

CALLIDEN GROUP LIMITED

A.B.N. 37 061 215 601

CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2011

APPENDIX 4D

CALLIDEN GROUP LIMITED
A.B.N. 37 061 215 601
APPENDIX 4D
HALF YEAR ENDED 30 JUNE 2011

1. Reporting period

Report for the half year ended 30 June 2011. The previous corresponding period was the half year ended 30 June 2010.

2. Results for announcement to the market

| | 1st Half 2011 \$'000 | 1st Half 2010 \$'000 | Up / Down | Change % | Change \$'000 |
|---|--|--|----------------------|---------------------|--------------------------|
| Gross Written Premium | 121,575 | 109,425 | Up | 11.1 | 12,150 |
| Revenue from ordinary activities | 195,415 | 187, 451 | Up | 4.2 | 7,964 |
| Profit / (loss) from ordinary activities after tax attributable to members | (4,318) | 6,457 | Down | n/a | (10,775) |
| Net profit / (loss) attributable to members | (4,318) | 6,457 | Down | n/a | (10,775) |

No dividend is proposed for the interim reporting period.

3. Net tangible assets per share

30 June 2011 - \$0.20

31 December 2010 - \$0.23

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

Please refer to the attached Consolidated Interim Financial Report.

5. Dividends

Please refer to the attached Consolidated Interim Financial Report.

6. Dividend reinvestment plan

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

Calliden Group Limited and its controlled entities

7. Joint ventures and associate entities

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

| | 30 June 2011 | 31 December 2010 |
|---|---------------------|-------------------------|
| | % Held | % Held |
| Arena Underwriting Pty Ltd | 50 | 50 |
| Claims Services Australia Pty Ltd | 50 | 50 |
| Property Claims Services Pty Ltd | 0 | 50 |
| Queensland Underwriting Solutions Pty Ltd | 50 | 50 |

The company's aggregate share of profits of these entities for the half year ended 30 June 2011 is \$0.7m (30 June 2010: \$0.7m).

8. Accounting standards applicable to foreign entities

Not applicable.

9. Audit dispute or qualification

None.

CALLIDEN GROUP LIMITED

A.B.N. 37 061 215 601

APPENDIX 4D

ATTACHMENT A

CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED

30 JUNE 2011

**CALLIDEN GROUP LIMITED
CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
30 JUNE 2011**

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

DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report of Calliden Group Limited, (the "Company") and its controlled entities (the "Group"), for the half year ended 30 June 2011 and the auditor's review report thereon.

1. Directors

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

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

DIRECTORS' REPORT (Continued)

2. Review of Operations

Calliden reported an underwriting loss of \$2.6m for the six months to 30 June 2011, compared with an underwriting profit of \$6.0m in the previous corresponding period. This represented an insurance margin of -4.3% (June 2010: 10.8%).

As seen generally across the insurance industry, an unprecedented run of catastrophe events had a significant impact on underwriting results for the first half.

These events included:

- Severe storms and flooding in south-east Queensland and northern New South Wales (January 2011)
- Severe weather and flooding in Victoria (January 2011)
- Tropical Cyclone Yasi in northern Queensland (February 2011); and
- Severe storms in Melbourne (February 2011)

Calliden had no exposure to the New Zealand earthquakes or the tsunami in Japan.

The net losses incurred from the Australian events are approximately \$10.4m including reinsurance reinstatement and other associated costs. Additional reinsurance cover was also purchased to ensure that the Group is protected if another run of events occurs.

In addition to the catastrophe events, Calliden also incurred a number of large unrelated property losses in the second quarter that were in excess of its allowance for these types of claims. These claims had a net cost of \$4.8m which is approximately 4 times the historical average for the quarter.

The Group's net loss after tax was \$4.3m for the first half of the 2011 financial year, compared with a \$6.5m profit in the prior corresponding period, with the decline primarily due to the catastrophe and large claims mentioned above as well as a reduction in investment income from the resultant lower investment pool.

Gross written premium increased by 11.1% compared with the prior corresponding period. When the effect of the NSW Home Warranty business, which moved to a government scheme from July last year, is removed, our underlying gross written premium grew 16.4%. This reflects a mixture of new business growth and price increases.

The investment return for the first half was \$3.5m which was down on last year's \$4.8m. The investment balance has been impacted by the catastrophe events causing a drain on cash resources until reinsurance recoveries are received. The annualised return on investments was 6.3% compared with 8.0% for the same period last year.

DIRECTORS' REPORT (Continued)

2. Review of Operations (continued)

Key operating highlights for the first half were:

- The implementation of a Household rating engine which enables dynamic pricing, providing market-leading pricing and risk selection capabilities. This will allow the correction or elimination of poor performing parts of the portfolio. The release of a Commercial rating engine is set for the fourth quarter of this year to provide the same capability on our Retail portfolio.
- Bedding down the Household systems conversion that was completed in December 2010.
- Calliden came to an arrangement with Ansvar Insurance to renew its household business following Ansvar's decision to no longer underwrite intermediated household business.
- The Group converted all of its fixed interest security investments into fixed term deposits with Australian banks in order to capitalise on the returns being offered and to eliminate the volatility of mark to market movements in bonds. In conjunction with this, the Group made a further step in simplifying its business structure by winding up its investment vehicle, the CIX Investment Trust. This had no impact on the profit and loss.
- During the period Calliden brought the management of its commercial claims in-house, recognising that the capabilities and infrastructure required to manage commercial claims are different from personal lines and that the time is right to develop this capability in-house.

Capital and Dividend

Calliden's insurer continues to maintain a strong balance sheet and regulatory capital position. A share buy-back plan remains in place for the holding company and 310,000 shares were re-purchased and cancelled in the first half.

A dividend of 1c per share was paid in the first quarter based on the 2010 full year result. The Board has considered the results for the first half of 2011 and has decided that it would be imprudent to pay an interim dividend. It will consider the position again at year end.

Outlook

For the second half of the year Calliden will focus on returning the result to profit through portfolio improvement initiatives, cost savings and efficiencies and growth opportunities. We are pursuing a number of opportunities which have the potential to add further to our premium revenue growth.

DIRECTORS' REPORT (Continued)

2. Review of Operations (continued)

We have already commenced the process for the renewal of our reinsurance program which is due at the end of December. As evidenced by the insurers who renewed their programs in June, both retentions and reinsurance costs have increased significantly.

We are in the process of implementing an internal capital model which will improve our capital management and portfolio management capabilities. These areas continue to be a strong focus for us.

The activation of our Commercial rating engine in the fourth quarter is expected to deliver some immediate results for our Retail portfolio. The full the benefit from this important project will be seen in 2012 and beyond.

Despite the significant catastrophe and large claim costs incurred this year, we have maintained a strong balance sheet and capital position. With double-digit top line growth in the first half and a number of opportunities in the pipeline, we expect the second half to continue to see the results of our efforts in growing the company.

3. Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the half year ended 30 June 2011.

4. 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 consolidated interim financial report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

Signed at Sydney this 25th day of August 2011 in accordance with a resolution of the directors.



RJ Hill
Chairman



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

To: the directors of Calliden Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for half year ended 30 June 2011 there have been:

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

KPMG

KPMG

A handwritten signature in black ink that reads 'Madeleine Mattera'.

Madeleine Mattera
Partner

Sydney

25 August 2011

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2011

| | Note | 30 June 2011 \$'000 | 30 June 2010 \$'000 |
|--|------|---------------------------|---------------------------|
| GROSS WRITTEN PREMIUM | 2 | 121,575 | 109,425 |
| Gross premium revenue | 2 | 108,291 | 109,037 |
| Reinsurance premium expense | 3 | (47,637) | (53,343) |
| Net premium revenue | | 60,654 | 55,694 |
| Gross claims expense | 3 | (105,988) | (82,770) |
| Reinsurance and other recoveries revenue | 2 | 65,671 | 53,227 |
| Net claims incurred | | (40,317) | (29,543) |
| Acquisition costs | 3 | (29,100) | (28,868) |
| Reinsurance and administration commissions revenue | 2 | 14,921 | 18,163 |
| Net acquisition costs | | (14,179) | (10,705) |
| Other underwriting expenses | 3 | (2,756) | (2,739) |
| Levies and charges | 3 | (9,414) | (10,343) |
| Underwriting expenses | | (12,170) | (13,082) |
| Investment income on assets backing insurance liabilities | | 3,437 | 3,634 |
| UNDERWRITING (LOSS) / PROFIT | | (2,575) | 5,998 |
| Investment income on shareholders' funds | | 60 | 1,124 |
| Share of net profits of joint ventures | 2 | 730 | 720 |
| Fee, commission and other income | 2 | 2,305 | 2,428 |
| Borrowing costs | 3 | (191) | (745) |
| Amortisation of identifiable intangibles | 3 | (1,888) | (1,697) |
| Administration and other expenses | 3 | (2,759) | (2,171) |
| (LOSS) / PROFIT BEFORE INCOME TAX | | (4,318) | 5,657 |
| Income tax benefit | | - | 800 |
| TOTAL COMPREHENSIVE (LOSS) / INCOME ATTRIBUTABLE TO MEMBERS OF CALLIDEN GROUP LIMITED | | (4,318) | 6,457 |
| | | Cents | Cents |
| Basic earnings per ordinary share | 5 | (1.90) | 2.79 |
| Diluted earnings per ordinary share | 5 | (1.90) | 2.71 |

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

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

| | Note | 30 June 2011 \$'000 | 31 December 2010 \$'000 |
|---|------|---------------------------|-------------------------------|
| Assets | | | |
| Cash and cash equivalents | | 6,613 | 10,305 |
| Investments | 6 | 95,000 | 105,480 |
| Trade and other receivables | | 76,880 | 54,473 |
| Reinsurance and other recoveries receivable | | 89,934 | 69,796 |
| Prepayments | | 541 | 783 |
| Deferred levies and charges | | 9,659 | 9,493 |
| Deferred reinsurance expense | | 53,389 | 41,667 |
| Deferred acquisition costs | | 32,193 | 28,201 |
| Deferred tax assets | | 3,750 | 3,750 |
| Property, plant and equipment | | 2,833 | 2,848 |
| Investments accounted for using the equity method | | 3,160 | 2,592 |
| Intangible assets | 8 | 51,421 | 50,863 |
| TOTAL ASSETS | | 425,373 | 380,251 |
| Liabilities | | | |
| Trade and other payables | | 24,067 | 12,401 |
| Unearned premium liability | | 119,800 | 106,517 |
| Unearned reinsurance commission | | 16,318 | 14,540 |
| Employee entitlements | | 1,116 | 948 |
| Outstanding claims | 7 | 158,677 | 133,799 |
| Borrowings | | 5,000 | 5,000 |
| TOTAL LIABILITIES | | 324,978 | 273,205 |
| NET ASSETS | | 100,395 | 107,046 |
| Equity | | | |
| Issued capital | | 99,553 | 99,615 |
| Treasury shares held in trust | | (2) | (2) |
| Share-based payments reserve | | - | 160 |
| Retained earnings | | 844 | 7,273 |
| TOTAL EQUITY | | 100,395 | 107,046 |

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

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2011

| | Issued Capital \$'000 | Treasury Shares Held in Trust \$'000 | Share-based Payments Reserve \$'000 | Retained Earnings \$'000 | Total \$'000 |
|--|-----------------------------|---|--|--------------------------------|-----------------|
| For the half year ended 30 June 2011: | | | | | |
| Balance at the beginning of the period | 99,615 | (2) | 160 | 7,273 | 107,046 |
| Total comprehensive income for the period | - | - | - | (4,318) | (4,318) |
| Transactions with owners in their capacity as owners: | | | | | |
| Decrease in issued capital | (62) | - | - | - | (62) |
| Dividend paid | - | - | - | (2,271) | (2,271) |
| Acquisition of shares by the Calliden Employee Share Trust | - | - | - | - | - |
| Share-based payments expense | - | - | - | - | - |
| Vesting of share-based remuneration | - | - | (160) | 160 | - |
| Balance at the end of the period | 99,553 | (2) | - | 844 | 100,395 |
| For the half year ended 30 June 2010: | | | | | |
| Balance at the beginning of the period | 100,580 | (263) | 940 | (1,174) | 100,083 |
| Total comprehensive income for the period | - | - | - | 6,457 | 6,457 |
| Transactions with owners in their capacity as owners: | | | | | |
| Decrease in issued capital | - | - | - | - | - |
| Dividend paid | - | - | - | (2,311) | (2,311) |
| Acquisition of shares by the Calliden Employee Share Trust | - | (58) | - | - | (58) |
| Share-based payments expense | - | - | 88 | - | 88 |
| Vesting of share-based remuneration | - | 319 | (475) | 156 | - |
| Balance at the end of the period | 100,580 | (2) | 553 | 3,128 | 104,259 |

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

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 30 JUNE 2011

| | Note | 30 June 2011 \$'000 | 30 June 2010 \$'000 |
|--|------|---------------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Premiums received | | 100,650 | 102,116 |
| Reinsurance and other recoveries received | | 40,104 | 57,135 |
| Acquisition costs paid | | (30,155) | (29,353) |
| Reinsurance premium paid | | (35,311) | (39,808) |
| Claims paid | | (81,149) | (83,472) |
| Underwriting and administration expenses paid | | (16,434) | (12,613) |
| Income tax paid | | - | (53) |
| Interest received | | 1,201 | 3,605 |
| Interest paid | | (227) | (716) |
| Dividends received from joint ventures | | - | 600 |
| Fee, commission and other income received | | 2,258 | 731 |
| Agency claims trust account | 6 | 7,656 | - |
| Other operating income / (expenses) | | 233 | (376) |
| Net cash flows from operating activities | | (11,174) | (2,204) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net proceeds from the sale of investments | | 12,136 | 11,077 |
| Proceeds from sale of plant and equipment | | 18 | - |
| Purchase of plant and equipment | | (214) | (1) |
| Software development expenditure | | (2,445) | (1,534) |
| Net cash flows from investing activities | | 9,495 | 9,542 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividend paid | | (2,271) | (2,311) |
| Share buy back | | (62) | - |
| Repayment of loan provided to joint ventures | | 157 | 107 |
| Return of capital from joint ventures | | 163 | - |
| Outlays for purchase of treasury shares* | | - | (58) |
| Net cash flows from financing activities | | (2,013) | (2,262) |
| Net movement in cash and cash equivalents | | (3,692) | 5,076 |
| Cash and cash equivalents at the beginning of the half year | | 10,305 | 8,989 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE HALF YEAR | | 6,613 | 14,065 |

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

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

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Reporting entity

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

The consolidated interim financial report was authorised for issue by the directors on 25 August 2011.

1.2 Statement of compliance

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

This consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group for the year ended 31 December 2010 and any public announcements made by the Group during the half year in accordance with continuous disclosure obligations arising under the *Corporations Act 2001*. The consolidated annual financial report of the Group for the year ended 31 December 2010 is available upon request from the Company’s registered office at Level 7, 100 Arthur Street, North Sydney, NSW 2060 or at www.calliden.com.au.

1.3 Basis of preparation

The consolidated interim financial report is presented in Australian dollars.

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**1.4 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.

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

Insurance contracts related:

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

Other:

- Intangible assets and goodwill impairment testing;
- Acquired intangible assets initial measurement and determination of useful life; and
- Deferred tax assets.

The determination of the financial impact of each of these areas on the financial performance and position for the current reporting period has involved estimates and assumptions based on judgements. Except as disclosed in this report, the judgement has been applied in a manner consistent with that used for the annual report for the year ended 31 December 2010.

NOTE 2 REVENUE

| | 30 June 2011 \$'000 | 30 June 2010 \$'000 |
|---|------------------------------------|------------------------------------|
| (i) General Insurance Revenue | | |
| Gross written premium | 121,575 | 109,425 |
| Movement in unearned premium liability | (13,284) | (388) |
| Gross premium revenue | 108,291 | 109,037 |
| Reinsurance and other recoveries revenue | 65,671 | 53,227 |
| Reinsurance commissions revenue | 14,921 | 18,163 |
| Total General Insurance Revenue | 188,883 | 180,427 |
| (ii) Investment Income | 3,497 | 4,758 |
| (iii) Share of Net Profits of Joint Ventures | 730 | 720 |
| (iv) Fee and Commission Income | 2,305 | 1,132 |
| (v) Gain on Sale | - | 1,296 |
| Total Revenue | 195,415 | 188,333 |

NOTE 3 EXPENSES

Profit before income tax includes the following specific expenses:

| | | |
|-----------------------------------|----------------|---------|
| Gross claims expense | 105,988 | 82,770 |
| Reinsurance premium expense | 47,637 | 53,343 |
| Acquisition costs | 29,100 | 28,868 |
| Other underwriting expenses | 2,756 | 2,739 |
| Levies and charges | 9,414 | 10,343 |
| Borrowing costs | 191 | 745 |
| Amortisation expense | 1,888 | 1,697 |
| Administration and other expenses | 2,759 | 2,171 |
| Total Expenses | 199,733 | 182,676 |

NOTE 4 DIVIDENDS

| | 30 June 2011 \$'000 | 31 December 2010 \$'000 |
|-------------------------------------|------------------------------------|-------------------------------|
| (i) Ordinary Shares | | |
| Dividends paid during the half year | 2,271 | 2,311 |

The final dividend for 2010 was paid on 24 March 2011. It was fully franked and amounted to 1 cent per share (2010: 1 cent). No dividend is proposed for the interim reporting period.

NOTE 5 EARNINGS PER SHARE

| | 30 June 2011 Cents | 30 June 2010 Cents |
|-------------------------------------|-----------------------------------|--------------------------|
| (i) Ordinary Shares | | |
| Basic earnings per ordinary share | (1.90) | 2.79 |
| Diluted earnings per ordinary share | (1.90) | 2.71 |

| | 30 June 2011 \$'000 | 30 June 2010 \$'000 |
|---|------------------------------------|---------------------------|
| (ii) Reconciliation of (Loss) / Profit used in Calculating Earnings per Share | | |
| (Loss) / profit from continuing operations attributable to the ordinary equity holders of the Company | (4,318) | 6,457 |
| (Loss) / profit used in calculating basic and diluted earnings per share | (4,318) | 6,457 |

NOTE 5 EARNINGS PER SHARE (Continued)

| | 30 June 2011 Number of shares | 30 June 2010 Number of shares |
|--|--|--|
| <i>(iii) Reconciliation of Weighted Average Number of Ordinary Shares used in Calculating Earnings per Share</i> | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 226,755,914 | 231,086,812 |
| Performance rights on issue | - | 7,572,997 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | 226,755,914 | 238,659,809 |
| Closing balance of ordinary shares | 226,755,914 | 231,086,812 |

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

NOTE 6 INVESTMENTS

| | 30 June 2011 \$'000 | 31 December 2010 \$'000 |
|--------------------|------------------------------------|-------------------------------|
| Investments | | |
| Current * | 80,000 | 30,918 |
| Non-current | 15,000 | 74,562 |
| Total Investments | 95,000 | 105,480 |

In 2011, the Group disposed all of its investments in fixed interest securities and invested in fixed term deposits.

*As a result of the catastrophe events in the first quarter, a temporary cash float has been provided by Lloyd's underwriters to facilitate the speedy and efficient settlement of Mansions agency catastrophe claims. These funds have been invested in short term deposits until required for settlement.

NOTE 7 OUTSTANDING CLAIMS

| | 30 June 2011 \$'000 | 31 December 2010 \$'000 |
|---------------------------------------|------------------------------------|-------------------------------|
| Gross Outstanding Claims | | |
| Current | 88,296 | 66,309 |
| Non-current | 70,381 | 67,490 |
| Total Gross Outstanding Claims | 158,677 | 133,799 |
| | | |
| Case estimates | 95,124 | 71,397 |
| IBNR | 63,802 | 65,394 |
| Central estimate | 158,926 | 136,791 |
| Claims handling expenses | 4,267 | 3,228 |
| Risk margin | 6,520 | 5,426 |
| | 169,713 | 145,445 |
| Discount to present value | (11,036) | (11,646) |
| Total Gross Outstanding Claims | 158,677 | 133,799 |

Liability Adequacy Test

The liability adequacy test ("LAT") has been conducted using the central estimate of the premium liabilities calculated for reporting to APRA, adjusted as appropriate, together with an appropriate margin for uncertainty.

The Group uses an Expected Profitability Analysis ("EPA") model for setting its pricing which determines a required loss ratio and target margin to achieve the targeted return on capital. Management believes that the use of the EPA margin is a more relevant measure for the purposes of the LAT and have adopted this approach for the first time this period.

The EPA margin is not calculated using the statistical concept of Probability of Adequacy ("POA"), which is used for the determination of risk margins. The reason for the difference in approach is that the LAT is an impairment test used only to test the sufficiency of premium liabilities whereas the POA is a measurement in accounting policy used in determining the carrying value of the outstanding claims liability on the balance sheet. The POA approach was used previously for the LAT, and this is the first time Calliden has used the EPA model for setting margins for the purposes of the LAT.

The margin included in the Group's expected future cash flows for future claims as a percentage of the central estimate is 6.3% (Dec 2010: 9.3%). The margin is equivalent to a POA of approximately 65% (Dec 2010: 75%).

The application of the LAT has identified a deficiency of \$0.7m as at 30 June 2011 (31 December 2010: \$1.9m). Had there been no change in estimate of the margin used for the LAT, the deficiency would have been \$2.5m. The deficiency was recognised in the Statement of Comprehensive Income by way of a write down of deferred acquisition costs.

NOTE 8 INTANGIBLE ASSETS

| | Note | 30 June 2011 \$'000 | 31 December 2010 \$'000 |
|--------------------------------|------|---------------------------|-------------------------------|
| Intangible Assets | | | |
| Goodwill | 9 | 34,371 | 34,371 |
| Customer Relationships* | | 6,996 | 7,660 |
| Systems Development Costs* | | 10,054 | 8,832 |
| Total Intangible Assets | | 51,421 | 50,863 |

* These figures are net of accumulated amortisation of \$11.0m (31 December 2010: \$9.1m)

NOTE 9 GOODWILL**(a) 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 Unit | 30 June 2011 \$'000 | 31 December 2010 \$'000 |
|-----------------------|---------------------------|-------------------------------|
| Underwriting | 29,493 | 29,220 |
| Distribution | 4,878 | 5,151 |
| 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 the estimated growth rate of 2.5%. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

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

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

- Cash flow forecast: forecast profits for the first five years are used to derive a medium-term cash flow proxy.
- Discount rate: discount rate of 12.5% per annum (p.a), calculated based on weighted average cost of capital, was applied in 2011 (2010: 12.0%).
- GWP terminal profit growth rate at year 2017 and beyond is based on management's expectation for future performance in both the Underwriting CGU and the Distribution CGU.

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

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

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

The recoverable amount of the goodwill of the Underwriting CGU is estimated to be \$54.2m. This exceeds the carrying amount of the Underwriting CGU's goodwill at 30 June 2011 by \$24.7m.

If the discount rate applied to the cash flow projections of the Underwriting CGU was 15.3% p.a instead of 12.5% 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 \$10.8m. This exceeds the carrying amount of the CGU's goodwill at 30 June 2011 by \$5.9m.

If the discount rate applied to the cash flow projections of the Distribution CGU was 22.1% p.a instead of 12.5% p.a, the recoverable amount of the Distribution CGU's goodwill would equal its carrying amount. The directors do not consider any reasonable changes in any key assumptions would cause impairment.

(d) *Impairment charge*

There is no impairment charge as no impairment was indicated.

NOTE 10 RELATED PARTIES

On 12 April 2011, the Company sold its 50% joint venture interest in Property Claims Services Pty Ltd (“PCS”) to one of its joint ventures, Claims Service Australia Pty Ltd (“CSA”). The company received two fully paid ordinary shares in CSA as consideration for the sale of its four ordinary shares in PCS to CSA. The loss on sale of PCS was \$119,138. As part of the wind up process, PCS made a return of capital of \$325,140 to its sole shareholder, CSA. As the Company owns 50% of the shares in CSA, it received a return of capital of \$162,570 from CSA. This transaction did not have any material impact to the Company.

NOTE 11 CONTINGENT ASSETS AND LIABILITIES

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

The unusually high claims activity in the period has meant that one of the financial undertakings of the bank loan covenant has been breached. The loan is for \$5m and the Group is in a position to repay the loan upon demand. The lender, Commonwealth Bank of Australia, has issued a letter advising that they are prepared to provide a waiver of the breach and are not expecting the Group to repay the loan before the term expires.

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

NOTE 12 EVENTS SUBSEQUENT TO INTERIM BALANCE DATE

The Board approved a Long-Term Incentive Plan (“the Plan”) for 2011 in July 2011. The Plan had no financial impact to the Company during the period as no rights had been offered as at balance date.

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

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes that are contained in notes 1 to 12, 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 30 June 2011 and of their performance for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards 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.

Signed at Sydney this 25th day of August 2011 in accordance with a resolution of the directors.



RJ Hill
Chairman



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

Report on the financial report

We have reviewed the accompanying interim financial report of Calliden Group Limited, which comprises the consolidated statement of financial position as at 30 June 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year period ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half year's end or from time to time during the half year period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

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

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

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the half year period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG



Madeleine Mattera

Partner

Sydney

25 August 2011