ltd. The loan was made under normal commercial terms and conditions and interest charged for the year was \$45,487 (2009: \$65,722). This loan remains outstanding as at 31 December 2010.
- The Company has lent \$40,000 (2009: \$75,000) to Queensland Underwriting Solutions Pty Ltd. No interest has been charged and the loan is repayable on demand. This loan remains outstanding as at 31 December 2010.

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 Statements of Comprehensive Income.

The Company offered a loan facility for the amount of \$547,750 to QUS to finance the transaction. \$438,200 has been drawdown as at 31 December 2010. 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 31 December 2010 is \$32,310. The outstanding loan amount is \$438,200 as at 31 December 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. As part of the sale agreement a dividend of \$124,000 was paid. The gain on sale of these shares was \$1,100,000. Calliden Insurance Limited continues to underwrite the business under a long-term agency agreement.

NOTE 31 RELATED PARTY DISCLOSURES (continued)

31.5 Key Management Personnel

	Consolidated and Company	
	2010	2009
	\$	\$
Short-term employee benefits	2,169,268	1,820,235
Post-employment benefits	160,615	151,357
Share-based payment benefits	192,387	417,210
	2,522,270	2,388,802

Further information regarding individual director's and executive's compensation and some equity instrument disclosures as required by Corporations Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

NOTE 32 FINANCIAL RISK MANAGEMENT

The Company

The Company is a non-operating holding company and so has limited direct exposure to financial risks. The Board of the Company sets the risk management policies for the Group.

The financial assets and liabilities of the Company are mainly limited to amounts receivable from or payable to related parties, payables to creditors, tax assets or liabilities and investments in unlisted unit trust.

The Group

The Group has developed, implemented and maintained an Investment and Capital Management Policy to recognise the unpredictability of financial markets and seek to minimise potential adverse effects on the financial performance of the Group. Financial risk management is carried out centrally under policies approved by the Board. The Board provides written principles for overall risk management. Compliance with the Policy is monitored and exposures and breaches reported to the Board (or Investment and Capital Committee) on a monthly basis. The Policy is reviewed regularly for appropriateness and for changes in the risk environment.

The key objectives of the Group's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the Group's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment return for shareholders.

NOTE 32 FINANCIAL RISK MANAGEMENT (continued)

32.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The Group's credit risk arises predominantly from investment activities, reinsurance activities, dealings with intermediaries, statutory bodies and related parties.

Concentrations of credit risk exist if a number of counterparties have similar economic characteristics. At the reporting date, there are no material concentrations of credit risk as the Group transacts with a large number of counterparties in various regions without any individual counterparty having a material outstanding balance. The level of reinsurance cover entered into with individual reinsurers is sufficiently diversified so as to minimise any concentration charge in the regulatory capital calculation (refer to Note 33).

32.1.1 Premium and reinsurance recoveries on paid claims receivable

The exposure to credit risk as at reporting date is non-payment of receivables and the maximum exposure is indicated by the carrying amounts of the receivables in the Statements of Financial Position.

Reinsurance is placed with counterparties that have a credit rating of A- or better from Standard & Poor's ("S&P") or other rating agencies. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy. Through proportional reinsurance arrangements, the Group has a significant relationship with an AA- rated reinsurer. This credit risk is mitigated by the net settlement of payments and monitoring of its credit rating.

The following tables provide information regarding the ageing of the Group's financial assets.

For assets to be classified as 'past due and impaired', contractual payments in arrears are more than 90 days. An impairment adjustment is recorded in the Statements of Comprehensive Income for these asset write-offs. When credit exposure is adequately secured, arrears more than 90 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded. The Group operates mainly on a 'neither past due nor impaired basis' and when evidence is available, sufficient collateral will be obtained for 'past due and impaired' assets, and an impairment assessment will also be performed if applicable.

NOTE 32 FINANCIAL RISK MANAGEMENT (continued)

CONSOLIDATED	Not yet due	Less than 1 year	Greater than 1 year	Past due and impaired	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2010					
Premium receivable	40,151	4,544	345	300	45,340
Provision for impairment	-	-	-	(300)	(300)
Net balance	40,151	4,544	345	-	45,040
Reinsurance recoveries on paid claims	4,411	-	-	-	4,411
Net balance	4,411	-	-	-	4,411
2009					
Premium receivable	46,693	3,269	359	350	50,671
Provision for impairment	-	-	-	(350)	(350)
Net balance	46,693	3,269	359	-	50,321
Reinsurance recoveries on paid claims	3,284	-	-	-	3,284
Net balance	3,284	-	-	-	3,284

32.1.2 Reinsurance recoveries receivable on outstanding claims

Reinsurance arrangements mitigate insurance risk but expose the Group to credit risk. Reinsurance is placed with companies based on an evaluation of the financial strength of the reinsurers, terms of coverage and price. The Group has clearly defined credit policies for the approval and management of credit risk in relation to reinsurers. The Group monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews the reinsurers' ability to fulfil their obligations to the Group under respective existing and future reinsurance contracts. Some of the reinsurers are domiciled outside of the jurisdictions in which the Company operates and so there is the potential for additional risk such as country risk and transfer risk.

The level and quality of reinsurance protection is an important element in understanding the financial strength of an insurer. The financial condition of a reinsurer is a critical deciding factor when entering into a reinsurance agreement. The longer the tail of the direct insurance, the more important is the credit rating of the reinsurer.

It is the Group policy to only deal with reinsurers with credit ratings of at least S&P A- (or other rating agency equivalent) without collateralisation. Where the credit rating of a reinsurer falls below the required quality during the period of risk, a contractual right to replace the counterparty exists. Some of the reinsurance protection is purchased on a 'collateralised' basis, where reinsurers may have to deposit funds equivalent to their participation in a trust fund. The counterparty credit profile of the catastrophe reinsurance program currently stands with more than 90% of the limit for the 2011 program with parties rated by S&P as A+ or better. For long tail reinsurance arrangements 80% of the non-proportional program is placed with parties rated by S&P as A+ or better.

NOTE 32 FINANCIAL RISK MANAGEMENT (continued)

Having reinsurance protection with strong reinsurers also benefits the Group in its regulatory capital calculations. The risk charges vary with the grade of the reinsurers such that higher credit quality reinsurance counterparties incur lower APRA regulatory capital charges.

The following table provides information regarding the credit risk exposure of the Group to the reinsurance recoveries receivable on outstanding claims balances according to S&P counterparty credit ratings. These rating allocations relate to balances accumulated from reinsurance programs in place over a number of years and so will not necessarily align with the rating allocations noted above for the current program. AAA is the highest possible rating.

Counterparty credit rating	Consolidated	
	2010 %	2009 %
AAA	1	1
AA	87	86
A	12	13
Reinsurance recoveries receivables	100	100

No separate provision for impairment has been recognised for the reinsurance recoveries on outstanding claims balances. The actuarial estimates include a credit risk component in the underlying balance and therefore no separate provision is required.

32.1.3 Investments

The Group is exposed to credit risk from investments in third parties where the Group holds debt and similar securities issued by those companies. The credit risk relating to investments is monitored and assessed, and the Group limits its exposure to credit risk by mainly investing in securities with counterparties that have a S&P counterparty credit rating of A or better. There is no significant concentration of credit risk given these high credit ratings and management does not expect any counterparty to fail to meet its obligations.

The maximum exposure to credit risk as at reporting date is the carrying amounts of the investments in the Statements of Financial Position.

Counterparty credit rating	Consolidated	
	2010 %	2009 %
AAA	50	51
AA	32	33
A	15	12
BBB	3	4
Investments	100	100

NOTE 32 FINANCIAL RISK MANAGEMENT (continued)

32.1.4 Other receivables

The Group is exposed to credit risk from lending monies to unrated related parties and the risk is monitored and assessed regularly. There is no significant concentration of credit risk given the track record of the related parties' businesses and the participation of Calliden's executive personnel on their Boards. Management does not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk as at reporting date is the carrying amounts of the lending on the Statements of Financial Position (refer to Note 31).

32.2 Liquidity Risk

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations of the financial condition of the Group. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cash flows, investment portfolios and access to outside sources of liquidity such as debt funding programs, reinsurance arrangements and other sources. The liquidity management roles, principles and processes are detailed in the Group's Liquidity Risk Management Policy which is approved by the Board. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Underwriting insurance contracts expose the Group to liquidity risk through the obligation to make payments of unknown amounts on unknown dates. The assets held to back insurance liabilities consist predominantly of government securities (the most liquid securities) which can readily be converted to cash. Management of liquidity risk includes asset and liability management strategies. The assets are managed so as to effectively match the maturity profile of the assets with the expected pattern of claims payments. The debt securities are restricted to investment grade securities with concentrations of investments managed by various criteria including issuer, industry, geography and credit rating.

32.2.1 Outstanding claims liability and investments

A maturity analysis of the Group's investments by contractual maturity is provided in the following table along with maturity analysis of the estimated net discounted outstanding claims liability. The outstanding claims liability maturity is based on the remaining term to payment at the reporting date. Actual maturities may differ from contractual maturities because certain counterparties have the right to call or prepay certain obligations with or without call or prepayment penalties.

This maturity profile is a key tool used in the investment of assets backing insurance liabilities in accordance with the policy of matching the maturity profile of the assets with the estimated pattern of claims payments.

The Group's financial assets and liabilities are carried in the Statements of Financial Position at amounts that approximate fair value. The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

NOTE 32 FINANCIAL RISK MANAGEMENT (continued)

Maturity	Consolidated			
	Net discounted outstanding claims liability		Investments	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Within 1 year or less*	28,868	22,533	30,918	23,079
Within 1 to 2 years	12,896	12,275	9,145	11,856
Within 2 to 3 years	8,357	7,885	29,344	20,900
Within 3 to 4 years	5,580	5,235	21,898	31,381
Within 4 to 5 years	3,582	3,318	2,810	6,076
Over 5 years	4,720	4,424	11,365	23,393
Total	64,003	55,670	105,480	116,685

*Derivatives are included in this line.

The borrowings of \$20.0m are due to mature in July 2012; however the Group has repaid \$15.0m out of the \$20.0m loan during the reporting period.

32.3 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk: interest rate risk (due to fluctuations in market interest rates), price risk (due to fluctuations in market prices) and currency risk (due to fluctuations in foreign exchange rates).

32.3.1 Interest Rate Risk

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Financial instruments with floating rate interest expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk.

The underwriting of general insurance contracts creates exposure to the risk that interest rate movements may materially impact the value of the insurance liabilities. Movements in interest rates should have minimal impact on the insurance profit due to the Group's policy of investing in assets backing insurance liabilities principally in fixed interest securities matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities offset the impact of movements in discount rates on the insurance liabilities, other than the changes in credit spreads on the fixed interest securities which are expected to reverse on maturity.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of floating rate financial assets and liabilities, including the effect of fair value hedges) and equity (that reflects adjustments to profit before tax and revaluing fixed rate available-for-sale financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are not necessarily linear.

NOTE 32 FINANCIAL RISK MANAGEMENT (continued)

Interest rate effected instrument	Change in interest rates	Consolidated	
		2010 \$'000	Impact on Profit 2009 \$'000
Investments	+100 basis points	(1,055)	(1,167)
	-100 basis points	1,055	1,167
Borrowings	+100 basis points	(50)	(250)
	-100 basis points	50	250

32.3.2 Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group has minimal exposure to price risk arising from derivatives.

32.3.3 Currency Risk

Currency risk is the risk of loss arising from an unfavourable movement in market exchange rates.

The Group operates in Australian dollars only so is not exposed to currency risk in the normal course of business.

NOTE 33 CAPITAL MANAGEMENT

33.1 Capital Management Strategy

Capital management plays a central role in managing risk to create shareholder value whilst also ensuring that the interests of other stakeholders including policyholders, lenders and regulators are met. Capital finances growth, capital expenditure and business plans and also provides support if adverse outcomes arise from insurance, investment performance or other activities.

The determination of the appropriate level of capital is based on regulatory and economic consideration.

33.1.1 Regulatory Capital

Calliden Insurance Limited is an authorised insurer regulated by the Australian Prudential Regulation Authority ("APRA"). Calliden Group Limited is an authorised non-operating holding company ("NOHC"). Authorised entities are subject to APRA's prudential standards. Authorised insurers are subject to a minimum capital requirement ("MCR") being the minimum level of capital that the regulator deems necessary to meet policyholder obligations. Both entities use APRA's prescribed method to calculate its MCR. The prescribed method uses a risk-based approach. It is the Group's policy to hold capital in excess of the MCR at all times.

NOTE 33 CAPITAL MANAGEMENT (continued)

Capital calculations for regulatory purposes are based on the premium liabilities model which is different from the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The premium liabilities model assesses future claim payments arising from future events insured under existing policies. This differs from the measurement of the outstanding claims liability in the Statements of Financial Position which considers claims relating to events that occur only up to and including the reporting date.

33.1.2 Regulatory Capital Compliance

The Group has one APRA authorised general insurer, Calliden Insurance Limited, and one authorised non-operating holding company ("NOHC"), Calliden Group Limited. As at 31 December 2010, the capital base, MCR and capital adequacy multiple as determined by APRA were as follows:

	Calliden Group Limited \$'000	Calliden Insurance Limited \$'000
Tier 1 capital	107,046	64,298
Less: post balance date adjustment*	(8,537)	(6,129)
Less: deductions from Tier 1 capital	(54,613)	(1,992)
Tier 1 capital (net of deductions)	43,896	56,177
Total Capital Base	43,896	56,177
Minimum capital requirement	28,895	27,721
Capital adequacy multiple 2010	1.5	2.0
Capital adequacy multiple 2010 excluding post-balance date events	2.0	2.6
Capital adequacy multiple 2009**	1.8	2.1

* In 2011, APRA wrote to all general insurers requiring an adjustment to premium liabilities to reflect the impact of catastrophe events occurring after the reporting date. This treatment is not reflected in the Statements of Comprehensive Income in 2010 in accordance with AIFRS. The capital adequacy multiple excluding these adjustments are shown in this note for information purposes only.

**Based on audited annual APRA returns submitted in April 2010.

33.2 Economic Capital

In conjunction with the considerations set out above, consideration is given to the operational capital needs of the business. Capital objectives are achieved through the management of the asset, liability and capital mix. Capital adequacy is monitored using a number of modelling techniques.

33.3 Capital Composition

Total capital is calculated as equity as shown in the Statements of Financial Position.

NOTE 33 CAPITAL MANAGEMENT (continued)

33.4 Share Buy-back

The Company announced an on-market share buy-back on 26 November 2008. During the year 4,020,898 (2009: 8,377) shares were repurchased under this plan.

NOTE 34 CONTINGENT LIABILITIES

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

The directors are not aware of any other contingent liabilities.

NOTE 35 EVENTS SUBSEQUENT TO REPORTING DATE

On 24 February 2011, the directors declared a fully franked dividend of 1.0 cent per share (2009: 1.0 cent per share).

Calliden was impacted by six catastrophe events during January and February 2011. These are considered to be non-adjusting events under AIFRS and are therefore not reflected in the Statements of Comprehensive Income. The Group has substantial reinsurance protection in place to mitigate the impact of these events. The maximum event retention per event is \$2.0m. The Lockyer Valley, Ipswich and Brisbane events are treated as one event under Calliden's reinsurance treaties and have triggered the maximum event retention. The regional flooding in Victoria from 12 January and the flash flooding in Melbourne on 4 February 2011 are also likely to reach the maximum event retention. Calliden's exposure to Cyclone Yasi and the Perth bushfires is limited and is expected to be well below the reinsurance retention for each event. Under the reinsurance contract, the Group has one free reinstatement and is liable to pay for reinstatements thereafter.

There were no other material and unusual events or transactions occurring after the reporting date that the directors are aware of as at the date of this report that would significantly affect the Group's operations, the results of those operations or the state of affairs of the Group in future financial years.

DIRECTORS' DECLARATION

- 1 In the opinion of the directors of Calliden Group Limited (the Company):
 - (a) the financial statements and notes set out on pages 30 to 90 and the remuneration disclosures that are contained in the Remuneration Report, set out on pages 8 to 20 in the Directors' Report are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2010 and of their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2010.
- 3 The directors draw attention to Note 1 to the financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed at Sydney this 24th day of February 2011 in accordance with a resolution of the directors.



RJ Hill
Chairman



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

Report on the financial report

We have audited the accompanying financial report of Calliden Group Limited (the Company), which comprises the Statements of Financial Position as at 31 December 2010, and Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year ended on that date, Notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CALLIDEN GROUP LIMITED (continued)

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Calliden Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 20 of the Directors' Report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Calliden Group Limited for the year ended 31 December 2010, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Andrew Reeves
Partner

Sydney

24 February 2011