calliden group

# ANNUAL REPORT & SHAREHOLDER REVIEW

# 2013

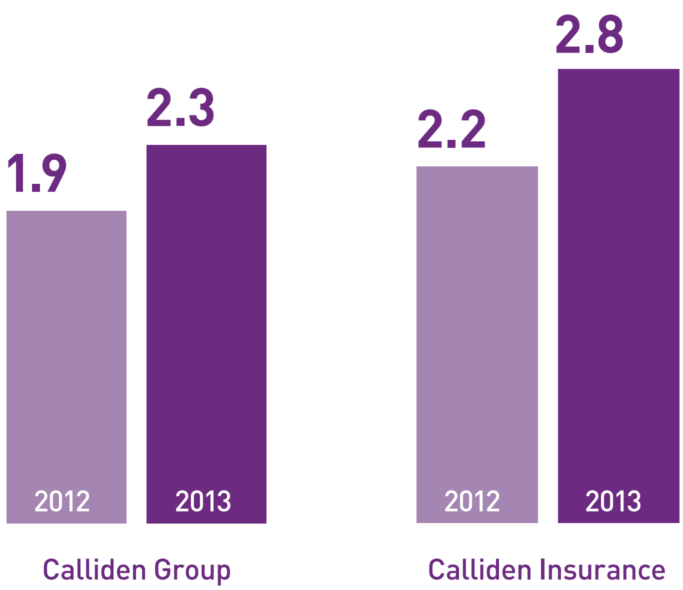
# CALLIDEN REPORTED A MUCH IMPROVED OPERATING PERFORMANCE IN 2013, RETURNING A GROUP PROFIT OF $6.2M FOR THE 12 MONTHS ENDED 31 DECEMBER 2013.

# Contents

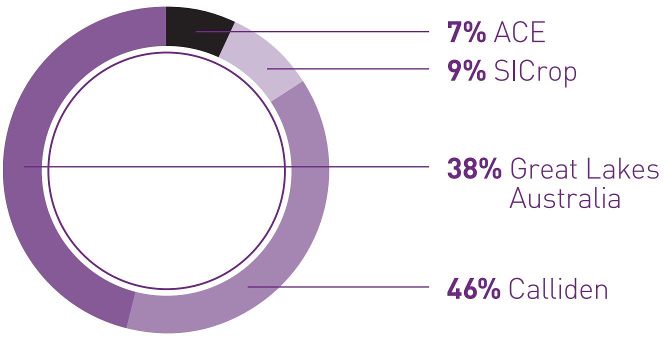
# Chairman's Report

**"ON BEHALF OF THE BOARD AND MANAGEMENT, I AM PLEASED TO BE ABLE TO REPORT A GROUP PROFIT OF $6.2M FOR 2013, REPRESENTING A LARGE INCREASE OVER THE MODEST PROFIT OF $1.1M IN 2012."**

Capital Strength Multiples




2014 Forecast Gross Written Premium by Insurer



THIS RESULT REFLECTS THE FIRST FULL YEAR OF OPERATIONS UNDER THE MANAGING GENERAL AGENCY ("MGA") MODEL. DURING 2013 WE IMPLEMENTED NEW REVENUE STREAMS AND ADDED ADDITIONAL PRODUCTS TO OUR AGENCY OPERATIONS, WHILE REFOCUSING OUR INSURER ON SHORT TAIL AND NICHE COMMERCIAL LINES TO SUIT OUR CAPITAL BASE. AT THE CLOSE OF 2013, CALLIDEN IS NOW A TOP FIVE AGENCY IN AUSTRALIA.

## Strategic Progress

The decision in 2011 to pursue the MGA model was driven by our aim to provide our shareholders with a regular flow of fully franked dividends. The strategy is therefore designed to deliver a more stable, less capital intensive business which is capable of generating more consistent profits.

In 2012 and 2013 we implemented agreements with Great Lakes Australia ("GLA") and ACE Insurance to underwrite key Calliden portfolios and back new agency products, while also introducing agency fees on our largest portfolios. At the close of 2013, the transition to the MGA model is all but complete.

As a result of the agreement with GLA, together with our contracts with Lloyd's and the NSW Government's SICorp, Calliden was able to achieve its objective of having approximately half of its business placed with insurers other than Calliden Insurance Limited ("CIL") in the 2013 year.

## Strengthening of Capital

Following the rebuilding of our capital position in 2012 and the move to a less capital intensive MGA model, we put in place a less conservative reinsurance programme in 2013 to allow Calliden to take advantage of its more focused insurance portfolio. Calliden's capital levels continued to strengthen, with CIL's position increasing from 2.2 to 2.8 times the regulatory minimum and the Calliden Group multiple moving from 1.9 to 2.3, even taking into account the tougher regulatory capital standard for insurance companies which applied from 1 January 2013.

This strengthening of the capital base means that Calliden is able to reduce the amount of proportional reinsurance purchased by its insurer to 20% for risks written in 2014. As a result, our more focused insurer should improve its returns in 2014 and beyond.

## Outlook

Calliden is now operating as a MGA, comprising a smaller, more focused insurance company and an agency division which offers a range of opportunities for future growth.

I look forward to the future of Calliden as we turn again to investing in growth through the addition of new products, distribution channels, insurance partners and investments in joint venture opportunities.

The past year has been a busy one and I would like to thank my fellow Directors for their important contributions, and our business partners for their support. On behalf of the Directors, I would like to acknowledge the efforts of Nick Kirk and his team for the hard work in delivering the 2013 results and thank our shareholders for their ongoing support.

**Richard Hill**
Chairman

# Chief Executive Officer's Report

## "CALLIDEN'S PROFIT RESULT FOR THE YEAR WAS UNDERPINNED BY AN IMPROVED AGENCY PERFORMANCE AND REDUCED OPERATING EXPENSES, WHILE THE INSURANCE BUSINESS MADE A PROFIT CONTRIBUTION DESPITE SIGNIFICANT ADVERSE EXPERIENCE IN THE REGISTERED BUILDERS' WARRANTY PORTFOLIO."

Calliden reported a significantly improved operating performance in 2013, returning a profit of $6.2m for the 12 months ended 31 December 2013. This result represents the completion of a two year transition of the business from that of dedicated general insurer to a strategy focused on the development of an agency business based on the Managing General Agent ("MGA") model.

Calliden's profit result for the year was underpinned by an improved agency performance and reduced operating expenses, while the insurance business made a profit contribution despite significant adverse experience in the Registered Builders' Warranty portfolio.

Our new strategy and the 2013 Calliden Insurance Limited ("CIL") performance have led to further strengthening in our capital position.

The increase in our claims ratios for the year was primarily driven by adverse experience in the Registered Builders' Warranty portfolio. This portfolio contributed 6 percent to the net loss ratio, more than offsetting strong loss ratio improvements within our remaining portfolios.

Reductions in proportional reinsurance to 25% in 2013 and 20% in 2014 mean that CIL is now much better positioned to take advantage of the underlying profitability of its more focused remaining portfolios, while no new Registered Builders' Warranty risks are being added from January 2014.

Although significant efforts to reduce Group expense were undertaken in the year, the rapid reduction in insurer premium as a result of implementing the MGA model led to worsening expense ratios, while we also experienced lower investment income in the current low-yield environment.

### Subdued Insurance Result

CIL's insurance metrics are shown below.

### Key Insurance Ratios

| | **2013 %** | 2012 % | 2011 % | 2010 % |
|---|---|---|---|---|
| Gross Claims Ratio | **68** | 62 | 94 | 71 |
| Net Claims Ratio | **68** | 66 | 81 | 59 |
| Net Acquisition Ratio | **30** | 33 | 38 | 39 |
| Combined Operating Ratio | **102** | 99 | 119 | 97 |
| Insurance Margin | **4** | 9 | (15) | 13 |

Ratios exclude statutory levies & duties

## Calliden Agency Services

The performance of the agency business developed very strongly in 2013, with profit increasing to $8.2m from a modest $1.1m in 2012. 2013 was the first full year of agency operations, with a full year of commission revenue on key portfolios and the implementation of fees.

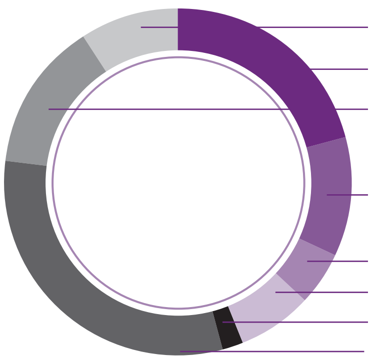
In 2013, our wholly-owned subsidiary, Mansions of Australia Limited, was renamed Calliden Agency Services Limited. The Group's agency activities have been largely consolidated within this corporate entity. This is important as it ensures that the agency is able to grow without any limitations placed on it by CIL's regulatory capital obligations.

While this corporate restructure will continue into 2014, Calliden Agency Services Limited is already one of Australia's largest insurance agencies.

REDUCTIONS IN PROPORTIONAL REINSURANCE TO 25% IN 2013 AND 20% IN 2014 MEAN THAT CIL IS NOW MUCH BETTER POSITIONED TO TAKE ADVANTAGE OF THE UNDERLYING PROFITABILITY OF ITS MORE FOCUSED REMAINING PORTFOLIOS, WHILE NO NEW REGISTERED BUILDERS' WARRANTY RISKS ARE BEING ADDED FROM JANUARY 2014.

## Growing the Agency

### 2013 GWP* c.151m




### 2014 Projected GWP* c.166m


## Building for Growth in 2014

While the focus of 2013 was on consolidating the new operating structure and proving the MGA model, 2014 will see greater investments in growth through the introduction of new distribution channels and strategic investments in joint venture agencies.

Calliden Agency Services is now a sizable operation and will continue to grow in 2014. GWP is projected to be $165m, representing a 10% increase on 2013. Calliden Agency Services offers an attractive, diverse range of products for its intermediary network and a one-stop risk-managed solution for capital providers looking for a wide distribution footprint in Australia. Revenue growth from agency operations will be generated by further diversification of the product range as well as via writing larger risks based on the greater risk appetite of the underwriting (external) insurers.

In 2014 the size and composition of Calliden Insurance's portfolio will be relatively stable, with Gross Written Premium of around $95m for the year. The reduced proportional reinsurance will, however, mean that CIL's net premium increases by over 10%.

Finally, I believe it is important to recognise that the strong 2013 result would not have been possible without the support of the Board and the dedication of our staff. I would also like to thank Calliden's business partners and customers, as well as the continued support from the Group's shareholders.

**Nick Kirk**
Chief Executive Officer

# Group Operating Model

**Calliden Group commenced as a general insurer in 2005. Since then the Group has evolved into a Managing General Agent ("MGA") with two distinct businesses: Calliden Insurance and Calliden Agency Services.**

**Calliden Agency Services Limited ("CAS")** underwrites and distributes, via professional intermediaries, a range of insurance products from electronically delivered business packages and home insurance to specialised niche offerings for high value homes and exotic cars.

CAS operates as an agent on behalf of a variety of insurers including Great Lakes Australia, ACE Insurance, the NSW Government's SICorp as well as the Group's own insurer Calliden Insurance Limited.

**Calliden Insurance Limited ("CIL")** is an insurer that manufactures and distributes products through a number of underwriting agencies. Its focus is on achieving a return on its capital in excess of its weighted average cost of capital over the course of the insurance cycle.

At the end of 2013 approximately 50% of the Group's future premium is insured by Calliden Insurance Limited with the remainder backed by third party insurers.

From 2013 more than 50% of the Group's future profit is being derived from less volatile commission and fee based income.

Figure 1 shows which business unit each product resides within and the insurer for each.

## Organisational Structure

A new organisational structure has been implemented to better align with our Group MGA operating model, which is shown in Figure 1.

The new structure allows our people to focus on the discrete goals of the two business units supported by cost effective central services and the Group's Finance and Governance teams.

It is our vision to be the number one MGA group in Australia in terms of volume and profit.

To achieve this we are committed to continually improving and consistently delivering good quality underwriting, customer service and claims management. This is supported by modern and flexible IT systems, an engaged workforce and strong relationships with our business partners including but not limited to: capital providers, underwriting agencies, broker groups, professional intermediaries and their customers.

## What is a Managing General Agent?

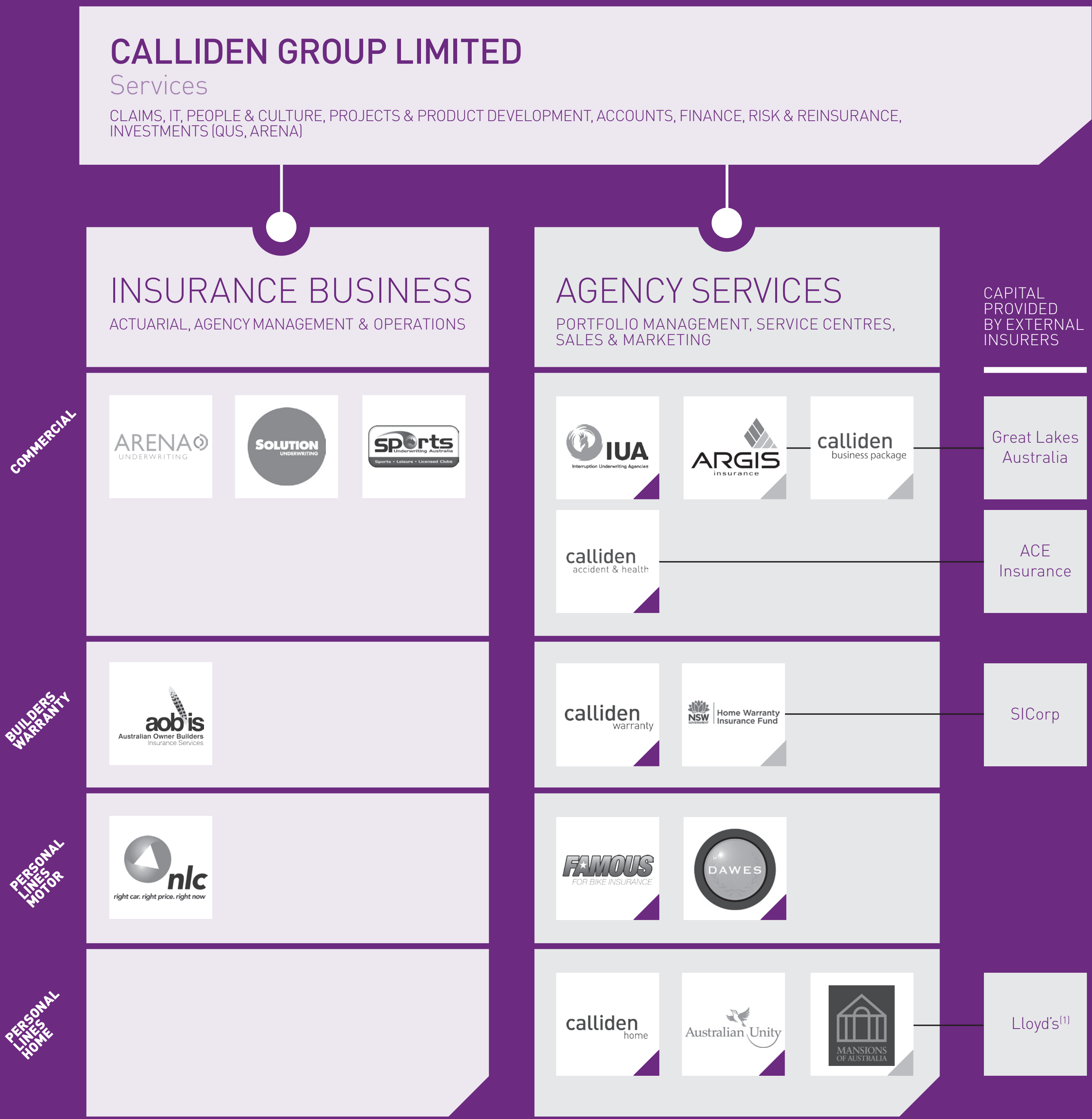
A Managing General Agent may perform one or more of the many tasks performed by an insurer.

In Calliden's case this includes, but is not limited to: underwriting, marketing, relationship management, handling claims and issuing policies on behalf of insurers, including its own licensed insurer.

In acting as an agent for insurers, Calliden Agency Services is paid a commission which is determined by the scope of services provided, while Calliden Insurance carries risk in return for premiums.

## Our vision is to be the number one MGA in terms of volume and profit.

## By delivering insurance in a better way we create enduring relationships that matter.




(1) ACE Insurance from 1 January 2014

**Figure 1**

**KEY**
INSURED BY CALLIDEN INSURANCE LIMITED
INSURED BY EXTERNAL INSURERS

# Five Year Financial Summary

| | 2013 $'000 | 2012 $'000 | 2011 $'000 | 2010 $'000 | 2009 $'000 |
|---|---|---|---|---|---|
| Gross written premium | **95,739** | 172,000 | 245,653 | 211,641 | 217,843 |
| Net premium revenue | **66,048** | 79,308 | 126,076 | 116,809 | 100,962 |
| Net claims expense | **(39,323)** | (39,961) | (85,731) | (58,387) | (55,569) |
| Net acquisition costs | **(17,487)** | (10,550) | (30,344) | (23,796) | (20,451) |
| Underwriting expenses | **(10,661)** | (28,579) | (31,777) | (26,264) | (28,453) |
| **Underwriting profit/(loss)** | **(1,423)** | 218 | (21,776) | 8,362 | (3,511) |
| Investment income on assets backing insurance liabilities | **4,004** | 5,247 | 6,278 | 4,998 | 4,010 |
| **Insurance profit/(loss)** | **2,581** | 5,465 | (15,498) | 13,360 | 499 |
| Commission and fee revenue | **39,189** | 18,708 | 8,820 | 6,489 | 4,178 |
| Acquisition costs | **(18,163)** | (10,881) | (3,990) | (3,193) | (2,068) |
| Operating expenses | **(12,784)** | (6,698) | (3,289) | (1,811) | (1,178) |
| **Agency profit/(loss)** | **8,242** | 1,129 | 1,541 | 1,485 | 932 |
| Investment income on shareholders' funds | **485** | 425 | 393 | 1,905 | 2,041 |
| Share of net profit of joint ventures | **603** | 253 | 1,274 | 1,266 | 1,589 |
| Gains on sale of joint ventures | **–** | 58 | 8,169 | 1,100 | – |
| Other (expense)/revenue | **65** | (100) | 159 | 237 | 2,206 |
| Administration and other expenses | **(5,822)** | (6,141) | (5,943) | (9,500) | (6,447) |
| Borrowing costs | **–** | – | (343) | (1,367) | (1,285) |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | **6,154** | 1,089 | (10,248) | 8,486 | (467) |
| Income tax benefit | **–** | – | – | 1,638 | 71 |
| **NET PROFIT/(LOSS) AFTER INCOME TAX** | **6,154** | 1,089 | (10,248) | 10,124 | (396) |
| **SHAREHOLDERS' EQUITY** | **98,966** | 95,851 | 94,451 | 107,046 | 100,083 |
| **TOTAL ASSETS** | **289,974** | 360,834 | 425,961 | 380,251 | 431,684 |
| **PREMIUM GROWTH** | | | | | |
| Gross written premium[1] | **(11%)** | (15%) | 17% | 1% | 10% |
| **INSURER RATIOS[2]** | | | | | |
| Gross claims ratio | **68%** | 62% | 94% | 71% | 93% |
| Net claims ratio | **68%** | 66% | 81% | 59% | 63% |
| Net acquisition ratio | **30%** | 33% | 38% | 39% | 38% |
| Combined operating ratio | **102%** | 99% | 119% | 97% | 100% |
| Insurance margin | **4%** | 9% | (15%) | 13% | 1% |
| **SHARE INFORMATION** | | | | | |
| Dividends per share – fully franked (cents) | **0.90** | – | 1.00 | 1.00 | 1.25 |
| Basic earnings per share (cents) | **2.72** | 0.48 | (4.52) | 4.45 | (0.17) |
| Share price at 31 Dec ($) (ASX: CIX) | **0.26** | 0.16 | 0.19 | 0.28 | 0.31 |
| Net assets per share ($) | **0.44** | 0.42 | 0.42 | 0.47 | 0.43 |
| Net tangible assets per share ($) | **0.22** | 0.20 | 0.18 | 0.23 | 0.21 |

(1) The Premium Growth Ratio excludes Fire Services Levy and includes premiums underwritten by Calliden as well as on behalf of external insurers

(2) Insurer ratios are presented excluding statutory charges as this is considered a more appropriate reflection of underlying business performance and these ratios are not audited.

Some amounts have been reclassified in prior years to be consistent with the current year presentation. This has had no effect on net profit.

# Directors' Report

The Directors present their report together with the financial report of Calliden Group Limited and the consolidated financial report of Calliden Group Limited and its subsidiaries for the year ended 31 December 2013 and the auditor's report thereon.

The following terminology is used throughout the financial report:

- Calliden, Parent or Company – Calliden Group Limited; and
- Group or Consolidated – the Consolidated entity consists of Calliden Group Limited and its subsidiaries.

## 1. DIRECTORS OF CALLIDEN GROUP LIMITED

The names and details of the Company's Directors in office at any time during or since the end of the year are as follows:

| DIRECTOR | DATE OF APPOINTMENT | SPECIAL RESPONSIBILITIES |
|---|---|---|
| RJ Hill | 19 April 2000 | Chairman<br>Member of Risk Management Committee<br>Member of Remuneration and Nominations Committee |
| MW Loomes | 24 October 2000 | Chairman of Audit Committee<br>Member of Investment and Capital Committee<br>Member of Risk Management Committee |
| JT Lowenstein | 19 April 2000 | Chairman of Investment and Capital Committee<br>Member of Risk Management Committee<br>Member of Audit Committee |
| NG Kirk | 1 January 2005 | Managing Director and Chief Executive Officer<br>Member of Risk Management Committee<br>Member of Investment and Capital Committee |
| JI Messenger | 24 May 2007 | Chairman of Risk Management Committee<br>Member of Audit Committee<br>Member of Remuneration and Nominations Committee |
| AV Connon | 21 September 2007 | Member of Risk Management Committee<br>Member of Audit Committee<br>Member of Investment and Capital Committee |
| GGM Smith | 23 October 2008 | Chairman of Remuneration and Nominations Committee<br>Member of Risk Management Committee<br>Member of Audit Committee |

All Directors were in office for the entire period.

### 1.1. Experience and Qualifications of Directors

**Richard James Hill B.A, LL.B, LL.M**
*Age 67. 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 of Blackwall Property Group Ltd* (since July 2006) and a director of Biota Holdings Limited (from November 2008 until its delisting from the Australian Securities Exchange in November 2012).

**Maurice William Loomes B.Comm (Econ Hons), F Fin**
*Age 66. 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* (director from 1996 to May 2000). He is also a director of Ariadne Australia Limited* (since May 2004) and has recently been appointed to the board of Hillgrove Resources Ltd* (since November 2013). He ceased to be on the board of Canberra Investment Corporation Limited* in May 2013 (director since September 1994). He is also a former director of Tower Limited (from September 2003 to March 2005).

# Directors' Report
CONTINUED

**Jack Theseus Lowenstein M.A (Oxon)**
*Age 57. Non-Executive Director*

Jack Lowenstein is Managing Director and Joint Chief Investment Officer of Morphic Asset Management Pty Ltd, a global equity fund manager based in Sydney. He was a director of Hunter Hall International Limited* (from March 2004 to November 2011) and was a director of Hunter Hall Global Value Limited* (from December 2003 to November 2011). He is also the non-executive Chairman of Kontiki Capital Limited, a Fiji-based regional investment bank (since June 1988).

**Nicholas George Kirk Associate, Chartered Insurance Institute and Chartered Insurer (UK)**
*Age 52. Executive Director*

Nick Kirk has more than 30 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 68. Independent Non-Executive Director*

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

**Anthony Vincent Connon BA (Oxon), FCA, FAICD**
*Age 63. Non-Executive Director*

Tony Connon is a Chartered Accountant with over 40 years' experience in various industries, having held senior finance and administration positions with Price Waterhouse, 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 a majority of 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 61. Independent Non-Executive Director*

Gordon Smith has an extensive background in the financial services industry in New Zealand and Australia, with involvement in banking, insurance and the rural sector. He operates a business consultancy company in New Zealand and is currently a director of the New Zealand Earthquake Commission (since October 2011), Chairman of CodeBlue Hawkes Bay Limited (since March 2011) and a director of Cole Murray Group Limited (since March 2011), all New Zealand based companies. 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 (from 2001 to 2007) and the Insurance Council of New Zealand (from 2006 to 2008).

* These companies are listed on the Australian Securities Exchange

## 1.2. Attendance at Board and Board Committee Meetings

The number of meetings each Director attended during the financial year is summarised as follows:

| | BOARD | RISK MANAGEMENT | AUDIT[1] | INVESTMENT & CAPITAL[2] | REMUNERATION & NOMINATIONS[3] |
|---|---|---|---|---|---|
| **Meetings held for the year ended 31 December 2013 (written resolutions circulated)** | 11 | 4 | 6 | 4 | 3 |
| **Director attendances** | | | | | |
| RJ Hill | 11 | 4 | n/a | n/a | 3 |
| MW Loomes | 11 | 4 | 6 | 4 | n/a |
| JT Lowenstein | 11 | 4 | 6 | 4 | n/a |
| NG Kirk | 11 | 4 | n/a | 4 | n/a |
| JI Messenger | 10 | 3 | 6 | n/a | 3 |
| AV Connon | 11 | 4 | 5 | 4 | n/a |
| GGM Smith | 10 | 4 | 6 | n/a | 2 |

(1) RJ Hill and NG Kirk are not members of the Audit Committee.
(2) RJ Hill, JI Messenger and GGM Smith are not members of the Investment and Capital Committee.
(3) MW Loomes, JT Lowenstein, NG Kirk and AV Connon are not members of the Remuneration and Nominations Committee.

### 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 the Remuneration report, 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

Nicholas John Victor Geddes FCA, FCIS was appointed Company Secretary in March 2011. Mr Geddes is the principal of Australian Company Secretaries, a company secretarial practice that he formed in 1993. He is a past President and Director of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development, and venture capital in Europe, Africa, the Middle East and Asia. He is a Chartered Accountant (Fellow of the Institute of Chartered Accountants in England & Wales) and Fellow of the Institute of Chartered Secretaries (Chartered Secretaries Australia).

Anthony Stephen Dijanosic was appointed Company Secretary in August 2013. Mr Dijanosic is the Group's Chief Financial Officer.

## 3. PRINCIPAL ACTIVITIES

Calliden's principal activity during the year was that of an insurance group including:

- The underwriting of general insurance through its APRA authorised insurance subsidiary Calliden Insurance Limited ("CIL");
- Acting as an underwriting agent on behalf of Lloyd's of London ("Lloyd's"), Great Lakes Reinsurance (UK) Plc. trading as Great Lakes Australia ("GLA"), NSW Self-Insurance Corporation ("SICorp") and ACE Insurance ("ACE") through Calliden Agency Services Limited ("CAS");
- The investment management of shareholders' and policyholders' funds; and
- Ownership interests in several underwriting agencies.

### 3.1. Objectives

The Group's objectives are to:

- Reduce result volatility by growing agency premium as a proportion of overall premium;
- Achieve a sustainable margin on agency revenue;
- Make targeted investments in IT to widen distribution channels and increase efficiencies; and
- Source new joint venture investment opportunities.

In order to meet those objectives the following targets have been set for 2014 and beyond:

- Growth in margin on agency premium and revenue in 2014;
- Optimise the level of capital in the insurer;
- Begin transacting on the Steadfast Virtual Underwriter contestable platform for Business Pack by the end of 2014; and
- Launch at least one new joint venture agency in 2014.

## 4. OPERATING AND FINANCIAL REVIEW

### 4.1. Overview of the Group

The Group's focus is on the Australian intermediated general insurance market, providing insurance policies to small business and householders through a network of underwriting agencies, brokers and authorised representatives, on behalf of CIL or highly rated third party insurers.

CIL underwrites around half of Group premium, predominantly in personal and niche commercial lines. Third party insurers predominantly provide capacity for mainstream commercial lines and the Builder Warranty class.

The Group has significant relationships with the Steadfast Group in terms of selling insurance policies through its broker network and with the Munich Re Group, both as a reinsurer and as the insurer backing a large proportion of the agency operations via GLA.

# Directors' Report

CONTINUED

## 4.2. Shareholder Returns

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Net profit/(loss) after tax ($m) | **6.2** | 1.1 | (10.2) | 10.1 | (0.4) |
| Opening share price for the year ($) | **0.16** | 0.19 | 0.28 | 0.31 | 0.40 |
| Closing share price for the year ($) | **0.26** | 0.16 | 0.19 | 0.28 | 0.31 |
| Change in share price for the year ($) | **0.10** | (0.03) | (0.09) | (0.03) | (0.09) |
| Highest share price for the year ($) | **0.40** | 0.19 | 0.28 | 0.32 | 0.40 |
| Lowest share price for the year ($) | **0.14** | 0.10 | 0.17 | 0.21 | 0.29 |
| Dividends paid ($m) | **2.0** | – | 2.3 | 2.3 | 2.9 |
| Return of capital ($m)[1] | **–** | – | 0.1 | 1.0 | – |

(1) This related to a share buy-back and cancellation of shares.

Net profit amounts for 2009 to 2013 have been calculated in accordance with Australian Accounting Standards (AASBs).

Returns to shareholders increase through both dividends and capital growth. Dividends for 2013 were fully franked and it is expected that dividends in future years will continue to be fully franked.

## 4.3. Investments for Future Performance

During 2013 the Group made a number of investments to drive future performance:

- Commenced work on connecting Calliden's IT infrastructure to the Steadfast Virtual Underwriter contestable platform for Business Pack;
- Launched a 'Middle Market' offering underwritten by GLA, targeted at larger property and liability risks; and
- Launched a range of Accident & Health products underwritten by ACE.

Further information about the expected results of these investments in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

## 4.4. Review of Financial Condition

### 4.4.1. FINANCIAL POSITION

The Group's financial position was strengthened over 2013, with Shareholders' Equity increasing to $99.0m and Net Tangible Assets increasing from 20.1 cents per share to 22.5 cents per share.

The total assets of the Group as at 31 December 2013 were $290.0m compared with $360.8m at 31 December 2012. The movement is mainly attributable to a reduction in reinsurance asset balances as a result of a smaller underwritten portfolio and reduced quota share.

The total liabilities of the Group as at 31 December 2013 were $191.0m compared to $265.0m at 31 December 2012. The movement is mainly attributable to a reduction in unearned premium liability in line with the reduced underwritten Gross Written Premium ("GWP"); and a reduction in outstanding claims due to the run-off of portfolios no longer underwritten by CIL.

The increase in the Group's equity from $95.9m at 31 December 2012 to $99.0m at 31 December 2013 reflects the results of operations for the year.

#### 4.4.2. INVESTMENT ACTIVITIES

The Group continued its investment strategy of 2012 by investing in fixed term deposits and cash at call with Australian banks. As a result, there was no offset to the impact of discount rates on claims reserves which amounted to a positive movement in net claims reserves of $0.3m in 2013.

The investment portfolio was made up of $65.6m in term deposits and $28.6 in cash at call as at 31 December 2013, compared with $70.0m in term deposits and $24.5m in cash at call at 31 December 2012.

Total investment income earned during 2013 was $4.5m (31 December 2012: $5.7m). The weighted average rate of return has been on a downward trend during 2013, consistent with the decline in the Bank Bill rate. As at 31 December 2013 the weighted average rate of return was 5.3% p.a., compared to 6.0% p.a. at 31 December 2012. The average term to maturity for term deposits is 3.54 years.

The Group also holds a number of joint venture investments. The Group's share of net profits from joint ventures was $0.6m (31 December 2012: $0.3m).

#### 4.4.3. LIQUIDITY AND FUNDING

The Group has nil debt as at 31 December 2013 (2012: nil), and as at 31 December 2013 holds 100% of investable funds in highly liquid cash and term deposits (2012: 100%).

#### 4.4.4. CASH FROM OPERATIONS

The Group's net cash inflow from operating activities for 2013 was $3.7m compared to a net outflow of $27.7m at 31 December 2012.

#### 4.4.5. IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

The Australian Prudential Regulation Authority ("APRA") adopted new Life and General Insurance Capital ("LAGIC") standards with effect from 1 January 2013. These standards generally increased the level of capital required by insurers and required the establishment of an Internal Capital Adequacy Assessment Process ("ICAAP"). Calliden worked with APRA and its advisors to ensure that its ICAAP was in place and that its capital position was adequate to meet the new standards at the start of 2013. Calliden has also finalised all of the requirements to meet APRA's new capital standards concerning the Insurance Concentration Risk Charge ("ICRC"), effective from 1 January 2014.

Effective 1 July 2013 the Victorian Government abolished that state's Fire Services Levy ("FSL"), with Calliden putting in place system changes and processes to remove FSL from Victorian policies in advance of the abolition date.

### 4.5. Review of Principal Businesses

The Group's financial results for 2013 represent the continuing transition to its revised operating model. The primary benefits from this strategic shift are to provide a more reliable profit base and a less capital intensive business model than that of being only an insurer. This will allow the Group to pay regular fully franked dividends using both the Group's large amount of tax losses and franking credits. This transition is due to be completed in 2014.

The key operating highlights for Calliden's agency business have been:

- completing the transition of the Business Pack portfolio to an agency basis in May 2013, and commencing the transition of the Farm portfolio from January 2013 (completed in December 2013);
- introducing agency fees on Business Pack, Farm and Home products;
- launching a new 'Middle Market' offering underwritten by GLA, targeted at larger property and liability risks;
- commencing a 100% Quota Share Reinsurance agreement with the South Australia Government Financing Authority ("SAFA") on 1 October 2013 and with the Western Australia Department of Commerce ("DOCWA") on 1 November 2013; and
- reaching an agreement with ACE to distribute a range of Accident and Health products and to replace a Lloyd's syndicate as the underwriter for Mansions policies from 1 January 2014.

The Group is undertaking a restructuring of the business to align the operations with the new model. This restructuring will continue into early 2014, with Calliden consolidating its agency business into the wholly-owned subsidiary CAS, formerly Mansions of Australia Limited. CAS also acts as an agent for CIL.

The Group's insurance operations undertook a number of portfolio management actions in late 2012 that are reflected in the 2013 full year result, including:

- ceasing to underwrite the QUS residential strata portfolio, with this portfolio underwritten by WR Berkley from 1 January 2013;
- ceasing to underwrite the Farm portfolio, with this portfolio underwritten by GLA from 1 January 2013;
- improving capability in geographic risk rating allowing a reduced exposure to unacceptably high flood and bushfire risks; and
- increasing premiums to bring loss ratios to acceptable levels.

While CIL will remain subject to the inherent volatility of an insurer, as a consequence of the above actions, CIL's remaining insurance book is smaller but structurally more profitable than in 2012. Following the rebuilding of the capital base in 2012, CIL has been able to reduce its reinsurance coverage through a lower proportional reinsurance cession in 2013. The financial effect of the reduced cession means that the proportion of retained earned premium increases.

# Directors' Report
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## 4.6. Review of each Operating Segment of the Group

The Group continued to expand on its Managing General Agent ("MGA") operations and returned a net profit after tax of $6.2m, compared with a $1.1m profit at 31 December 2012.

The result is attributable to:

- the strategic move to either exit or transition the more volatile portfolios to an agency arrangement, producing a stable profit in both the agency and insurance operations;
- Calliden's agency operations continuing to grow through the alliances with third party insurers;
- Introduction of agency fees on larger portfolios;
- CIL continuing to develop improved risk selection; and
- Lower proportional reinsurance, leading to higher net premium retained.

### 4.6.1. UNDERWRITING AGENCY

Calliden's agency operations produced a profit of $8.2m before the allocation of corporate overheads in contrast with the prior year profit of $1.1m. The result was, as expected, affected by the build-up of a provision for future administration and claims costs and the expenses involved in implementing agency fees.

Calliden wrote policies on behalf of four external insurers: GLA (part of the Munich Re Group), Lloyd's, SICorp and ACE. The Group increased its GWP underwritten by third party insurers from $52.4m in 2012 to $92.3m in 2013, with around half of Calliden's overall GWP underwritten by third party insurers.

### 4.6.2. GENERAL INSURANCE UNDERWRITING

The insurance profit for the year was $2.6m before the allocation of corporate overheads, compared with a profit of $5.5m in the same period last year.

The reduction in insurance profit for this year reflects the lower premium and deterioration in prior year reserves on run-off portfolios of $1.0m, including $3.5m in the Builder Warranty class, and $3.3m in natural peril losses (2012: $0.5m). The Group reported an underwriting loss of $1.4m compared with a profit of $0.2m in 2012.

CIL underwrote GWP of $95.7m, which was 44% lower than at 31 December 2012. The reduction in underwritten GWP was a result of the continued transition of our Business Pack portfolio (which commenced in May 2012) and Farm Pack portfolio (which commenced in January 2013) to an agency basis in line with our MGA strategy. Additionally, we undertook portfolio management actions to reduce CIL's exposure to natural catastrophe risk such as the transition of the QUS residential strata portfolio to WR Berkley.

FSL was removed from policies in Victoria during the period, which impacted both GWP and expenses. Excluding FSL, GWP decreased by 40.2% to $93.6m.

For the full year, CIL's gross earned premium fell 40% to $131.3m and net earned premium fell 17% to $66.0m. Net earned premium did not fall in line with gross primarily due to a decrease in proportional reinsurance from 60% to 25%.

Net incurred claims have reduced from $40.0m in 2012 to $39.3m. This is driven by the decrease in gross claims incurred resulting from the changes in our portfolio. However this is offset by the lower reinsurance recoveries due to the decrease in proportional reinsurance. Overall, the net loss ratio increased by 2% to 68%, driven by net revenue decreasing by 4%, offset by a marginal decrease in net claims of 2%. The combined operating ratio for insurance operations has increased to 102% (2012: 99%).

### 4.6.3. JOINT VENTURES

Our Joint Ventures, Arena Underwriting Pty Ltd and QUS Pty Ltd, increased their contribution to our full year profit by $0.4m to $0.6m, compared with the same period last year, primarily due to strong growth in QUS backed by WR Berkley.

## 4.7. Capital Management

As a result of the profit in 2013, the Group's and CIL's capital positions have improved, as reflected in the Capital Adequacy Multiple ("CAM"). The Group's CAM was 2.3 as at 31 December 2013 compared with 1.9 as at 31 December 2012. CIL's CAM improved to 2.8 as at 31 December 2013 compared with 2.2 at 31 December 2012.

## 4.8. Outlook

In 2013 Calliden continued the transition to its new business model, including implementing further agency revenue streams; completing the transition of the Farm and QUS residential strata portfolios; and commencing distribution of Accident and Health products on behalf of ACE. This has resulted in Calliden generating around half of its business in 2013 from policies underwritten by third party insurers.

CAS will look to drive growth through increasing the number of significant distribution partners and leveraging its investment in new products in 2013. CAS will also look to participate on the Steadfast Virtual Underwriter contestable platform for Business Package in the second half of 2014, following a substantial IT investment.

CIL will continue to focus on improving the underlying profitability of the underwritten portfolio, taking advantage of a less conservative reinsurance programme and less volatile portfolio arising from management actions in 2012 and 2013.

The Group will also look to source new joint venture investment opportunities.

## 5. DIVIDENDS

Dividends paid or declared by the Company to members since the end of the previous financial year were:

### 5.1. Declared and paid during the year 2013

| | CENTS PER SHARE | TOTAL AMOUNT $ | DATE OF PAYMENT |
|---|---|---|---|
| Final 2012 ordinary | **0.4** | 906,736 | 28 March 2013 |
| Interim 2013 ordinary | **0.5** | 1,133,421 | 30 September 2013 |
| **Total amount** | | **2,040,157** | |

### 5.2. Declared after the end of the Year

| | CENTS PER SHARE | TOTAL AMOUNT $ | DATE OF PAYMENT |
|---|---|---|---|
| Final 2013 ordinary | **1.7** | 3,853,626 | 19 March 2014 |
| Special 2013 ordinary | **0.5** | 1,133,420 | 19 March 2014 |
| **Total amount** | | **4,987,046** | |

The financial effect of the 2013 final dividend has not been brought to account in the consolidated financial statements for the year ended 31 December 2013 and will be recognised in subsequent financial reports.

Dividends have been dealt with in the financial report as:

| | NOTE | $ |
|---|---|---|
| Dividends | 11 | 2,040,157 |
| Noted as a subsequent event | 37 | 4,987,046 |

## 6. EVENTS SUBSEQUENT TO REPORTING DATE

On 27 February 2014, the Directors declared a fully franked final dividend of 1.7 cents per share (2013: 0.4 cents per share) and a fully franked special dividend of 0.5 cents per share (2013: nil).

Other than the matters discussed above, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 7. LIKELY DEVELOPMENTS

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

# Directors' Report
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## 8. ENVIRONMENTAL REGULATION

The Group's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the Group's operations. The Board of Directors believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

## 9. LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 27 and forms part of the Directors' Report for the year ended 31 December 2013.

## 10. NON-AUDIT SERVICES

During the year KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms, for non-audit services provided during the year are set out below:

| | **2013 $** | 2012 $ |
|---|---|---|
| **Services other than audit and review of financial reports** | | |
| **Other regulatory audit services** | | |
| APRA review and audit | **40,250** | 47,250 |
| **Other assurance services:** | | |
| Australian Financial Services Licences | **10,355** | 10,355 |
| Fire services levy | **13,200** | 6,600 |
| **Other services:** | | |
| Actuarial peer review services | **30,700** | 30,700 |
| Home Warranty Insurance Fund controls review | **52,500** | 55,000 |
| Extended Assurance | **10,000** | – |
| **Audit and review of financial reports** | **233,465** | 276,795 |
| **Total paid to KPMG** | **390,470** | 426,700 |

## 11. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

### 11.1. 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.

### 11.2. 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.

## 12. ROUNDING OFF

The Group 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 financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## 13. REMUNERATION REPORT – AUDITED

### 13.1. Principles of Compensation

Remuneration is referred to as compensation throughout this report.

Key Management Personnel ("KMP") have authority and responsibility for planning, directing and controlling the activities of the Group. KMP comprise the Directors of the Company and Senior Executives for the Group.

Compensation levels for KMP of the Group are competitively set to attract and retain appropriately qualified and experienced KMP. The Remuneration and Nominations Committee obtains independent advice on the appropriateness of compensation packages of the KMP given trends in comparative companies, and the objectives of the Group's compensation strategy.

In respect of at-risk remuneration, the Group's policy is to provide meaningful entitlements when the performance of the business delivers significant and sustained benefits to shareholders. A significant proportion of the KMP (excluding non-executive Directors) overall remuneration is directly linked to shareholder returns, with no incentives being provided unless minimum thresholds defined by the Board are exceeded.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structure takes into account:

- the capability and experience of the KMP;
- the KMP's ability to control the relevant segment/s performance;
- the Group's performance including:
  - the Group's earnings; and
  - the growth in share price and delivering constant returns on shareholder wealth;
- the amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation, and short and long-term performance-based incentives.

#### 13.1.1. FIXED COMPENSATION

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax charges) related to employee benefits, as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration and Nominations Committee through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the Directors' and senior KMP compensation is competitive in the market place.

#### 13.1.2. PERFORMANCE LINKED COMPENSATION

Performance linked compensation is provided to executive KMP including both short-term and long-term incentives, and is designed to reward them for meeting or exceeding financial and personal objectives. No short-term and long-term incentives are provided to Directors.

# Directors' Report
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The short-term incentive ("STI") is an 'at risk' bonus provided in the form of cash, while the long-term incentive ("LTI") is provided as rights over ordinary shares of the Company under the rules of the Calliden LTI Plan (the "Plan").

**13.1.3. SHORT-TERM INCENTIVE BONUS**

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

The aims of the STI are to:

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

The primary performance measure for the KMP incentives has been set around the Group's net profit after tax ("NPAT"). The Board each year determines 'threshold', 'target' and 'stretch' levels of NPAT. No level of STI is guaranteed to be paid at any level of profitability and the established practice is that no level of STI will begin to be earned until the predetermined 'threshold' NPAT is achieved. The threshold NPAT for 2013 was not achieved.

The Board reserves the right to exercise discretion in the determination of STI. An example of this may be where a KMP entitlement during the year is reduced due to a performance threshold being marginally not achieved or in the event of incapacity, death, or other exceptional circumstances.

**13.1.4. LONG-TERM INCENTIVE**

13.1.4.1. Eligibility and Purpose

Eligible employees are invited to participate in the Plan. The Plan is intended to engage KMP in the success of the business by linking rewards with the performance of the Group. This is achieved by employing objective performance measures directly linked to the creation of shareholder wealth, such as growth in earnings per share and total shareholder returns, as well as encouraging their retention. The Plan commenced in 2005.

Eligibility is considered by the Board based on KMP ability to influence the overall and long-term performance of the business.

13.1.4.2. Performance Rights

Under the Plan, participating KMP may receive annual grants of performance rights. Subject to the rules of the Plan, each performance right entitles the KMP holding that right to receive, for no consideration, one fully-paid ordinary share in the Company at the end of the performance period if 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").

13.1.4.3. Number of Performance Rights

There was no grant made in the 2010 year. There were grants made for each of the 2011 and 2012 years for three years in duration for each grant. There was no grant made in the 2013 year.

The number of performance rights is determined by dividing the value of the LTI component of each KMP's remuneration by the value of the rights in the grant. For the 2011 and 2012 grants, the LTI component of each KMP remuneration ranges from 60% to 120% of salary plus superannuation. The value of each right is calculated based on the volume-weighted average price ("VWAP") of Calliden's shares in the 5 days prior to the performance period (that is, up to and including 31 December 2011 for the 2012 grant), less the projected dividends over the performance period (1 January 2012 to 31 December 2014 for the 2012 grant). Where rights are subject only to service conditions ("Retention Rights") then the resulting value is used. Rights subject to performance conditions ("Performance Rights") have an Adjusted Right Value determined where the value is discounted recognising the attaching performance vesting conditions – for grants in respect of 2011 and 2012 the discount is 50%.

The proportion of Retention Rights in the 2011 and 2012 grants vary from 33% up to 100%. A decision was made by the Board that, in consideration of APRA's Prudential Standard GPS 510 *Governance*, Retention Rights would be 100% of all rights granted to risk and financial control personnel so as to ensure that this performance-based component of remuneration does not in any way compromise the independence of these personnel in carrying out their functions.

### 13.1.5. CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

In considering the Group's performance and benefits for shareholder wealth, the Remuneration and Nominations Committee have regard to the following measures in respect of the current financial year and the previous four financial years.

| | **2013** | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Net profit / (loss) after tax ($m) | **6.2** | 1.1 | (10.2) | 10.1 | (0.4) |
| Opening share price for the year ($) | **0.16** | 0.19 | 0.28 | 0.31 | 0.40 |
| Closing share price for the year ($) | **0.26** | 0.16 | 0.19 | 0.28 | 0.31 |
| Change in share price for the year ($) | **0.10** | (0.03) | (0.09) | (0.03) | (0.09) |
| Highest share price for the year ($) | **0.40** | 0.19 | 0.28 | 0.32 | 0.40 |
| Lowest share price for the year ($) | **0.14** | 0.10 | 0.17 | 0.21 | 0.29 |
| Dividends paid ($m) | **2.0** | – | 2.3 | 2.3 | 2.9 |
| Return of capital ($m)[1] | **–** | – | 0.1 | 1.0 | – |

(1) This related to a share buy-back and cancellation of shares.

### 13.1.6. SERVICE AGREEMENTS

The major provisions of the service agreements for the KMPs of the Company and the Group are as follows:

| | APPOINTMENT DATE | TERM OF AGREEMENT | RENEWAL OF AGREEMENT | NOTICE TO BE GIVEN BY KMP | TERMINATION PAYMENTS |
|---|---|---|---|---|---|
| **Current KMP** | | | | | |
| NG Kirk | 29 March 2004 | Renewable 12 month contract | Every 12 months | 12 months | 12 months fixed remuneration (or payment in lieu) |
| A Dijanosic[1] | 11 April 2013 | Indefinite | n/a | 3 months | 6 months fixed remuneration (or payment in lieu) |
| D Boubolas[2] | 12 January 2013 | Indefinite | n/a | 3 months | 3 months fixed remuneration (or payment in lieu) |
| S Dossetor[2] | 1 November 2010 | Indefinite | n/a | 3 months | 6 months fixed remuneration (or payment in lieu) |
| SJ Fay | 10 May 2004 | Indefinite | n/a | 3 months | 6 months fixed remuneration (or payment in lieu) |
| MJ Hooton | 5 October 2004 | Indefinite | n/a | 3 months | 12 months fixed remuneration (or payment in lieu) |
| **Former KMP** | | | | | |
| T Thomas[3] | 26 April 2012 | To 30 April 2013 | By agreement | 3 months | 3 months fixed remuneration (or payment in lieu) |

(1) A Dijanosic became KMP on 11 April 2013

(2) D Boubolas became KMP on 12 January 2013 in a temporary capacity while S Dossetor took an extended leave of absence.

(3) T Thomas left the company on 10 April 2013

Termination payments with respect to KMP consist of statutory entitlements and, at the discretion of the Board, bonuses to which the employee has not yet become entitled. To date, no circumstances have arisen in which such discretion has been deemed necessary to be exercised.

# Directors' Report
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### 13.1.7. SERVICES FROM REMUNERATION CONSULTANTS

The Remuneration and Nominations Committee engaged Godfrey Remuneration Group Pty Limited ("Godfrey"), as a remuneration consultant to the Board to review the amount and elements of the KMP remuneration and provide recommendations in relation thereto.

Godfrey was paid $12k for the remuneration recommendations in respect of reviewing the amount and elements of the KMP remuneration.

The engagement of Godfrey by the Remuneration and Nominations Committee was based on a documented set of protocols that would be followed by Godfrey, members of the Remuneration and Nominations Committee and members of the KMP for the way in which remuneration recommendations would be developed by Godfrey and provided to the Board.

The protocols included the prohibition of Godfrey providing advice or recommendations to KMP before the advice or recommendations was given to members of the Remuneration and Nominations Committee and not unless Godfrey had approval to do so from the Board.

These arrangements were implemented to ensure that Godfrey would be able to carry out its work, including information capture and the formation of its recommendations, free from undue influence by members of the KMP about whom the recommendations may relate.

The Board undertook its own enquiries and review of the processes and procedures followed by Godfrey during the course of its assignment and is satisfied that its remuneration recommendations were made free from undue influence.

These inquiries included arrangements under which Godfrey was required to provide to the Board with a summary of the way in which it carried out its work, details of its interaction with KMP's in relation to the assignment and other services, and respond to questioning by members of the Board after the completion of the assignment.

### 13.1.8. NON-EXECUTIVE DIRECTORS

Total compensation for all non-Executive Directors, which is determined by the Board following recommendations by the Remuneration and Nominations Committee, is not to exceed $750,000 per annum, and is set based on advice from external advisers with reference to fees paid to other non-Executive Directors of comparable companies.

The Chairperson receives up to twice the base fee of the other non-Executive Directors. Non-Executive Directors do not receive performance-related compensation. Directors' fees cover all main board activities and membership of committees.

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

### 13.1.9. AT-RISK INCENTIVES

The following table summarises the details and terms associated with LTI grants to KMP as well as the overall outcomes. There was no LTI grant in 2013.

| **YEAR GRANTED:** | **2012** | **2012** |
|---|---|---|
| **TRANCHE:** | **2012** | **2011** |
| Grant date | 8 October 2012 | 1 February 2012 |
| Performance period | 3 years:<br>1 January 2012 to 31 December 2014 | 3 years:<br>1 January 2011 to 31 December 2013 |
| Performance test/s | Service + Absolute Total Shareholder Return (ATSR) + Compound Average Growth Rate in Earnings Per Share (CAGR EPS) | Service + Absolute Total Shareholder Return (ATSR) + Compound Average Growth Rate in Earnings Per Share (CAGR EPS) |
| Vesting date | 1-Jan-15 | 1-Jan-14 |
| Rights granted | 5,615,000 | 3,436,400 |

1. The Board resolved to make a grant in 2011. Offers were extended in December 2011 and grants made in 2012.
2. The performance period over which entitlements are determined is generally three calendar years commencing from 1 January in the year to which the offer relates. Three years is selected based on the assessment that it is a sufficiently long duration over which to measure performance and foster consistent long-term improvements in business performance.
3. The number of performance rights for which KMPs 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 and are amended as necessary with each Offer to drive the best possible outcomes for the business and shareholders. The 2011 and 2012 performance tests providing objective measures of sustainable profitable growth were chosen: Absolute Total Shareholder Return ("ATSR"); and, Compound Annual Growth Rate in Earnings per Share ("CAGR EPS").
4. For the 2011 and 2012 grants, vesting occurs automatically after the Performance Period when the Board determines the extent to which the performance tests have been satisfied. In the case of Retention Rights, this is subject to the KMP remaining in service. For Performance Rights, the proportion of the maximum available rights which vest as shares depends on the extent to which performance is achieved, subject to a minimum threshold level, below which no rights vest, and a target level at which 50% of maximum Performance Rights vest.
5. The numbers of rights granted reflect the maximum number of rights which may vest as shares at the end of the performance period.
6. Predetermined formulae for each performance test are used to calculate what proportion, if any, of performance rights should vest. Any performance rights for which the tests are not satisfied over the performance period lapse.

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

   - 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 a KMP 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 a KMP 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). The Board has not, to date, exercised discretion in regard to any grants or rights.

   KMPs are precluded from hedging any element of unvested, vested, or restricted Rights or Shares.

   While the Board has absolute discretion to vary the terms of the LTI Plan there have been no circumstances or situations to date in which this has been exercised.

# Directors' Report
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### 13.1.10. PERFORMANCE RIGHTS GRANTED AND VESTED

A summary of the number of performance rights that have been granted to KMP in accordance with the LTI and the numbers which have ultimately vested (where known) is shown below.

| LTI Grant | | 2012 | 2011 |
|---|---|---|---|
| NG Kirk | Granted | **3,098,000** | 1,886,050 |
| | Vested | **nil** | nil |
| S Dossetor | Granted | **558,000** | 344,520 |
| | Vested | **nil** | nil |
| SJ Fay | Granted | **762,000** | 519,000 |
| | Vested | **nil** | nil |
| MJ Hooton | Granted | **1,020,000** | 686,830 |
| | Vested | **nil** | nil |
| T Thomas[1] | Granted | **nil** | nil |
| | Vested | **nil** | nil |
| A Dijanosic[2] | Granted | **177,000** | nil |
| | Vested | **nil** | nil |
| D Boubolas[3] | Granted | **262,000** | nil |
| | Vested | **nil** | nil |
| **Total** | Granted | **5,615,000** | 3,436,400 |
| | Vested | **nil** | nil |

(1) T Thomas left the Company on 10 April 2013.
(2) A Dijanosic commenced as KMP on 11 April 2013.
(3) D Boubolas commenced as KMP on 12 January 2013.

## 13.2 Directors' and Executive Officers' Remuneration – Audited

Details of the nature and amount of each major element of each Director of the Company, and other key management personnel of the consolidated entity are:

| | | | | SHORT-TERM | POST-EMPLOYMENT | SHARE-BASED PAYMENT | | |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | **SALARY & FEES $** | **STI CASH BONUS[1] $** | **TOTAL $** | **SUPER $** | **LTI RIGHTS[2] $** | **TOTAL $** | **PERFORMANCE RELATED[3] %** |
| **Non-executive Directors** | | | | | | | | |
| RJ Hill | **2013** | **146,000** | **–** | **146,000** | **–** | **–** | **146,000** | **–** |
| | 2012 | 140,000 | – | 140,000 | – | – | 140,000 | – |
| MW Loomes | **2013** | **72,000** | **–** | **72,000** | **6,570** | **–** | **78,570** | **–** |
| | 2012 | 72,000 | – | 72,000 | 6,480 | – | 78,480 | – |
| JT Lowenstein | **2013** | **75,000** | **–** | **75,000** | **–** | **–** | **75,000** | **–** |
| | 2012 | 72,000 | – | 72,000 | – | – | 72,000 | – |
| JI Messenger | **2013** | **72,000** | **–** | **72,000** | **6,570** | **–** | **78,570** | **–** |
| | 2012 | 72,000 | – | 72,000 | 6,480 | – | 78,480 | – |
| AV Connon | **2013** | **75,000** | **–** | **75,000** | **–** | **–** | **75,000** | **–** |
| | 2012 | 72,000 | – | 72,000 | – | – | 72,000 | – |
| GGM Smith | **2013** | **75,000** | **–** | **75,000** | **–** | **–** | **75,000** | **–** |
| | 2012 | 72,000 | – | 72,000 | – | – | 72,000 | – |
| **Sub-total non-executive Directors' remuneration** | **2013** | **515,000** | **–** | **515,000** | **13,140** | **–** | **528,140** | **–** |
| | 2012 | 500,000 | – | 500,000 | 12,960 | – | 512,960 | – |
| **Executive Director** | | | | | | | | |
| NG Kirk | **2013** | **494,621** | **25,000** | **519,621** | **41,284** | **–** | **560,905** | **–** |
| | 2012 | 461,497 | – | 461,497 | 41,284 | – | 502,781 | – |
| **Sub-total Executive Directors' remuneration** | **2013** | **494,621** | **25,000** | **519,621** | **41,284** | **–** | **560,905** | **–** |
| | 2012 | 461,497 | – | 461,497 | 41,284 | – | 502,781 | – |

# Directors' Report
CONTINUED

| | | | | | Short-term | Post-employment | Share-based payment | | |
|---|---|---|---|---|---|---|---|---|---|
| **Executives** | | **Salary & fees $** | **STI cash bonus[1] $** | **Total $** | | **Super $** | **LTI rights[2] $** | **Total $** | **Performance related[3] %** |
| D Boubolas | **2013** | **169,049** | **–** | **169,049** | | **14,471** | **–** | **183,520** | **–** |
| | 2012 | – | – | – | | – | – | – | – |
| A Dijanosic | **2013** | **178,158** | **–** | **178,158** | | **16,376** | **–** | **194,534** | **–** |
| | 2012 | – | – | – | | – | – | – | – |
| S Dossetor | **2013** | **15,291** | **9,174** | **24,465** | | **2,202** | **–** | **26,667** | **–** |
| | 2012 | 175,168 | – | 175,168 | | 15,765 | – | 190,933 | – |
| SJ Fay | **2013** | **245,576** | **11,468** | **257,044** | | **23,456** | **–** | **280,500** | **–** |
| | 2012 | 230,903 | – | 230,903 | | 20,781 | – | 251,684 | – |
| MJ Hooton | **2013** | **316,141** | **11,468** | **327,609** | | **29,891** | **–** | **357,500** | **–** |
| | 2012 | 307,434 | – | 307,434 | | 27,669 | – | 335,103 | – |
| **Former** | | | | | | | | | |
| T Thomas[5] | **2013** | **87,287** | **–** | **87,287** | | **7,183** | **–** | **94,470** | **–** |
| | 2012 | 169,551 | – | 169,551 | | 15,260 | – | 184,811 | – |
| AR Diggelmann[4] [5] | **2013** | **–** | **–** | **–** | | **–** | **–** | **–** | **–** |
| | 2012 | 89,582 | – | 89,582 | | 7,293 | – | 96,875 | – |
| **Total Executives' remuneration** | **2013** | **1,011,502** | **32,110** | **1,043,612** | | **93,579** | **–** | **1,137,191** | **–** |
| | 2012 | 972,638 | – | 972,638 | | 86,768 | – | 1,059,406 | – |
| **Total Directors' and Executive Officers' remuneration** | **2013** | **2,021,123** | **57,110** | **2,078,233** | | **148,003** | **–** | **2,226,236** | **–** |
| | 2012 | 1,934,135 | – | 1,934,135 | | 141,012 | – | 2,075,147 | – |

(1) The STI figures presented above include other bonus amounts as determined by the Board and the amounts are incurred in their respective years whether paid in that or the following year. KMPs accrued no STI entitlements in 2012 or 2013.

(2) The LTI is explained in the Remuneration section of this Directors' Report. No other LTI or share-based payments were made to KMPs. 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, as required 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. The LTI is an equity-settled share-based payment program accounted for in accordance with AASB 2 as discussed in Note 31.

(3) The Performance Related % shown above represents the proportion of total emoluments in the year represented by STI and LTI as explained above. No remuneration was paid in the form of rights to Directors in 2013.

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

(5) Refer to section 13.1.6 Service agreements section of this Remuneration Report for date of appointment and/or cessation as KMP.

#### 13.2.1. SIGN-ON PAYMENTS
No sign-on payments were made to KMP during 2013 (2012: nil).

#### 13.2.2. OTHER PAYMENTS
No other payments were made to KMP during 2013 (2012: nil).

#### 13.2.3. OTHER BENEFITS
No other benefits were received by KMP during 2013 (2012: nil).

#### 13.2.4. TERMINATION PAYMENTS TO FORMER KMP
No termination payments were made to any KMP in 2013 (2012: $8,550).

### 13.3. Options and Rights Granted to Directors and Senior KMP

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

### 13.4. 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:

| Directors | | BALANCE AT THE START OF THE YEAR | MOVEMENT DURING THE YEAR SALES | MOVEMENT DURING THE YEAR PURCHASES | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|---|---|
| RJ Hill | **2013** | **1,000,000** | **–** | **–** | **1,000,000** |
| | 2012 | 1,000,000 | – | – | 1,000,000 |
| JT Lowenstein | **2013** | **450,000** | **–** | **100,000** | **550,000** |
| | 2012 | 450,000 | – | – | 450,000 |
| NG Kirk(1) | **2013** | **1,567,264** | **–** | **–** | **1,567,264** |
| | 2012 | 1,567,264 | – | – | 1,567,264 |
| JI Messenger | **2013** | **50,000** | **–** | **–** | **50,000** |
| | 2012 | 50,000 | – | – | 50,000 |
| MW Loomes | **2013** | **–** | **–** | **–** | **–** |
| | 2012 | – | – | – | – |
| AV Connon(2) | **2013** | **–** | **–** | **–** | **–** |
| | 2012 | – | – | – | – |
| GGM Smith | **2013** | **100,000** | **–** | **–** | **100,000** |
| | 2012 | 100,000 | – | – | 100,000 |
| **Total** | **2013** | **3,167,264** | **–** | **100,000** | **3,267,264** |
| | 2012 | 3,167,264 | – | – | 3,167,264 |

(1) These figures include 1,438,765 shares held in trust in accordance with employee share schemes and long-term incentive plans. Refer to section 9.1.4 for details of the long-term incentive plan in which NG Kirk is a participant. There were no options or other 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.

(2) AV Connon is a Director nominated by Australian Unity Strategic Holdings Pty Ltd, a significant shareholder of the Group with 30,142,850 shares held at 31 December 2013.

All Directors' interests in the share capital of the Company are in the form of fully paid ordinary shares issued by Calliden Group Limited.

# Directors' Report
CONTINUED

### 13.5. Executives' Interests in Share Capital

The relevant interest of each KMP in the share capital of the companies within the Group, at the date of this report:

| DIRECTORS | | BALANCE AT THE START OF THE YEAR | MOVEMENT DURING THE YEAR SALES | MOVEMENT DURING THE YEAR PURCHASES | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|---|---|
| D Boubolas[1] | **2013** | **2,603** | **–** | **–** | **2,603** |
| | 2012 | 2,603 | – | – | 2,603 |
| A Dijanosic[2] | **2013** | **100,000** | **–** | **–** | **100,000** |
| | 2012 | – | – | 100,000 | 100,000 |
| S Dossetor | **2013** | **15,334** | **–** | **–** | **15,334** |
| | 2012 | 15,334 | – | – | 15,334 |
| SJ Fay | **2013** | **204,192** | **–** | **–** | **204,192** |
| | 2012 | 204,192 | – | – | 204,192 |
| MJ Hooton | **2013** | **449,705** | **–** | **–** | **449,705** |
| | 2012 | 449,705 | – | – | 449,705 |
| **Total** | **2013** | **771,834** | **–** | **–** | **771,834** |
| | 2012 | 771,834 | – | 100,000 | 771,834 |

(1) D Boubolas commenced as an Executive on 12 January 2013
(2) A Dijanosic commenced as an Executive on 11 April 2013

No LTI rights vested as shares in 2013 (2012: nil).

These amounts include shares purchased by the KMP and any vested shares held in trust in accordance with long-term incentive or employee share schemes. The Calliden Securities Trading Policy, including risk measures, applies to all KMP interests in share capital.

### 13.6. 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.

This report is made with a resolution of the Directors.

**RJ Hill**
Chairman

Dated at Sydney this 27th day of February 2014.

# 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 2013 there have 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**

Madeleine Mattera

**Madeleine Mattera**

Partner

Sydney

27 February 2014

# Statements of Comprehensive Income

**FOR THE YEAR ENDED 31 DECEMBER 2013**

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | NOTE | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| **CONTINUING OPERATIONS** | | | | | |
| Gross written premium | 6 | **95,739** | 172,000 | **–** | – |
| Gross premium revenue | 6 | **131,377** | 218,847 | **–** | – |
| Reinsurance premium expense | 7 | **(65,329)** | (139,539) | **–** | – |
| Net premium revenue | | **66,048** | 79,308 | **–** | – |
| Gross claims expense | 7,8 | **(83,588)** | (123,375) | **–** | – |
| Reinsurance and other recoveries revenue | 6,8 | **44,265** | 83,414 | **–** | – |
| Net claims expense | | **(39,323)** | (39,961) | **–** | – |
| Acquisition costs | 7 | **(37,793)** | (54,591) | **–** | – |
| Reinsurance commission revenue | 6 | **20,306** | 44,041 | **–** | – |
| Net acquisition costs | | **(17,487)** | (10,550) | **–** | – |
| Other underwriting expenses | 7 | **(2,343)** | (9,658) | **(12,716)** | (29,917) |
| Levies and charges | 7 | **(8,318)** | (18,921) | **–** | – |
| Underwriting expenses | | **(10,661)** | (28,579) | **(12,716)** | (29,917) |
| **Underwriting profit/(loss)** | | **(1,423)** | 218 | **(12,716)** | (29,917) |
| Investment income on assets backing insurance liabilities | 6 | **4,004** | 5,247 | **–** | – |
| **Insurance profit/(loss)** | | **2,581** | 5,465 | **(12,716)** | (29,917) |
| Agency commission and fee revenue | 6 | **39,189** | 18,708 | **–** | – |
| Agency acquisition costs | 7 | **(18,163)** | (10,881) | **–** | – |
| Agency expenses | 7 | **(12,784)** | (6,698) | **(20,749)** | (7,063) |
| **Agency profit/(loss)** | | **8,242** | 1,129 | **(20,749)** | (7,063) |
| Investment income on shareholders' funds | 6 | **485** | 425 | **24** | 26 |
| Share of net profits of joint ventures | 6 | **603** | 253 | **250** | 30 |
| Management fee revenue | 6 | **–** | – | **39,286** | 38,765 |
| Gains on sale of joint ventures | 6 | **–** | 58 | **–** | 58 |
| Other (expense)/revenue | 6 | **65** | (100) | **65** | – |
| Administration and other expenses | 7 | **(5,822)** | (6,141) | **(4,746)** | (4,675) |
| Borrowing costs | 7 | **–** | – | **(1,764)** | – |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | | **6,154** | 1,089 | **(350)** | (2,776) |
| Income tax expense | 9 | **–** | – | **–** | – |
| **PROFIT FROM CONTINUING OPERATIONS** | | **6,154** | 1,089 | **(350)** | (2,776) |
| **OTHER COMPREHENSIVE INCOME** | | **–** | – | **–** | – |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **6,154** | 1,089 | **(350)** | (2,776) |
| | | **Cents** | Cents | | |
| **Basic earnings per ordinary share** | 12 | **2.72** | 0.48 | | |
| **Diluted earnings per ordinary share** | 12 | **2.71** | 0.48 | | |

The Notes on pages 33 to 80 are an integral part of this consolidated financial report.

# Statements of Financial Position

## AS AT 31 DECEMBER 2013

| | NOTE | CONSOLIDATED 2013 $'000 | CONSOLIDATED 2012 $'000 | COMPANY 2013 $'000 | COMPANY 2012 $'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 13 | **28,589** | 24,504 | **528** | 269 |
| Investments | 14 | **65,592** | 70,000 | **592** | – |
| Premium receivable | 15 | **40,141** | 52,456 | **–** | – |
| Trade and other receivables | 16 | **22,213** | 12,296 | **7,608** | 6,891 |
| Reinsurance and other recoveries receivable | 17 | **54,220** | 72,902 | **–** | – |
| Prepayments | | **902** | 817 | **902** | 820 |
| Deferred levies and charges | | **901** | 7,455 | **–** | – |
| Deferred reinsurance expense | 18 | **12,869** | 46,561 | **–** | – |
| Deferred acquisition costs | 18 | **13,802** | 20,792 | **–** | – |
| Deferred tax assets | 19 | **3,750** | 3,750 | **3,750** | 3,750 |
| Plant and equipment | 20 | **1,817** | 2,180 | **1,817** | 2,180 |
| Investments in joint ventures | 21 | **855** | 603 | **160** | 160 |
| Other financial assets | 22 | **–** | – | **103,718** | 103,718 |
| Intangible assets | 23 | **44,323** | 46,518 | **6,170** | 7,289 |
| **Total Assets** | | **289,974** | 360,834 | **125,245** | 125,077 |
| **Liabilities** | | | | | |
| Trade and other payables | 24 | **27,056** | 27,947 | **15,618** | 12,182 |
| Employee entitlements | 25 | **1,375** | 1,254 | **1,375** | 1,254 |
| Unearned premium liability | 27 | **45,693** | 81,331 | **–** | – |
| Unearned reinsurance commission | 26 | **4,011** | 16,141 | **–** | – |
| Unearned agency commission | 29 | **2,172** | 1,252 | **–** | – |
| Outstanding claims liability | 28 | **110,701** | 137,058 | **–** | – |
| **Total Liabilities** | | **191,008** | 264,983 | **16,993** | 13,436 |
| **Net Assets** | | **98,966** | 95,851 | **108,252** | 111,641 |
| **Equity** | | | | | |
| Issued capital | 30 | **99,539** | 99,539 | **99,539** | 99,539 |
| Treasury shares held in trust | 30 | **(1,388)** | (70) | **(1,388)** | (70) |
| Share-based payments reserve | 31 | **698** | 379 | **698** | 379 |
| (Accumulated losses)/retained earnings | | **117** | (3,997) | **9,403** | 11,793 |
| **Total Equity** | | **98,966** | 95,851 | **108,252** | 111,641 |

The Notes on pages 33 to 80 are an integral part of this consolidated financial report.

# Statements of Changes in Equity

## FOR THE YEAR ENDED 31 DECEMBER 2013

| CONSOLIDATED | ISSUED CAPITAL $'000 | TREASURY SHARES HELD IN TRUST $'000 | SHARE-BASED PAYMENTS RESERVE $'000 | (ACCUMULATED LOSSES)/ RETAINED EARNINGS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2013:** | | | | | |
| Balance at the beginning of the year | **99,539** | **(70)** | **379** | **(3,997)** | **95,851** |
| Total comprehensive income | **–** | **–** | **–** | **6,154** | **6,154** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Dividend paid | **–** | **–** | **–** | **(2,040)** | **(2,040)** |
| Acquisition of shares by the Calliden Employee Share Trust[1] | **–** | **(1,318)** | **–** | **–** | **(1,318)** |
| Long-term incentive expense | **–** | **–** | **319** | **–** | **319** |
| **Balance at the end of the year** | **99,539** | **(1,388)** | **698** | **117** | **98,966** |
| **For the year ended 31 December 2012:** | | | | | |
| Balance at the beginning of the year | 99,539 | (2) | – | (5,086) | 94,451 |
| Total comprehensive income | – | – | – | 1,089 | 1,089 |
| **Transactions with owners in their capacity as owners** | | | | | |
| Dividend paid | – | – | – | – | – |
| Acquisition of shares by the Calliden Employee Share Trust[1] | – | (68) | – | – | (68) |
| Long-term incentive expense | – | – | 379 | – | 379 |
| **Balance at the end of the year** | 99,539 | (70) | 379 | (3,997) | 95,851 |

(1) Paid to purchase shares but has yet to be allocated at reporting date

The Notes on pages 33 to 80 are an integral part of this consolidated financial report.

| COMPANY | ISSUED CAPITAL $'000 | TREASURY SHARES HELD IN TRUST $'000 | SHARE-BASED PAYMENTS RESERVE $'000 | (ACCUMULATED LOSSES)/ RETAINED EARNINGS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2013:** | | | | | |
| Balance at the beginning of the year | **99,539** | **(70)** | **379** | **11,793** | **111,641** |
| Total comprehensive income | **–** | **–** | **–** | **(350)** | **(350)** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Dividend paid | **–** | **–** | **–** | **(2,040)** | **(2,040)** |
| Acquisition of shares by the Calliden Employee Share Trust[1] | **–** | **(1,318)** | **–** | **–** | **(1,318)** |
| Long-term incentive expense | **–** | **–** | **319** | **–** | **319** |
| **Balance at the end of the year** | **99,539** | **(1,388)** | **698** | **9,403** | **108,252** |
| **For the year ended 31 December 2012:** | | | | | |
| Balance at the beginning of the year | 99,539 | (2) | – | 14,569 | 114,106 |
| Total comprehensive income | – | – | – | (2,776) | (2,776) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Dividend paid | – | – | – | – | – |
| Acquisition of shares by the Calliden Employee Share Trust[1] | – | (68) | – | – | (68) |
| Long-term incentive expense | – | – | 379 | – | 379 |
| **Balance at the end of the year** | 99,539 | (70) | 379 | 11,793 | 111,641 |

(1) Paid to purchase shares but has yet to be allocated at reporting date

The Notes on pages 33 to 80 are an integral part of this consolidated financial report.

# Statements of Cash Flows

## FOR THE YEAR ENDED 31 DECEMBER 2013

| | NOTE | CONSOLIDATED 2013 $'000 | CONSOLIDATED 2012 $'000 | COMPANY 2013 $'000 | COMPANY 2012 $'000 |
|---|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | | |
| Premiums received[1] | | **174,946** | 216,379 | **–** | – |
| Reinsurance and other recoveries received | | **70,836** | 94,099 | **–** | – |
| Acquisition costs paid | | **(27,985)** | (44,032) | **–** | – |
| Reinsurance premium paid | | **(35,350)** | (96,145) | **–** | – |
| Claims paid | | **(110,023)** | (150,590) | **–** | – |
| Underwriting expenses paid | | **(26,349)** | (39,631) | **(35,956)** | (37,575) |
| Management fees received | | **–** | – | **39,286** | 38,765 |
| Interest received | | **4,657** | 3,871 | **20** | 30 |
| Interest paid | | **–** | – | **–** | – |
| Dividends received from joint ventures | | **350** | 30 | **350** | 30 |
| Commission income received | | **42,507** | 14,802 | **–** | – |
| Agency fees received | | **7,241** | 4,977 | **–** | – |
| Agency commission expenses paid | | **(17,846)** | (12,385) | **–** | – |
| Premiums paid to underwriters | | **(79,337)** | (19,102) | **–** | – |
| Other operating income/(expenses) | | **63** | – | **109** | (308) |
| **Net cash flows from/(used in) operating activities** | 13 | **3,710** | (27,727) | **3,809** | 942 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Net proceeds from sale/(purchase) of investments | | **4,408** | 10,000 | **(592)** | – |
| Proceeds from sale of plant and equipment | | **–** | 8 | **–** | 8 |
| Outlays for plant and equipment purchased | | **(31)** | – | **(31)** | – |
| Outlays for software development expenditure | | **(644)** | (718) | **(644)** | (718) |
| Proceeds from disposal of joint venture | | **–** | 500 | **–** | 500 |
| **Net cash flows from/(used in) investing activities** | | **3,733** | 9,790 | **(1,267)** | (210) |
| **Cash Flows from Financing Activities** | | | | | |
| Dividend paid | | **(2,040)** | – | **(2,040)** | – |
| Capital injection to subsidiary | | **–** | – | **–** | (4,500) |
| Share redemption | | **–** | – | **–** | – |
| Repayment of loan provided to joint ventures | | **–** | 388 | **–** | – |
| Return of capital from joint ventures | | **–** | – | **–** | – |
| Proceeds of loan from subsidiaries | | **–** | – | **1,075** | 4,036 |
| Repayment of borrowings | | **–** | – | **–** | – |
| Outlays for purchase of treasury shares | | **(1,318)** | (68) | **(1,318)** | (68) |
| **Net cash flows from/(used in) financing activities** | | **(3,358)** | 320 | **(2,283)** | (532) |
| **Net movement in cash and cash equivalents** | | **4,085** | (17,617) | **259** | 200 |
| Cash and cash equivalents at the beginning of the year | | **24,504** | 42,121 | **269** | 69 |
| **Cash and cash equivalents at the end of the year** | 13 | **28,589** | 24,504 | **528** | 269 |

(1) Includes premiums received on behalf of GLA, Lloyd's and SICorp.

The Notes on pages 33 to 80 are an integral part of this consolidated financial report.

# Notes to the Consolidated Financial Report

FOR THE YEAR ENDED 31 DECEMBER 2013

## NOTE 1. REPORTING ENTITY

Calliden Group Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company as at and for the year ended 31 December 2013 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in the underwriting of general insurance and acting as an agent on behalf of external underwriters.

## NOTE 2. BASIS OF PREPARATION

### 2.1. Statement of Compliance

This consolidated financial report is a general purpose financial report which has been prepared in accordance Australian Accounting Standards ("AAS") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. This consolidated financial report complies with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

This consolidated financial report was authorised for issue by the Board of Directors on 27 February 2014.

### 2.2. Basis of Measurement

This consolidated financial report has been prepared on an historical cost basis.

### 2.3. Functional and Presentation Currency

This consolidated financial report is presented in Australian dollars, which is the Group's functional currency.

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, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

### 2.4. Uses of Estimates and Judgements

The preparation of this consolidated financial report in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial report is included in the following notes:

#### (I) INSURANCE CONTRACTS RELATED:

Note 17 – Reinsurance and other recoveries on outstanding claims;

Note 27.2 – Liability Adequacy Test ("LAT"); and

Note 28 – Outstanding claims liability.

There are other amounts relating to insurance contracts that are based on allocation methodologies supported by assumptions (e.g. deferred acquisition costs). The estimates relate to past events, do not incorporate forward looking considerations, and generally do not change from year to year.

#### (II) OTHER:

Note 9 – Income tax and related assets and liabilities;

Note 23 – Intangible assets and goodwill; and

Note 31 – Share-based payments.

### 2.5. Changes in Accounting Policies

There were a number of Australian Accounting Standards and Interpretations applicable for the current reporting period. Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of the Group.

## NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in this consolidated financial report, and have been applied consistently by Group entities.

### 3.1. Basis of Consolidation

#### 3.1.1. BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

# Notes to the Consolidated Financial Report

CONTINUED

## NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

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When the difference is negative, a discount is recognised immediately in profit and loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

### 3.2. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial reports of subsidiaries are included in the consolidated financial statement from the date that control commences until the date that control ceases.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus arising on the loss of control is recognised in the Statements of Comprehensive Income.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### 3.2.1. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (EQUITY-ACCOUNTED INVESTEES)

Investments in jointly controlled entities are accounted for using the equity method and initially recognised at cost. The cost of the investment includes transaction costs.

This consolidated financial report includes the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence of joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### 3.2.2. TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses arising from the intra-group transactions, are eliminated in preparing the consolidated financial report. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**Significant Accounting Policies related to General Insurance Contracts**

All of the general insurance products on offer meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder).

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 that in the case of a non-financial variable the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

### 3.3. Premium Revenue

Premium revenue comprises amounts charged to policyholders for insurance contracts. Premium includes amounts collected for levies and charges for which the amount to be paid by the insurer does not depend on the amounts collected, such as for fire services levies in Australia, but excludes stamp duties and taxes collected on behalf of third parties, including the Goods and Services Tax ("GST") in Australia. Premium is recognised as earned from the date of attachment of risk over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time.

Premium for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals. The unearned portion of premium is recognised as an unearned premium liability in the Statements of Financial Position.

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented in the Statements of Financial Position net of any provision for impairment.

### 3.4. Outwards Reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of reinsurance premium expense is treated as a prepayment and presented as deferred reinsurance expense in the Statements of Financial Position at the reporting date.

### 3.5. Claims

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on the advice of/valuations performed by, or under the direction of, the Appointed Actuary. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported ("IBNER"), claims incurred but not reported ("IBNR") and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk-free rate.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in the Statements of Comprehensive Income in the reporting period in which the estimates are changed.

### 3.6. Reinsurance and Other Recoveries

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income. Reinsurance and other recoveries receivable include the net GST receivable on outstanding claims and recoveries. Reinsurance recoveries on paid claims are presented as part of trade and other receivables net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately in the Statements of Financial Position.

### 3.7. Acquisition Costs

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative costs.

Such costs are capitalised where they relate to the acquisition of new business or the renewal of existing business, are presented as deferred acquisition costs and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised acquisition costs relating to unearned premium.

### 3.8. 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 settlement of future claims arising from occurrences after balance date 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 balance sheet as an unexpired risk liability.

### 3.9. Levies and Charges

Levies and charges, for which the amount paid does not depend on the amounts collected, as is the case with fire services levies in Australia, are expensed on the same basis as the recognition of premium revenue. The portion relating to unearned premium is treated as a prepayment and presented as deferred levies and charges in the Statements of Financial Position. A liability for levies and charges payable is recognised on business written to the reporting date. Other levies and charges that are simply collected on behalf of third parties are not recognised as income or expense in profit or loss.

**Significant Accounting Policies Applicable to Other Activities**

### 3.10. Agency Fees and Other Income

Agency fees and other income are recognised on an accruals basis and there is no deferral as there are no future obligations.

### 3.11. Agency Commission Revenue

Commission revenue is recognised in the Statements of Comprehensive Income on an accrual basis in accordance with each underwriting agency agreement. The commission is recognised to the extent that there is no future obligation. Where there is a future obligation a portion is deferred over the expected service period.

# Notes to the Consolidated Financial Report

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## NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

### 3.12. Leases

#### 3.12.1. LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### 3.13. Taxation

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

#### 3.13.1. CURRENT TAX

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

#### 3.13.2. DEFERRED TAX

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### 3.13.3. TAX CONSOLIDATION

Calliden and its Australian resident wholly owned subsidiaries adopted the tax consolidation legislation with effect from 1 January 2004 and are therefore taxed as a single entity from that date. Calliden Group Limited is the head entity within the tax-consolidated group.

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts receivable from / (payable to) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by Calliden Group Limited as an equity contribution or distribution.

All entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly owned entities in the case of a default by the head entity. The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate the Company for any current tax payable assumed.

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 subsidiaries in the tax consolidated group.

#### 3.13.4. GOODS AND SERVICES TAX ("GST")

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables are stated inclusive of GST. Cash flows are included in the Statements of Cash Flows on a gross basis.

## 3.14. Investments

Investments comprise assets held to back insurance liabilities (also referred to as technical reserves) and assets that represent shareholders' funds. All investments are managed and performance evaluated on a fair value basis for both external and internal reporting purposes.

All investments are designated as fair value through the Statements of Comprehensive Income upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently re-measured to fair value at each reporting date. Changes in the fair value 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.

Transaction costs for purchases of investments are expensed as incurred. 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 bid price quotations. For securities traded in a market that is not active, valuation techniques are used based on market observable inputs. In a limited number of instances, valuation techniques are based on non-market observable inputs.

Investment revenue is brought to account on an accruals basis.

## 3.15. Investment in Subsidiaries

Investment in subsidiaries is initially recognised at cost being fair value of consideration provided and is subsequently carried at the lower of cost and recoverable amount by the Parent entity. Costs incurred in investigating and evaluating an acquisition up to the point of formal commitment to an acquisition are expensed as incurred. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in the Statements of Comprehensive Income which can subsequently be reversed in certain conditions. Where an additional interest is purchased in an existing subsidiary, the acquisition is treated as a transaction between owners and has no impact on the Statements of Comprehensive Income. Income from these investments, comprising dividends and trust distributions, is brought to account on an accruals basis.

Dividend revenue is accrued on the date the dividends are declared.

## 3.16. Trade and Other Receivables

Trade and other receivables are stated at the amounts to be received in the future, less any impairment losses. The amounts are discounted where the effect of the time value of money is material. The recoverability of debts is assessed on an on-going basis and provision for impairment is made based on objective evidence and having regard to past default experience. The impairment charge is recognised in the Statements of Comprehensive Income. Debts which are known to be uncollectible are written off.

## 3.17. Property and Equipment

### 3.17.1. RECOGNITION AND MEASUREMENT

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Statements of Comprehensive Income.

### 3.17.2. SUBSEQUENT COSTS

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

### 3.17.3. DEPRECIATION

Items of property and equipment are depreciated on a straight-line basis in the Statements of Comprehensive Income over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years of significant terms of property and equipment are as follows:

| | |
|---|---|
| Leasehold improvements, furniture and fittings | 13 1/3 years |
| Office equipment | 5 – 10 years |
| Computing assets – software & hardware | 3 – 5 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 3. SIGNIFICANT ACCOUNTING POLICIES
CONTINUED

### 3.18. Intangible Assets

#### 3.18.1. ACQUIRED INTANGIBLE ASSETS
Acquired intangible assets are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided and, for assets acquired separately, incidental costs directly attributable to the acquisition. Intangible assets with finite useful lives are amortised on a straight line basis (unless the pattern of usage of the benefits is significantly different) over the estimated useful lives of the assets being the period in which the related benefits are expected to be realised (shorter of legal duration and expected economic life). Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively.

The carrying amount of intangible assets with finite useful lives is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset or its Cash Generating Units ("CGUs") to the carrying value. Where the recoverable amount is determined by the value-in-use, the projected net cash flows are discounted using a pre-tax discount rate. For assets with indefinite useful lives, the recoverability of the carrying value of the assets is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired.

An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount. Impairment charges are recognised in the Statements of Comprehensive Income and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

#### 3.18.2. SYSTEMS DEVELOPMENT COSTS
Software or systems development expenditure that meets the criteria for recognition as an intangible asset is capitalised in the Statements of Financial Position and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. Smaller projects and other costs are treated as maintenance costs, being an on-going part of maintaining effective computer systems, and are expensed as incurred.

All such capitalised costs are deemed to have an expected useful life of five years unless it can be clearly demonstrated for a specific project that the majority of the net benefits are to be generated over a longer period. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project. The recoverability of the carrying amount of the asset is assessed in the same manner as for acquired intangible assets with finite useful lives.

### 3.19. Goodwill
Goodwill is initially measured as the excess of the purchase consideration over the fair value of the net identifiable assets and contingent liabilities acquired and subsequently presented net of any impairment charges. Goodwill arising on acquisitions prior to 1 July 2004 has been carried forward on the basis of its deemed cost being the net carrying amount as at that date.

For the purpose of impairment testing, goodwill is allocated to CGUs. CGUs are determined principally based on how goodwill is monitored by management. The carrying value of goodwill is tested for impairment at each reporting date.

Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in the Statements of Comprehensive Income and cannot subsequently be reversed. The recoverable amount of goodwill is determined by the present value of the estimated future cash flows by using a pre-tax discount rate that reflects current market assessment of the risks specific to the CGUs.

### 3.20. Trade and Other Payables
Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received. The amounts are discounted where the effect of the time value of money is material.

### 3.21. Employee Benefits

#### 3.21.1. SHORT-TERM EMPLOYEE BENEFITS
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### 3.21.2. SHARE-BASED PAYMENT TRANSACTIONS
The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognised as employee benefit expenses in profit or loss.

#### 3.21.3. DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

#### 3.21.4. OTHER LONG-TERM EMPLOYEE BENEFITS

The Group's net obligation in respect of long-term employee benefits other than defined benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated or government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

#### 3.21.5. TERMINATION BENEFITS

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

### 3.22. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

### 3.23. Provision for Dividends

Provision for dividends is made in respect of ordinary shares where the dividends are declared on or before the reporting date but have not yet been distributed at that date.

### 3.24. Earnings Per Share

#### 3.24.1. BASIC EARNINGS PER SHARE

Basic earnings per share is determined by dividing the profit or loss attributable to shareholders of the Parent by the weighted average number of shares of the Parent on issue during the reporting period, net of treasury shares held in trust.

### 3.25. Diluted Earnings Per Share

Diluted earnings per share is determined by dividing the profit or loss attributable to equity holders of the Parent used in the calculation of basic earnings per share, adjusted for relevant costs associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

### 3.26. Share Capital

#### 3.26.1. ORDINARY SHARES

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### 3.27. Segment Reporting

Segment results that are reported to the Group's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

### 3.28. Restatement of Comparatives

Certain comparative amounts have been reclassified to conform to current year presentation in this financial report. This includes the following notes:

**Statement of Cash Flows**

Note 5 – Group Risk Management

Note 7 – Expenses

Note 9 – Income Tax

Note 10 – Segment Reporting

Note 27 – Unearned Premium Liability

These reclassifications have had nil impact on the Statement of Comprehensive Income.

# Notes to the Consolidated Financial Report

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## NOTE 4. STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013 and have not been applied in preparing this consolidated financial report. None of these is expected to have a significant effect on the consolidated financial report of the Group. Those which may be relevant to the Company are set below. The Company does not plan to adopt these standards early.

| TITLE | DESCRIPTION | OPERATIVE DATE | NOTE |
|---|---|---|---|
| AASB 9 | Financial instruments | 1 January 2015 | A |
| AASB 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 | 1 January 2015 | C |
| AASB 2010-7 | Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) | 1 January 2015 | C |
| AASB 2011-4 | Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosures Requirements | 1 January 2014 | B |
| AASB 2013-3 | Amendments to Australian Accounting Standards arising from AASB 136 - recoverable amount disclosures for non-financial assets | 1 January 2014 | A |
| AASB 2013-5 | Amendments to Australian Accounting Standards arising from AASB 136 - recoverable amount disclosures for non-financial assets | 1 January 2014 | A |

A. These changes are not expected to have a significant, if any, financial impact.

B. These changes will only impact disclosures when preparing the annual financial report.

C. This standard gives effect to consequential changes arising from the issuance of AASB 9.
This standard is required to be adopted in the same reporting period when AASB 9 is adopted.

## NOTE 5. GROUP RISK MANAGEMENT

### Risk Management Framework (“RMF”)

The Group’s RMF is embedded at the Board level and in each of the functional areas. This structure recognises that effective risk management is critical in order for the Group to meet its strategic and operational goals.

The RMF, based on ISO 31000, provides reasonable assurance that the material risks in the business are being prudently and soundly managed. The Board understands that all business activity entails varying degrees of risk. The focus of the RMF is to provide a framework to assess the exposure and impact of the risk and then appropriately control or avoid it, in accordance with the Group’s defined risk appetite.

The RMF is underpinned by the Risk Management Strategy (“RMS”) and the Reinsurance Management Strategy (“REMS”), both of which are reviewed annually by the Board. Once approved by the Board, both documents are submitted to the Australian Prudential Regulation Authority (“APRA”).

The RMF details the layers of managerial responsibility, risk management related policies and the key processes used to identify, assess, monitor, report on and mitigate all material risks likely to impact on the operations of the Group. The Board has delegated its authority for the oversight of the RMF to the Risk Management Committee. In turn the Risk Management Committee works closely with the dedicated risk management function to ensure that the RMF remains appropriate and effective. The Risk Management Committee is charged with overall accountability for the RMF and risk management capability.

Additionally, the Calliden Executive Team (“CET”) provides executive oversight and direction setting across the Group, taking risk considerations into account. A member of the risk management function attends business unit meetings on a regular basis, and the findings are used in the quarterly report to the Risk Management Committee.

The key risks addressed by the RMF are discussed below:

### 5.1. Insurance Risk

Insurance risk is the risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management and / or reinsurance management.

#### 5.1.1. UNDERWRITING RISK

For all policies underwritten by the Group, the Group retains ultimate responsibility for:

- acceptance criteria and process;
- pricing;
- product wordings;
- portfolio management; and
- monitoring of underwriting performance.

The Group uses Authorised Representatives and brokers acting under a binder as an important part of its distribution model. The Group does not permit these parties to apply acceptance criteria or make decisions as to pricing. Group underwriting guidelines include authorities, limits, risk assessment and selection criteria.

Underwriting procedures are reviewed regularly, particularly when changes occur in the internal or external environment. Compliance with the procedures is subject to underwriting audits, peer reviews, and internal audit.

5.1.1.1. Personal Lines

Personal Lines is characterised by homogeneous products. The Group is generally a price taker and therefore reactionary to industry price movements. In addition, these lines are subject to the risk of environmental and economic disasters which will have a negative effect on claims. These risks are managed via active portfolio and aggregate management.

5.1.1.2. Commercial Lines

Builders Warranty products are a statutory class of insurance in most jurisdictions, and this class is heavily influenced by the regulators in each state. The marketability of this product is directly tied with the market for new homes and renovations, and as such is greatly influenced by economic factors.

Casualty remains a small but profitable class of business for Calliden. Risks in this class concern ensuring Calliden restrains its exposures within the gross acceptance limits of the relevant reinsurance treaties, and reducing exposure to higher hazards.

The Group agency division undertakes underwriting services for a number of classes via electronic and manual mechanisms. The Group's risks in this space concern the potential for reduced commission based on adverse loss ratio performance.

Calliden issues Farm portfolio policies on behalf of Great Lakes Australia. As a result, the long-term decline of the farming sector in Australia as a result of environmental factors is a risk to Calliden's long term revenue stream, though not to its insurance result. While this risk cannot be immediately influenced by Calliden, normal portfolio review procedures highlight trends and allow Calliden to make reasoned decisions about the sustainability of this portfolio.

### 5.1.2. INSURANCE RISK MITIGATION

The principal risk associated with any insurance contract is the possibility of the insured event occurring, and the uncertainty of the amount of the resulting claim. To mitigate the impact of insurance risk the Group has the following key policies and procedures in place:

5.1.2.1. Selection and Pricing of Risk

Pricing risk relates to the risk of assigning an insurance premium at a price too low to cover all risks associated with the type of cover sought. The Group has in place the following controls to manage this risk:

- Underwriting authority is delegated to experienced underwriters following a detailed analysis of each class of business being manufactured by the Group;
- Implementation and annual review of underwriting guidelines and criteria covering the classes of product the Group is authorised to manufacture;
- Maximum limits are set for the acceptance of risk on an individual contact basis, for classes of business and across the portfolio with particular attention paid to geographic exposure, industry segment and the Group risk appetite;
- Management information systems are used to provide reliable and accurate data about the various risks being underwritten;
- In-house pricing models are formulated and monitored by the actuarial team using historical pricing and statistical data, as well as claims analysis for each portfolio. Economic data and industry information is gathered to ensure underwriters are aware of current developments and prevailing conditions in the markets being underwritten, and the expected future trends facing those markets;
- Pricing for new schemes is thoroughly reviewed during the inception year, then regularly thereafter; and
- Portfolio reporting indicators such as loss ratio development highlight specific portfolios that require pricing review.

5.1.2.2. Claims Risk

Full details of the Group's claims approach are contained within the Claims Manual. These procedures are periodically reviewed by management. Compliance with the procedures is subject to regular internal audit.

Calliden seeks to ensure the adequacy of its reserving and to ensure effective claims management through the use of the following controls:

- Experienced claims officers are used to assess claims and determine case strategies. Where necessary, they are assisted by external subject-matter experts. It is Group policy to respond to and resolve genuine claims as quickly as possible, in accordance with the provisions of the policy;
- Claims reserves are established using actuarial valuations and are informed by local knowledge from actuaries, underwriters and specialist advisors. Actuaries provide an independent assessment of the provision, and this is reviewed by the Appointed Actuary at least semi-annually; and
- The risk of the liability being inadequate is monitored by way of half-yearly actuarial valuation and mitigated by the inclusion of a risk margin to increase the probability of adequacy of the reserves to the greater of 75%, and the central estimate plus one half of a standard deviation above the mean, as required by APRA's GPS 320 *Actuarial and Related Matters*.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 5. GROUP RISK MANAGEMENT
CONTINUED

5.1.2.3. Product Risk

The Board has delegated product development to the Group Executive, Services and the CEO. A process has been put into place to ensure appropriate underwriting, legal and reinsurance reviews and approvals are undertaken prior to release of a product.

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

5.1.2.4. Concentration Risk

Concentration exposure is monitored on a regular basis, 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.

Concentration risk is particularly relevant on the occurrence of a catastrophic event. Typically these are weather related but can also be man-made such as industrial accidents and infrastructure collapse.

The nature and level of catastrophes in any one year cannot be accurately anticipated but Calliden uses predictive modelling in conjunction with its reinsurance broker to manage its exposure.

5.1.2.5. Reinsurance Risk

Management is required to develop, implement and maintain an appropriate REMS to safeguard the on-going viability of the Group, including its capacity to meet obligations to policyholders. The REMS details the Maximum Event Retention ("MER") exposures by class and for the Group as a whole. These have been approved by the Board.

The total programme is designed to maintain the Group's ability to satisfy the capital adequacy requirements of Prudential Standard GPS 110 *Capital Adequacy*. This approach is detailed in the REMS.

Reinsurance (including Quota Share and Excess of Loss) is used to limit the Group's exposure to individual claims and catastrophes. The Group risk appetite guides reinsurance purchases.

Some of the reinsurers used are domiciled outside of the jurisdictions in which the Group operates, and so there is the potential for additional risk such as country risk and transfer risk.

5.1.2.6. Reinsurance Counterparty Risk

The Group reinsurance programme is spread across major reinsurance markets and reinsurers to avoid over-dependency upon any one market and to generate competition.

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 on-going basis using rating information available in the public domain or from reinsurance brokers.

It is Group policy to only deal with reinsurers with credit ratings of at least A- as determined by Standard & Poor's ("S&P"), unless approved by the Board. 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.

Reinsurance protection with strongly rated reinsurers benefits the Group in its regulatory capital requirements. Risk charges vary with the grade of reinsurers, such that higher credit quality reinsurance counterparties incur lower APRA regulatory capital charges.

In order to reduce concentrations of credit risk, Calliden seeks to limit exposure to any single reinsurer, or Group of related reinsurers, when purchasing reinsurance protection. Calliden uses collateral arrangements or letters of credit to guarantee the recoverability of the assets from non-APRA-authorised reinsurers. The collateral is required when there is a recoverable outstanding at the second balance date of the treaty after the date the loss occurred.

The Group transacts with a large number of reinsurers in various regions without any individual counterparty having a material outstanding balance other than the trading balance with Munich Re as a quota share reinsurer. Calliden's relationship with Munich Re results in an exposure for concentration within its reinsurance recoveries and protection. To manage this specific concentration risk, Calliden has a policy to limit Munich Re participation elsewhere on the treaty Excess of Loss program. Furthermore, the credit position of Munich Re is actively monitored, as are the claims settlements to ensure consistency with the provisions set out under the quota share treaty. The Board considers that the benefits generated from the strategic partnership with Munich Re, which include significant and flexible capital support, reinsurance expertise and business support, warrants the consequent concentration risk.

The following table provides information regarding the credit risk exposure of the Group to the reinsurance recoveries receivable on outstanding claims balances, based on S&P's counterparty credit ratings.

These recoveries are not due until the original gross claim is paid by the Group to the insured, but the credit rating of the reinsurers is extremely important both from a balance sheet strength position and from an APRA capital charge perspective.

| REINSURANCE RECOVERIES | | | | CONSOLIDATED |
|---|---|---|---|---|
| | | **2013** | | 2012 |
| **COUNTERPARTY CREDIT RATING** | **$'000** | **%** | $'000 | % |
| **AAA** | **–** | **–** | 100 | – |
| **AA** | **49,871** | **92** | 66,894 | 97 |
| **A** | **981** | **2** | 2,305 | 3 |
| **Non-rated** | **5** | **6** | 70 | – |
| **Total** | **50,857** | **100** | 69,369 | 100 |

No separate provision for impairment has been recognised for the reinsurance recoveries on outstanding claims balances.

## 5.2. Investment Risk

Details of the various investment risks relevant to the Group and risk mitigation measures are contained within the Investment Policy, which governs Group investment decisions.

### 5.2.1. LIQUIDITY RISK

To ensure payments are made when they fall due, investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations; investment funds can be realised to meet significant claims payment obligations; and in the event of a catastrophe, immediate cash access is available under the terms of reinsurance arrangements.

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 based on the remaining term to payment at the reporting date.

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.

| | | | | CONSOLIDATED |
|---|---|---|---|---|
| | **NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY** | | **CASH AND INVESTMENTS[1]** | |
| **MATURITY** | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| **Within 1 year or less** | **23,686** | 20,273 | **35,616** | 29,131 |
| **Within 1 to 2 years** | **11,550** | 15,902 | **20,000** | 10,000 |
| **Within 2 to 3 years** | **7,997** | 10,259 | **10,000** | 15,000 |
| **Within 3 to 4 years** | **5,394** | 7,178 | **25,000** | 10,000 |
| **Within 4 to 5 years** | **3,559** | 4,491 | **592** | 25,000 |
| **Over 5 years** | **4,295** | 6,053 | **–** | – |
| **Total** | **56,481** | 64,156 | **91,208** | 89,131 |

(1) Includes $25.6m in non-trust cash at call as at 31 December 2013 (2012: $19.1m)

#### 5.2.1.1. Market (Price) Risk

Market risk is the risk of loss arising from unfavourable movements in interest rates, equity prices or foreign exchange rates. The Group's interest rate exposure is limited to the on-going valuation of insurance liabilities which are discounted and the risk that new or renewed investments need to be made at different interest rates. The Group has no exposure to investment price or currency risks.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 5. GROUP RISK MANAGEMENT
CONTINUED

5.2.1.2. Counterparty Risk

The investment exposure to any individual entity is limited by entity-specific and Group exposure limits. The following table provides information regarding the credit risk exposure of the Group to the investments based on S&P's counterparty credit ratings.

| INVESTMENTS[1] | | | | CONSOLIDATED |
|---|---|---|---|---|
| | | **2013** | | 2012 |
| **Counterparty credit rating** | **$'000** | **%** | $'000 | % |
| **AA** | **20,592** | **31** | 30,000 | 43 |
| **A** | **40,000** | **61** | 35,000 | 50 |
| **BBB** | **5,000** | **8** | 5,000 | 7 |
| **Total** | **65,592** | **100** | 70,000 | 100 |

(1) Additionally, the Group held $28.6m in cash at call which was rated AA as at 31 December 2013 (2012: $24.5m).

5.2.1.3. Derivatives

All derivative transactions must be approved in advance by the Board, or must comply with the guidelines stipulated in the Investment Policy and Strategy. The Group had no exposure to derivatives in 2013 (2012: nil).

### 5.2.2. ASSET QUALITY

The asset base is protected through compliance with the Investment Policy and Investment Strategy, the tight control of credit and effective collection practices; and the use of insurance and risk management strategies for physical assets.

### 5.2.3. CREDIT RISK

The Group's credit risk arises predominantly from investments, premium receivables and reinsurance recoveries.

Non or short-payment of premium results in the cancellation of the insurance contract with the policyholder, eliminating both the credit risk and insurance risk for the unpaid balance.

| CONSOLIDATED | NOT YET DUE $'000 | LESS THAN 1 YEAR $'000 | GREATER THAN 1 YEAR $'000 | PAST DUE AND IMPAIRED $'000 | TOTAL $'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| **Premium receivable** | **19,274** | **1,906** | **–** | **100** | **21,280** |
| **Provision for impairment** | **–** | **–** | **–** | **(100)** | **(100)** |
| **Net balance** | **19,274** | **1,906** | **–** | **–** | **21,180** |
| **2012** | | | | | |
| Premium receivable | 20,647 | 16,154 | 10 | 100 | 36,911 |
| Provision for impairment | – | – | – | (100) | (100) |
| Net balance | 20,647 | 16,154 | 10 | – | 36,811 |

Investments are held in accordance with the credit framework set out in the Investment Policy.

## 5.3. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In addition to financial loss, a failure in controls can result in reputational damage, regulatory supervision and personal injury.

Operational risks are identified and assessed on an on-going basis by management and staff. The internal audit function also monitors processes and procedures surrounding operational risk. The following controls are used to manage operational loss:

- Key risks to the Group are identified, assessed and treated;
- Risks within Calliden are assessed against the Group risk appetite and active management of any excess risk is assigned to a responsible person, together with the development of a time bound action plan;
- Staff with industry expertise and/or specialist qualifications are employed and charged with responsibility for implementing the RMF within their functional areas; and
- Delegated authorities are based on expertise and proven performance with compliance closely monitored.

### 5.3.1. OUTSOURCING RISK

Outsourcing is an important part of the Group business model and recognises that the reliance on outsourcing agreements to achieve business objectives gives rise to substantial risks. An Outsourcing Policy has been developed which complies with APRA CPS 231 *Outsourcing*.

All business units are required to comply with the Outsourcing Policy when outsourcing any material business activities to commercial service providers and insurance intermediaries. The policy specifies the minimum requirements for all outsourcing agreements. A requirement is that all material outsourced service providers also have in place an adequate risk management framework of their own.

The Board and management recognise that material outsourced business activities remain the responsibility of the Board. The Group's primary outsourced service provider is Innovation Group, a global provider of business process services and software solutions. Innovation Group plc predominantly manage personal lines claims on behalf of the Group.

### 5.3.2. BUSINESS CONTINUITY RISK

The Board acknowledges that critical events may occur that are beyond the control of the Group, but which may potentially have catastrophic effects on its ability to reach business objectives.

The Group manages these risks through a combination of strategies. Adequate insurance is undertaken to reduce financial loss and a system of crisis identification and management has been adopted.

Procedures are in place to determine the most appropriate course of action in response to a potential crisis event. The Business Continuity Plan describes how the Group aims to ensure the on-going operation of its critical business functions and the Disaster Recovery Plan describes how the Group will ensure the recovery of business operations following a crisis event. This is tested annually.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 6. REVENUE

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| **(i) General insurance revenue** | | | | |
| Gross written premium | **95,739** | 172,000 | **–** | – |
| Movement in unearned premium liability | **35,638** | 46,847 | **–** | – |
| Gross premium revenue | **131,377** | 218,847 | **–** | – |
| Reinsurance and other recoveries revenue | **44,265** | 83,414 | **–** | – |
| Reinsurance commission revenue | **20,306** | 44,041 | **–** | – |
| Fee revenue | **–** | 1,357 | **–** | – |
| **Total general insurance revenue** | **195,948** | 347,659 | **–** | – |
| **(ii) Agency commission and fee revenue** | | | | |
| Agency commission revenue | **32,868** | 19,689 | **–** | – |
| Movement in unearned agency commission | **(920)** | (1,252) | **–** | – |
| Net agency commission revenue | **31,948** | 18,437 | **–** | – |
| Agency fee revenue | **7,241** | 271 | **–** | – |
| **Total agency commission and fee revenue** | **39,189** | 18,708 | **–** | – |
| **(iii) Investment income** | | | | |
| Interest revenue | **4,489** | 5,672 | **24** | 26 |
| Total investment revenue | **4,489** | 5,672 | **24** | 26 |
| Realised net losses on investments | **–** | – | **–** | – |
| **Total investment income** | **4,489** | 5,672 | **24** | 26 |
| **(iv) Share of net profit of joint ventures** | **603** | 253 | **250** | 30 |
| **Total share of net profit of joint ventures** | **603** | 253 | **250** | 30 |
| **(v) Other (expense) / revenue** | | | | |
| Management fee revenue | **–** | – | **39,286** | 38,765 |
| Gains on sale of joint ventures | **–** | 58 | **–** | 58 |
| Other (expense) / revenue | **65** | (100) | **65** | – |
| **Total other (expense) / revenue** | **65** | (42) | **39,351** | 38,823 |
| **Total revenue** | **240,294** | 372,250 | **39,625** | 38,879 |

## NOTE 7. EXPENSES

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| **Profit/(loss) before income tax includes the following specific expenses:** | | | | |
| Gross claims expense | **83,588** | 123,375 | **–** | – |
| Reinsurance premium expense | **65,329** | 139,539 | **–** | – |
| Acquisition costs – insurance | **37,793** | 55,948 | **–** | – |
| Acquisition costs – agency | **18,163** | 10,881 | **–** | – |
| Other underwriting expenses | **2,343** | 9,658 | **12,716** | 29,917 |
| Levies and charges | **8,318** | 18,921 | **–** | – |
| Borrowing costs | **–** | – | **1,764** | – |
| **Administration and other expenses[1]:** | | | | |
| Defined contribution superannuation expense | **1,552** | 1,519 | **1,552** | 1,519 |
| Depreciation expense | **394** | 277 | **394** | 277 |
| Amortisation expense – systems development costs | **2,800** | 2,879 | **2,800** | 2,879 |
| Amortisation expense – customer relationships | **1,076** | 1,466 | **–** | – |
| Other agency expenses | **12,784** | 6,698 | **20,749** | 7,063 |
| **Total expenses** | **234,140** | 371,161 | **39,975** | 41,655 |

(1) 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.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 8. NET CLAIMS EXPENSE

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous financial periods.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **CURRENT YEAR $'000** | **PRIOR YEARS $'000** | **TOTAL $'000** | CURRENT YEAR $'000 | PRIOR YEARS $'000 | TOTAL $'000 |
| **Consolidated** | | | | | | |
| Gross claims incurred – undiscounted | **78,413** | **5,431** | **83,844** | 124,279 | (2,759) | 121,520 |
| Impact of discounting | **(1,255)** | **999** | **(256)** | (2,108) | 3,963 | 1,855 |
| Gross claims incurred – discounted | **77,158** | **6,430** | **83,588** | 122,171 | 1,204 | 123,375 |
| Reinsurance and other recoveries – undiscounted | **(39,316)** | **(5,009)** | **(44,325)** | (83,487) | 831 | (82,656) |
| Impact of discounting | **601** | **(541)** | **60** | 1,393 | (2,151) | (758) |
| Reinsurance and other recoveries – discounted | **(38,715)** | **(5,550)** | **(44,265)** | (82,094) | (1,320) | (83,414) |
| **Net claims expense** | **38,443** | **880** | **39,323** | 40,077 | (116) | 39,961 |

# NOTE 9. INCOME TAX

## 9.1. Composition

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Current tax expense | **–** | – | **–** | – |
| Deferred tax expense | **–** | – | **–** | – |
| **Income tax expense** | **–** | – | **–** | – |

## 9.2. Income Tax Reconciliation

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |

The income tax for the year differs from the amount calculated on the profit/(loss) before income tax. The differences are reconciled as follows:

| | | | | |
|---|---|---|---|---|
| Profit/(loss) for the year before income tax | **6,154** | 1,089 | **(350)** | (2,776) |
| Income tax calculated at 30% (2012: 30%) | **1,846** | 327 | **(105)** | (833) |
| Amounts which are not deductible/(taxable) in calculating taxable income: | | | | |
| – Net non-deductible/assessable items | **247** | 596 | **104** | 191 |
| – Tax losses (recouped)/not recognised as a deferred tax asset | **(2,093)** | (923) | **1** | 642 |
| **Income tax expense applicable to current year** | **–** | – | **–** | – |

## 9.3. Deferred Tax Asset Recognised

A deferred tax asset of $3.8m (2012: $3.8m) has been recognised as carried forward tax losses (refer to Note 19). This represents the balance that the Directors believe is probable of being recovered.

## 9.4. Tax Losses

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Unused tax losses for which no deferred tax asset has been recognised | **238,419** | 241,885 | **238,419** | 241,885 |
| **Potential tax benefit @ 30%** | **71,526** | 72,565 | **71,526** | 72,565 |

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.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 10. SEGMENT REPORTING

Operating segments are identified by the Consolidated entity based on separate discrete internal financial information which is reported and reviewed on a monthly basis by the Chief Executive Officer and his immediate executive team, representing Calliden's Chief Operating Decision Maker ("CODM") in assessing performance and in determining the allocation of resources.

### 10.1. Operating Segments

The Consolidated entity operates in the Australian general insurance intermediated market which includes brokers and Authorised Representatives, small businesses and householders. The financial results are generated from three different segments - being Underwriting, Agency and Corporate.

The operating segments are identified by management based on the activity undertaken, being:

- The underwriting of general insurance and the investment of policyholders' funds;
- Acting as an agent for external capital providers; and
- The investment of shareholders' funds and corporate activities including investing in insurance related joint ventures.

The reportable segments are based on aggregated operating segments as these are the source of the Consolidated entity's major risks and have the most effect on the rates of return.

The reportable segments comprise the following:

#### 10.1.1. UNDERWRITING

This segment comprises underwriting general insurance products through our APRA authorised insurer CIL being sold through a network of brokers, agents, Authorised Representatives and distribution partners.

#### 10.1.2. AGENCY

This segment comprises CIL and CAS acting as MGA for a number of portfolios of general insurance business. These include acting as an agent on behalf of Lloyd's, GLA, the NSW Government and ACE in respect of the underwriting of high value homes, Business Package and Farm Package, Builders Warranty and Accident & Health respectively. From 1 January 2014, ACE replaced Lloyd's as the underwriter of Calliden's high value home portfolio.

#### 10.1.3. CORPORATE AND OTHER

This segment comprises other activities, including corporate services including investment in two joint ventures and investment of shareholders' funds.

While profit and loss information is reviewed by the CODM at both an operating segment and entity level, assets and liabilities information are reviewed by the CODM at business entity level.

Segment results are measured on a basis consistent with how they are reported to the CODM:

- Revenues and expenses occurring between segments are subject to contractual agreements between the legal entities comprising each segment.
- Inter-segment transactions which are eliminated on consolidation are reported on a gross basis except for operating expenses incurred by the Corporate segment on behalf of the other two segments. These are recharged on a cost-recovery basis and are presented on a net basis in the segments.
- Depreciation and amortisation expense relating to the Corporate segment's property, plant and equipment and non-business combinations acquired intangible assets are allocated to other segments based on their utilisation. This is recognised in the Operating expenses category of the Underwriting and Agency segments, with a corresponding reduction in the Administration and other expenses category of the Corporate segment.
- Goodwill is allocated to each operating segment on a basis consistent with goodwill impairment testing (Note 23).

There are no differences between the recognition and measurement criteria used in the segment disclosures and those used in this financial report.

| BUSINESS AREA OPERATING SEGMENTS | GENERAL INSURANCE UNDERWRITING $'000 | GENERAL INSURANCE AGENCY $'000 | CORPORATE[2] $'000 | CONSOLIDATED TOTAL $'000 |
|---|---|---|---|---|
| **2013** | | | | |
| Gross written premium[1] | 95,739 | 92,315 | – | 188,054 |
| Gross premium revenue | 131,377 | – | – | 131,377 |
| Reinsurance premium expense | (65,329) | – | | (65,329) |
| Net premium revenue | 66,048 | – | – | 66,048 |
| Commission and fee income | – | 39,189 | – | 39,189 |
| Net claims expense | (39,323) | – | – | (39,323) |
| Net acquisition costs | (17,487) | (18,163) | – | (35,650) |
| Operating expenses | (10,661) | (12,784) | – | (23,445) |
| **Profit/(loss)** | (1,423) | 8,242 | – | 6,819 |
| Investment income on assets backing insurance liabilities | 4,004 | – | – | 4,004 |
| Depreciation and amortisation expense | – | – | (4,270) | (4,270) |
| Share of net profit of joint ventures | – | – | 603 | 603 |
| Investment income on shareholders' funds | – | – | 485 | 485 |
| Gains on sale of joint ventures | – | – | – | – |
| Other income | – | – | 65 | 65 |
| Administration and other expenses | – | – | (1,552) | (1,552) |
| **Profit/(loss) before income tax** | 2,581 | 8,242 | (4,669) | 6,154 |
| Income tax expense | – | – | – | – |
| **Profit/(loss) after income tax** | 2,581 | 8,242 | (4,669) | 6,154 |
| Reportable segment assets | 252,275 | 36,993 | (149) | 289,119 |
| Equity accounted investees | – | – | 855 | 855 |
| Reportable segment liabilities | (192,401) | (22,673) | 24,066 | (191,008) |

(1) Agency GWP is not earned by the Group, and is exclusive of any Fire Service Levy and non-consolidated joint venture agency GWP of $29.2m.
(2) Corporate segment includes Consolidation adjustments and eliminations.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 10. SEGMENT REPORTING
CONTINUED

| | GENERAL INSURANCE | | | CONSOLIDATED |
|---|---|---|---|---|
| **BUSINESS AREA OPERATING SEGMENTS** | **UNDERWRITING $'000** | **AGENCY $'000** | **CORPORATE[2] $'000** | **TOTAL $'000** |
| **2012** | | | | |
| Gross written premium[1] | 172,000 | 52,478 | – | 224,478 |
| Gross premium revenue | 218,847 | – | – | 218,847 |
| Reinsurance premium expense | (139,539) | – | – | (139,539) |
| Net premium revenue | 79,308 | – | – | 79,308 |
| Commission and fee income | – | 18,708 | – | 18,708 |
| Net claims expense | (39,961) | – | – | (39,961) |
| Net acquisition costs | (10,550) | (10,881) | – | (21,431) |
| Operating expenses | (28,579) | (6,698) | – | (35,277) |
| **Profit/(loss)** | 218 | 1,129 | – | 1,347 |
| Investment income on assets backing insurance liabilities | 5,247 | – | – | 5,247 |
| Depreciation and amortisation expense | – | – | (4,622) | (4,622) |
| Share of net profit of joint ventures | – | – | 253 | 253 |
| Investment income on shareholders' funds | – | – | 425 | 425 |
| Gains on sale of joint ventures | – | – | 58 | 58 |
| Other expenses | – | – | (100) | (100) |
| Administration and other expenses | – | – | (1,519) | (1,519) |
| **Profit/(loss) before income tax** | 5,465 | 1,129 | (5,505) | 1,089 |
| Income tax expense | – | – | – | – |
| **Profit/(loss) after income tax** | 5,465 | 1,129 | (5,505) | 1,089 |
| Reportable segment assets | 339,845 | 20,989 | – | 360,834 |
| Equity accounted investees | – | – | 603 | 603 |
| Reportable segment liabilities | (244,441) | (20,542) | – | (264,983) |

(1) Agency GWP is not earned by the Group, and is exclusive of any Fire Service Levy and non-consolidated joint venture agency GWP.
(2) Corporate segment includes Consolidation adjustments and eliminations.

### 10.2. Geographical Segments
The Group operates in one geographical segment being Australia.

### 10.3. Major Customers
Premium attained through one customer distribution channel represents approximately $41.6m (2012: $47.3m) of the Group's insurance income.

Commission income attained through one customer distribution channel represents approximately $23.4m (2012: $11.4m) of the Group's commission income, noting that this excludes commission income from CIL.

## NOTE 11. DIVIDENDS

### 11.1. Ordinary Shares

| | CENTS PER SHARE | TOTAL AMOUNT $'000 | PAYMENT DATE | TAX RATE FOR FRANKING CREDIT | PERCENTAGE FRANKED |
|---|---|---|---|---|---|
| **2013** | | | | | |
| 2012 Final dividend paid | **0.4** | **907** | **26 March 2013** | **30%** | **100%** |
| 2013 Interim dividend paid | **0.5** | **1,133** | **26 September 2013** | **30%** | **100%** |
| | | **2,040** | | | |
| **2012** | | | | | |
| Dividend paid | – | – | – | – | – |

In accordance with the relevant accounting policy (refer to Note 3.21) a dividend is accrued when it is determined to be paid and so the dividends for a period are generally recognised and measured in that financial reporting period to which the dividend relates.

### 11.2. Dividends not Recognised at Reporting Date

Since year end the Directors have declared a final dividend of 1.7 cents and a special dividend of 0.5 cents per fully paid ordinary share fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 19 March 2014 out of retained earnings at 31 December 2013, but not recognised as a liability at year end is $5.0m (2012: $0.9m).

### 11.3. Dividend Franking Account

Any franked portion of the final dividends recommended after 31 December 2013 will be franked out of existing franking credits.

| | | COMPANY |
|---|---|---|
| | **2013 $'000** | 2012 $'000 |
| Franking credits available for subsequent years based on a tax rate of 30% (2012: 30%) | **25,974** | 26,699 |

The balance of the franking account arises from:

- income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in this financial report;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the final dividends, in respect of 2013 will be a reduction in the franking account of $2.2m.

# Notes to the Consolidated Financial Report
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## NOTE 12. EARNINGS PER SHARE

| | CONSOLIDATED | |
|---|---|---|
| | **2013 Cents** | 2012 Cents |
| **12.1. REPORTING PERIOD VALUES** | | |
| Basic earnings per ordinary share | **2.72** | 0.48 |
| Diluted earnings per ordinary share | **2.71** | 0.48 |

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **12.2. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE** | | |
| Profit/(loss) for the year | **6,154** | 1,089 |
| Profit/(loss) attributable to equity holders of the Parent which is used in calculating basic and diluted earnings per share | **6,154** | 1,089 |

| | **2013 NUMBER** | 2012 NUMBER |
|---|---|---|
| **12.3. RECONCILIATION WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE** | | |
| Ordinary shares on issue | **226,683,914** | 226,683,914 |
| Treasury shares held in trust | **(5,407)** | (5,407) |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | **226,678,507** | 226,678,507 |
| Unvested share-based remuneration rights supported by treasury shares held in trust | **5,407** | 5,407 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | **226,683,914** | 226,683,914 |

The Company acquires any shares required for the Long-Term Incentive Scheme ("LTI") 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.

## NOTE 13. NOTES TO THE STATEMENTS OF CASH FLOWS

### 13.1. Composition

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Cash held for operational purposes | **25,616** | 19,131 | **528** | 269 |
| Trust accounts[1] | **2,973** | 5,373 | **–** | – |
| **Total cash and cash equivalents** | **28,589** | 24,504 | **528** | 269 |

(1) Cash held on behalf of other insurers/reinsurers

Cash and cash equivalents represent cash on hand and held with banks and deposits at call readily convertible to cash. There are no cash balances held that are not available for use in normal operations.

### 13.2. Significant Risks

The net carrying amount of cash and cash equivalents represents the maximum exposure to credit risk relevant to cash and cash equivalents at reporting date and is equivalent to the fair value of the assets because of the negligible credit risk.

### 13.3. Reconciliation of Profit/(Loss) for the Year to Net Cash Flows from Operating Activities

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| **Profit/(loss) for the year** | **6,154** | 1,089 | **(350)** | (2,776) |
| **i. Non-cash items** | | | | |
| Depreciation of property, plant and equipment | **394** | 277 | **394** | 277 |
| Amortisation of intangible assets | **3,876** | 4,345 | **2,800** | 2,999 |
| Movement in value of joint ventures | **(252)** | (222) | **–** | (58) |
| Gains on sale of joint ventures | **–** | (500) | **–** | (500) |
| Intercompany expense recharges | **–** | – | **(1,175)** | – |
| Share-based payments expense | **319** | 379 | **319** | 379 |
| Capitalised salaries – software development | **(1,037)** | – | **(1,037)** | – |
| Gain on sale of property, plant and equipment | **–** | 68 | **–** | 68 |
| **ii. Movement in operating assets/liabilities** | | | | |
| Decrease/(increase) in operating assets | | | | |
| Premium receivable | **12,315** | 8,158 | **–** | – |
| Trade and other receivables | **(9,917)** | (5,892) | **(716)** | 339 |
| Reinsurance and other recoveries | **18,682** | 11,927 | **–** | – |
| Prepayments | **(85)** | 97 | **(82)** | 97 |
| Deferred levies and charges | **6,554** | 4,038 | **–** | – |
| Deferred reinsurance expense | **33,692** | 3,714 | **–** | – |
| Deferred acquisition costs | **6,990** | 10,229 | **–** | – |
| Increase/(decrease) in operating liabilities | | | | |
| Trade and other payables | **(891)** | 8,538 | **3,535** | (1) |
| Employee entitlements | **121** | 117 | **121** | 117 |
| Unearned premium liability | **(35,638)** | (46,847) | **–** | – |
| Unearned reinsurance commission | **(12,130)** | (1,395) | **–** | – |
| Unearned agency commission | **920** | 1,252 | **–** | – |
| Outstanding claims liability | **(26,357)** | (27,099) | **–** | – |
| **Net cash flows from operating activities** | **3,710** | (27,727) | **3,809** | 942 |

# Notes to the Consolidated Financial Report
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## NOTE 14. INVESTMENTS

### 14.1. Composition

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Fixed term deposits | **65,592** | 70,000 | **592** | – |
| **Total fixed term deposits** | **65,592** | 70,000 | **592** | – |

The carrying value of interest bearing investments includes $55.6m (2012: $60.0m) which is expected to mature more than 12 months from reporting date.

Interest bearing term deposits with a carrying amount of $65.6m at 31 December 2013 have yields ranging from 3.0% p.a. to 7.13% p.a. and mature between 2 months and 5 years.

The Group's exposure to credit and interest rate risks related to investments are disclosed in Note 5.

### 14.2. Determination of Fair Value

The total investments balance is 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:

**(I) LEVEL 1 QUOTED PRICES**

Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

**(II) LEVEL 2 OTHER OBSERVABLE INPUTS**

Inputs that are observable (other than Level 1 quoted prices) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

**(III) LEVEL 3 OBSERVABLE INPUTS**

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. The assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the balance sheet.

Term deposits $65.6m (2012: $70.0m) have been categorised in the Level 1 fair value hierarchy.

## NOTE 15. PREMIUM RECEIVABLE

### 15.1. Composition

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Premium receivable | **21,280** | 36,911 | **–** | – |
| Provision for impairment | **(100)** | (100) | **–** | – |
| **Premium receivable – Group** | **21,180** | 36,811 | **–** | – |
| Premium receivables – Trusts[1] | **18,961** | 15,645 | **–** | – |
| **Premium receivables – Total** | **40,141** | 52,456 | **–** | – |

(1) Trust premium receivables held on behalf of other insurers.

The carrying value of premiums receivable is expected to mature within 12 months from reporting date.

The Group's exposure to credit and market risks and impairment losses related to premiums receivable are disclosed in Note 5.

## NOTE 16. TRADE AND OTHER RECEIVABLES

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Receivables from controlled entities | **–** | – | **3,199** | 6,588 |
| Receivables from related parties | **–** | – | **–** | – |
| Reinsurance receivables | **672** | 1,543 | **–** | – |
| Investment income receivable | **3,078** | 3,246 | **4** | – |
| Lease asset | **4,148** | – | **4,148** | – |
| Other receivables | **14,315** | 7,507 | **257** | 303 |
| **Trade and other receivables** | **22,213** | 12,296 | **7,608** | 6,891 |

The carrying value of trade and other receivables is expected to mature within 12 months from reporting date.

The Group's exposure to credit and market risks and impairment losses related to trade and other receivables are disclosed in Note 5.

# Notes to the Consolidated Financial Report
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## NOTE 17. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

### 17.1. Reinsurance and other Recoveries Receivable on Outstanding Claims

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Expected reinsurance and other recoveries[1] receivable on outstanding claims – undiscounted | **57,565** | 76,187 | **–** | – |
| Discount to present value | **(3,345)** | (3,285) | **–** | – |
| **Expected reinsurance and other recoveries receivable on outstanding claims – discounted** | **54,220** | 72,902 | **–** | – |

(1) Refer to Note 28.6.1.5

The carrying value of reinsurance recoveries and other recoveries includes $31.1m (2012: $34.2m) which is expected to be settled more than 12 months from the reporting date.

### 17.2. Actuarial Assumptions

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for the outstanding claims liability (refer Note 28).

Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses (for example those relating to catastrophe events) are analysed on a case by case basis for reinsurance purposes.

### 17.3. The Effect of Changes in Assumptions

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries receivable, is disclosed in Note 28.

## NOTE 18. DEFERRED INSURANCE ASSETS

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| **A. DEFERRED ACQUISITION COSTS** | | | | |
| **Reconciliation of movements** | | | | |
| Balance at the beginning of the year | **20,792** | 31,021 | **–** | – |
| Acquisition costs deferred during the year | **30,803** | 45,719 | **–** | – |
| Acquisition costs incurred for the year | **(37,793)** | (55,948) | **–** | – |
| Write-down for liability adequacy test | **–** | – | **–** | – |
| **Balance at the end of the year** | **13,802** | 20,792 | **–** | – |
| **B. DEFERRED REINSURANCE EXPENSE** | | | | |
| **Reconciliation of movements** | | | | |
| Balance at the beginning of the year | **46,561** | 50,276 | **–** | – |
| Reinsurance expenses deferred during the year | **31,637** | 135,824 | **–** | – |
| Reinsurance expense incurred for the year | **(65,329)** | (139,539) | **–** | – |
| **Balance at the end of the year** | **12,869** | 46,561 | **–** | – |

The carrying value of deferred insurance assets is expected to be expensed within 12 months from reporting date.

## NOTE 19. DEFERRED TAX ASSETS

| | CONSOLIDATED AND COMPANY | |
|---|---|---|
| | **$'000** | **$'000** |
| At 31 December 2012 | **3,750** | 3,750 |
| **At 31 December 2013** | **3,750** | 3,750 |

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 20. PROPERTY, PLANT AND EQUIPMENT

| | CONSOLIDATED AND COMPANY | | | |
|---|---|---|---|---|
| | LEASEHOLD IMPROVEMENTS $'000 | COMPUTING ASSETS $'000 | OFFICE EQUIPMENT $'000 | TOTAL $'000 |
| **A. COMPOSITION** | | | | |
| **2013** | | | | |
| At cost | **2,235** | **1,122** | **106** | **3,463** |
| Accumulated depreciation | **(500)** | **(1,122)** | **(24)** | **(1,646)** |
| **Balance at the end of the year** | **1,735** | **–** | **82** | **1,817** |
| **B. RECONCILIATION OF MOVEMENTS** | | | | |
| **Balance at the beginning of the year** | **2,080** | **–** | **100** | **2,180** |
| Additions | **31** | **–** | **–** | **31** |
| Disposals | **–** | **–** | **–** | **–** |
| Depreciation | **(376)** | **–** | **(18)** | **(394)** |
| **Balance at the end of the year** | **1,735** | **–** | **82** | **1,817** |
| **C. COMPOSITION OF COMPARATIVES** | | | | |
| 2012 | | | | |
| Cost | 2,204 | 1,122 | 106 | 3,432 |
| Accumulated depreciation | (124) | (1,122) | (6) | (1,252) |
| Balance at the end of the year | 2,080 | – | 100 | 2,180 |

In 2012, 470 assets were consolidated into 18 assets as a result of a detailed review of the fixed assets register. The written down value of the assets became the new cost base.

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

## NOTE 21. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Equity accounted investments of the Group is detailed below:

### 21.1. Composition

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Investment in joint ventures | **855** | 603 | **160** | 160 |
| **Total investments accounted for using the equity method** | **855** | 603 | **160** | 160 |

Investments in joint ventures are accounted for in the consolidated financial result using the equity method of accounting, and the investment is carried at cost by the Company.

### 21.2. Investment in Joint Ventures

| | | | | CARRYING AMOUNT OF INVESTMENTS IN JOINT VENTURES | |
|---|---|---|---|---|---|
| | | OWNERSHIP INTEREST | | CONSOLIDATED | |
| **JOINT VENTURES** | **COUNTRY OF INCORPORATION** | **2013 %** | 2012 % | **2013 $'000** | 2012 $'000 |
| Arena Underwriting Pty Ltd | **Australia** | **50** | 50 | **187** | 157 |
| QUS Pty Ltd | **Australia** | **47.5** | 50 | **668** | 446 |
| **Investment in joint ventures** | | | | **855** | 603 |

| | | | | CARRYING AMOUNT OF INVESTMENTS IN JOINT VENTURES | |
|---|---|---|---|---|---|
| | | OWNERSHIP INTEREST | | COMPANY | |
| **JOINT VENTURES** | **COUNTRY OF INCORPORATION** | **2013 %** | 2012 % | **2013 $'000** | 2012 $'000 |
| Arena Underwriting Pty Ltd | **Australia** | **50** | 50 | **60** | 60 |
| QUS Pty Ltd | **Australia** | **47.5** | 50 | **100** | 100 |
| **Investment in joint ventures** | | | | **160** | 160 |

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 21. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
CONTINUED

### 21.3. Share of Joint Ventures Assets and Liabiilities

| | CONSOLIDATED | |
|---|---|---|
| | **2013 $'000** | 2012 $'000 |
| Current assets | **936** | 796 |
| Non-current assets | **918** | 110 |
| **Total assets** | **1,854** | 906 |
| Current liabilities | **830** | 303 |
| Non-current liabilities | **123** | – |
| **Total liabilities** | **953** | 303 |
| **Net assets** | **901** | 603 |

During the year, the ownership interest in QUS Pty Ltd reduced from 50% to 47.5%, following the issue of shares by QUS Pty Ltd to its senior management as a bonus incentive. The ownership interest reduced to 47.5%, effective from 1 July 2013. The share of assets and liabilities for QUS Pty Ltd is 47.5% as at 31 December 2013.

### 21.4. Share of Joint Ventures Income and Expenses

| | CONSOLIDATED | |
|---|---|---|
| | **2013 $'000** | 2012 $'000 |
| Income | **4,671** | 2,753 |
| Expenses | **(3,744)** | (2,405) |
| Income tax | **(324)** | (95) |
| **Share of joint ventures' profit after tax** | **603** | 253 |

Dividends distributed from joint ventures were $350k (2012: $30k).

### 21.5. Share of Joint Ventures Capital Commitments
There are no capital commitments arising from the investment in joint ventures.

### 21.6. Share of Joint Ventures Contingent Liabilities
There are no contingent liabilities arising from the joint ventures.

## NOTE 22. OTHER FINANCIAL ASSETS

Investments held by the parent entity are detailed below:

### 22.1. Composition

| | COMPANY | |
|---|---|---|
| | **2013 $'000** | 2012 $'000 |
| Investment in subsidiaries | **103,718** | 103,718 |
| **Total other financial assets** | **103,718** | 103,718 |

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

### 22.2. Subsidiaries

| | | OWNERSHIP INTEREST | | BOOK VALUE OF COMPANY INVESTMENT | |
|---|---|---|---|---|---|
| **Subsidiaries** | **COUNTRY OF INCORPORATION** | **2013 %** | 2012 % | **2013 $'000** | 2012 $'000 |
| ARGIS Pty Limited[1] | **Australia** | **100** | 100 | **–** | – |
| Calliden Insurance Limited | **Australia** | **100** | 100 | **80,245** | 80,245 |
| Dawes Underwriting Australia Pty Limited | **Australia** | **100** | 100 | **2,434** | 2,434 |
| IUA Pty Limited | **Australia** | **100** | 100 | **5,414** | 5,414 |
| Calliden Agency Services Limited[2] | **Australia** | **100** | 100 | **15,625** | 15,625 |
| **Investment in subsidiaries** | | | | **103,718** | 103,718 |

(1) Owned by Calliden Agency Services Limited

(2) Formerly Mansions of Australia Limited

The Consolidated financial report incorporates the assets, liabilities and results of the above subsidiaries in accordance with the accounting policy described in Note 3.2. 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.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 23. INTANGIBLE ASSETS

| | | | | CONSOLIDATED |
|---|---|---|---|---|
| | GOODWILL $'000 | CUSTOMER RELATIONSHIPS $'000 | SYSTEMS DEVELOPMENT EXPENDITURE[1] $'000 | TOTAL $'000 |
| **2013** | | | | |
| **A. COMPOSITION** | | | | |
| Cost | **34,371** | **11,987** | **10,278** | **56,636** |
| Accumulated amortisation | **–** | **(8,205)** | **(4,108)** | **(12,313)** |
| **Balance at the end of the year** | **34,371** | **3,782** | **6,170** | **44,323** |
| **2013** | | | | |
| **B. RECONCILIATION OF MOVEMENTS** | | | | |
| Balance at the beginning of the year | **34,371** | **4,858** | **7,289** | **46,518** |
| Additions acquired and developed | **–** | **–** | **1,681** | **1,681** |
| Disposals | **–** | **–** | **–** | **–** |
| Amortisation | **–** | **(1,076)** | **(2,800)** | **(3,876)** |
| **Balance at the end of the year** | **34,371** | **3,782** | **6,170** | **44,323** |
| **2012** | | | | |
| **C. COMPOSITION OF COMPARATIVES** | | | | |
| Cost | 34,371 | 11,987 | 17,562 | 63,920 |
| Accumulated amortisation | – | (7,129) | (10,273) | (17,402) |
| **Balance at the end of the year** | **34,371** | **4,858** | **7,289** | **46,518** |

(1) The Company's intangible assets are solely systems development expenditure.

### 23.1. Explanatory Notes for Intangible Assets

#### 23.1.1. SOFTWARE DEVELOPMENT EXPENDITURE

The software development expenditure asset comprises both internally generated assets and acquired assets.

#### 23.1.2. ACQUIRED INTANGIBLE ASSETS

All of the intangible assets, other than the capitalised software development expenditure intangible asset, have been acquired. Each of the acquired intangible assets has a finite useful life. The amortisation of the acquired intangible assets forms part of administration and other expenses in the Statements of Comprehensive Income.

#### 23.1.3. CUSTOMER RELATIONSHIPS

This represents at least the present value of future profits expected to arise from existing customer relationships (developed prior to acquisition). The assumptions for the useful life and attrition rates for the existing customer base are determined based on historical information of the business.

### 23.2. Impairment Testing 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 | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Underwriting | **8,593** | 29,493 |
| Agency | **25,778** | 4,878 |
| **Total goodwill** | **34,371** | 34,371 |

The recoverable amount of CGU goodwill 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 a terminal growth rate of 2.5%. The growth rate does not exceed the historic long-term average growth rate for the business in which the CGU operates.

Following a review of the future profit forecasts due to the change in the business model, management revised the returns expected from the CIL and CAS CGUs. This resulted in a greater weighting expected from cash flows to be generated from CAS. As such, management considered it appropriate to reallocate the acquired goodwill on consolidation between the CIL and CAS CGUs, based on expected profits to be generated by each CGU.

### 23.3. Key Assumptions 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: a discount rate of 12.0% per annum ("p.a."), calculated based on weighted average cost of capital, was applied in 2013 (2012: 12.0%);
- Terminal growth rate at year 2018 of 2.5% (2012: 2.5%) and beyond is based on management'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 5.5% p.a. over the cycle; and
- The Group will increase the proportion of revenue derived from Agency operations with a corresponding decline in the proportion of revenue derived from Underwriting over the 2014 financial year.

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

### 23.4. 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 $24.1m (2012: $96.6m). This exceeds the carrying amount of the Underwriting CGU's goodwill by $15.5m (2012: $67.1m).

If the discount rate applied to the cash flow projections of the Underwriting CGU was 14.6% p.a. instead of 12.0% p.a., the recoverable amount of the Underwriting CGU's goodwill would approximately equal its carrying amount. Management does not consider any reasonable changes in any key assumptions would cause impairment.

The recoverable amount of the goodwill of the Agency CGU is estimated to be $41.3m (2012: $29.6m). This exceeds the carrying amount of the CGU's goodwill by $15.5m (2012: $24.7m).

If the discount rate applied to the cash flow projections of the Agency CGU was 14.5% p.a. instead of 12.0% p.a., the recoverable amount of the Agency CGU's goodwill would approximately equal its carrying amount. Management does not consider any reasonable changes in any key assumptions would cause impairment.

### 23.5. Impairment Charge

There is no impairment charge as no impairment was indicated.

# Notes to the Consolidated Financial Report

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## NOTE 24. TRADE AND OTHER PAYABLES

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Trade creditors | **1,136** | 2,785 | **5,955** | 2,112 |
| Reinsurance premiums payable | **1,551** | 4,120 | **–** | – |
| Payables to controlled entities | **–** | – | **9,663** | 10,070 |
| Trust account payables[1] | **24,369** | 21,042 | **–** | – |
| **Total trade and other payables** | **27,056** | 27,947 | **15,618** | 12,182 |

(1) Premiums payable to other insurers

The carrying value of trade and other payables is expected to be settled within 12 months from reporting date.

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. Amounts have not been discounted because the effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the nature of the liabilities.

## NOTE 25. EMPLOYEE ENTITLEMENTS

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| **Employee entitlements** | | | | |
| Provision for employee entitlements | | | | |
| Current | **371** | 560 | **371** | 560 |
| Non-current | **1,004** | 694 | **1,004** | 694 |
| **Total employee entitlements** | **1,375** | 1,254 | **1,375** | 1,254 |

### 25.1. Calliden Group Limited Employee Share Offer

No shares were offered under the Employee Share Offer during the year ended 31 December 2013 (2012: nil).

## NOTE 26. UNEARNED REINSURANCE COMMISSION

### 26.1. Reconciliation of Movement in Unearned Reinsurance Commission

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Balance at the beginning of the year | **16,141** | 17,536 | **–** | – |
| Reinsurance commission deferred during the year | **8,176** | 42,646 | **–** | – |
| Reinsurance commission earned for the year | **(20,306)** | (44,041) | **–** | – |
| **Balance at the end of the year** | **4,011** | 16,141 | **–** | – |

The carrying value of unearned reinsurance commission is expected to be earned within 12 months from reporting date.

## NOTE 27. UNEARNED PREMIUM LIABILITY

### 27.1. Reconciliation of Movement in Unearned Premium Liability

| | CONSOLIDATED | |
|---|---|---|
| | **2013 $'000** | 2012 $'000 |
| Balance at the beginning of the year | **81,331** | 128,178 |
| Written premium deferred during the year | **95,739** | 172,000 |
| Written premium earned for the year | **(131,377)** | (218,847) |
| **Balance at the end of the year** | **45,693** | 81,331 |

The carrying value of unearned premium liability includes $25k (2012: $50k) which is expected to be earned more than 12 months from reporting date.

### 27.2. Liability Adequacy Test ("Lat")

The 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.

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 adequacy of premium liabilities whereas the POA is a measurement in accounting policy used in determining the carrying value of the outstanding claims liability in the Statements of Financial Position.

The margin included in the Group's expected future cash flows for future claims as a percentage of premiums is 3.0% (2012: 6.4%). While the concepts are not directly comparable, the margin is equivalent to a POA of approximately 65% (2012: 73%).

The application of the LAT has identified a surplus of $0.1m as at 31 December 2013 (2012: $0.3m surplus).

| | CONSOLIDATED | |
|---|---|---|
| | **2013 $'000** | 2012 $'000 |
| Unearned premium liability | **45,693** | 81,331 |
| Fire services levy | **(901)** | (7,455) |
| Deferred acquisition costs | **(13,802)** | (20,775) |
| Related reinsurance commission | **4,011** | 16,141 |
| Related reinsurance asset | **(12,869)** | (46,561) |
| **Total provision available** | **22,132** | 22,681 |
| **Actuarial estimate of future liabilities** | | |
| Central estimate of present value of expected future cash flows from future claims | **27,910** | 45,014 |
| Present value of expected future cash inflows arising from reinsurance recoveries on future claims | **(6,842)** | (24,335) |
| Risk margin | **958** | 1,743 |
| **Total actuarial estimate of future liabilities** | **22,026** | 22,422 |
| **Net surplus/(deficiency)** | **106** | 259 |
| Deficiency recognised in the Statements of Comprehensive Income: | | |
| Write-down of deferred acquisition costs | **–** | – |
| **Risk margin percentage** | **3.0%** | 6.4% |

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## NOTE 28. OUTSTANDING CLAIMS LIABILITY
CONTINUED

### 28.1. Composition of Gross Outstanding Claims Liability

| | CONSOLIDATED | |
|---|---|---|
| | **2013 $'000** | 2012 $'000 |
| Case estimates | **54,561** | 69,699 |
| IBNR | **53,542** | 63,018 |
| Gross central estimate – undiscounted | **108,103** | 132,717 |
| Claims handling expenses | **3,985** | 4,763 |
| Risk margin | **4,947** | 5,656 |
| | **117,035** | 143,136 |
| Discount to present value | **(6,334)** | (6,078) |
| **Gross outstanding claims liability – discounted** | **110,701** | 137,058 |

The outstanding claims liability includes $63.9m (2012: $68.6 m) which is expected to be settled after 12 months from reporting date.

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 5.2.

### 28.2. Reconciliation of Movement in Outstanding Claims Liability

| | CONSOLIDATED | | | | | |
|---|---|---|---|---|---|---|
| | | **2013** | | | 2012 | |
| | **GROSS $'000** | **REINSURANCE AND OTHER RECOVERIES $'000** | **NET $'000** | GROSS $'000 | REINSURANCE AND OTHER RECOVERIES $'000 | NET $'000 |
| **Balance at the beginning of the year** | **137,058** | **(72,902)** | **64,156** | 164,157 | (84,826) | 79,331 |
| Claims incurred | **84,198** | **(44,565)** | **39,633** | 121,903 | (82,633) | 39,270 |
| Movement in discounting[1] | **(609)** | **299** | **(310)** | 1,472 | (783) | 689 |
| Incurred claims recognised in the Statements of Comprehensive Income | **83,589** | **(44,266)** | **39,323** | 123,375 | (83,416) | 39,959 |
| Claim (payments)/recoveries during the year | **(109,946)** | **62,948** | **(46,998)** | (150,474) | 95,340 | (55,134) |
| **Balance at the end of the year** | **110,701** | **(54,220)** | **56,481** | 137,058 | (72,902) | 64,156 |

(1) Represents solely the impact from change in discount rate assumptions during the year.

## 28.3. Development Table

The following table shows the development of the net undiscounted outstanding claims for the five most recent accident years and also reconciliation to the net discounted outstanding claims liability.

| | ACCIDENT YEAR | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2008 AND PRIOR $'000 | 2009 $'000 | 2010 $'000 | 2011 $'000 | 2012 $'000 | 2013 $'000 | Total $'000 |
| **NET ULTIMATE CLAIMS PAYMENTS** | | | | | | | |
| **Development** | | | | | | | |
| At end of accident year | – | 49,841 | 60,923 | 78,198 | 37,228 | **33,723** | |
| One year later | – | 47,477 | 60,396 | 75,577 | 37,923 | | |
| Two years later | – | 47,191 | 59,720 | 76,342 | | | |
| Three years later | – | 47,613 | 61,015 | | | | |
| Four years later | – | 48,863 | | | | | |
| Five years later | – | | | | | | |
| Current estimate of net ultimate claims payments | 371,478 | 48,863 | 61,015 | 76,342 | 37,923 | **33,724** | **629,345** |
| Cumulative payments made to date | (365,500) | (44,468) | (52,692) | (65,201) | (30,935) | **(20,303)** | **(579,099)** |
| **Net undiscounted outstanding claims payments** | 5,978 | 4,395 | 8,323 | 11,141 | 6,988 | **13,421** | **50,246** |
| Discount to present value | (226) | (246) | (519) | (808) | (506) | **(676)** | **(2,981)** |
| **Net discounted outstanding claims payments** | 5,752 | 4,149 | 7,804 | 10,333 | 6,482 | **12,745** | **47,265** |
| **Reconciliation** | | | | | | | |
| Run-off portfolios (Inwards re) | | | | | | | **284** |
| Claims handling expenses | | | | | | | **3,985** |
| Risk margin | | | | | | | **4,947** |
| **Net outstanding claims liability** | | | | | | | **56,481** |
| Reinsurance and other recoveries on outstanding claims liability | | | | | | | **54,220** |
| **Total gross outstanding claims per the Statements of Financial Position** | | | | | | | **110,701** |

Conditions and trends that have affected the development of the liabilities in the past may or may not occur in the future, and accordingly conclusions about future results may not necessarily be derived from the information presented in the tables above.

The development table shown above relates to both short-tail and long-tail claims.

## 28.4. Central Estimate and Risk Margin

| | CONSOLIDATED | |
|---|---|---|
| | **2013 %** | 2012 % |
| The percentage of risk margin applied to the net outstanding claims liability | **9.6** | 9.7 |
| **The probability of adequacy of the risk margin** | **75** | 75 |

# Notes to the Consolidated Financial Report

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## NOTE 28. OUTSTANDING CLAIMS LIABILITY

CONTINUED

### 28.5. Process

The outstanding claims liability is determined based on three building blocks being:

- a central estimate of the future cash flows;
- discounting for the effect of the time value of money; and
- a risk margin for uncertainty.

#### 28.5.1. FUTURE CASH FLOWS

The estimation of the outstanding claims liability is based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported ("IBNER"), claims incurred but not reported ("IBNR") and the anticipated direct and indirect claims handling costs.

The estimation process involves using the Consolidated entity's specific data, relevant industry data and more general economic data. Each class of business is usually examined separately and the process involves consideration of a large number of factors. These factors may include the risks to which the business is exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, legal, social and economic factors that may impact upon each class of business, the key actuarial assumptions and the impact of reinsurance and other recoveries.

Different actuarial valuation models are used for different claims types and lines of business. The selection of the appropriate actuarial model takes into account the characteristics of a claim type and class of business and the extent of the development of each past accident period.

#### 28.5.2. DISCOUNTING

Projected future claims payments, both gross and net of reinsurance and other recoveries, and associated claims handling costs are discounted to a present value using appropriate risk free discount rates.

#### 28.5.3. RISK MARGIN

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution of future cash flows. It is considered appropriate to add a risk margin to the central estimate in order for the claims liability to have an increased probability of adequacy. The risk margin refers to the amount by which the liability recognised in this financial report is greater than the actuarial central estimate of the liability.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the data, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims runoff process, and risks external to Calliden, for example the impact of future legislative reform. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate. The volatility measure for each class is derived after consideration of statistical modelling and benchmarking to industry analysis.

Certain product classes may be subject to the emergence of new types of latent claims and such uncertainties are considered when setting the volatility, and hence the risk margin appropriate for those classes.

The measure of the volatility is referred to as the coefficients of variation ("CoV"). The CoV is defined as the standard deviation of the distribution of future cash flows divided by the mean.

The long-tail classes of business generally have the highest volatilities for outstanding claims as the longer average time for claims to be reported and settled allows more time for sources of uncertainty to emerge. Short-tail classes generally have lower levels of volatility for outstanding claims.

The risk margin required to provide a given probability of adequacy for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification.

The measure of the parameter used to derive the diversification benefit is referred to as correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. The correlations are adopted with regard to industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The determination of the overall risk margin takes into account the volatility of each class of business and the correlations between the lines of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and the prevailing market environment, results in an overall probability of adequacy for the outstanding claims liability of 75% (2012: 75%).

## 28.6. Actuarial Assumptions

### 28.6.1. PROCESS USED TO DETERMINE ASSUMPTIONS

28.6.1.1. Discounted Average Term to Settlement

The discounted average term to settlement relates to the expected payment pattern for claims (inflated and discounted). It is calculated by class of business and is generally based on historic settlement patterns. The discounted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

28.6.1.2. Inflation Rate

Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators.

28.6.1.3. Superimposed Inflation Rate

Superimposed inflation occurs due to non-economic effects such as the cost of court settlements increasing at a faster rate than the economic inflation rate utilised. An allowance for superimposed inflation is made for each underlying model, where appropriate, after considering the historical levels of superimposed inflation present in the portfolio projected future superimposed inflation and industry superimposed inflation trends.

28.6.1.4. Discount Rate

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.

28.6.1.5. 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.

28.6.1.6. Claims Handling Expenses

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

- 4.0% (2012: 4.0%) of gross outstanding claims for portfolios where the claims are handled in house; and
- 2.0% (2012: 2.0%) 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.

## 28.7. The Effect of Changes in Assumptions

### 28.7.1. GENERAL IMPACT OF CHANGES

28.7.1.1. Discounted Average Term to Settlement

A decrease in the discounted average term to settlement would reflect claims being paid sooner than anticipated and so increase the claims expense. Note that this sensitivity test only extends or shortens the term of the payments assumed in the valuation, without changing the total nominal amount of the payments.

28.7.1.2. Inflation and Superimposed Inflation Rates

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of either economic or superimposed inflation will have a corresponding decrease or increase on profit and loss.

28.7.1.3. Discount Rate

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have a corresponding increase or decrease in the provision for claims.

28.7.1.4. Claims Handling Costs Ratio

An increase in the ratio reflects an increase in the estimate for the internal costs of administering claims. An increase or decrease in the ratio assumption will have a corresponding decrease or increase on profit and loss.

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## NOTE 28. OUTSTANDING CLAIMS LIABILITY

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### 28.8. Sensitivity Analysis of Changes

The impact on the Statements of Comprehensive Income before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and is net of reinsurance recoveries.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the loss ratio assumption was 50%, a 10% increase would mean assuming a 60% loss ratio.

| | | CHANGE IN OUTSTANDING CLAIMS LIABILITY | | | |
|---|---|---|---|---|---|
| ASSUMPTION | MOVEMENT IN ASSUMPTION | GROSS $'000 | NET $'000 | NET % | PROFIT/ (LOSS) IMPACT BEFORE TAX $'000 |
| **2013** | | | | | |
| **Base** | | **110,701** | **56,481** | | |
| **Loss ratio** | **+10%** | **3,270** | **1,669** | **3.0%** | **(1,669)** |
| | **-10%** | **(3,299)** | **(1,683)** | **(3.0%)** | **1,683** |
| **Incurred claims development factor** | **+50%** | **2,573** | **1,313** | **2.3%** | **(1,313)** |
| | **-50%** | **(2,465)** | **(1,258)** | **(2.2%)** | **1,258** |
| **Discount rate** | **+1%** | **1,110** | **1,110** | **2.0%** | **(1,110)** |
| | **-1%** | **(1,110)** | **(1,110)** | **(2.0%)** | **1,110** |
| **Claims handling expenses ratio** | **+1%** | **(2,002)** | **(1,021)** | **(1.8%)** | **1,021** |
| | **-1%** | **2,090** | **1,067** | **1.9%** | **(1,067)** |
| **2012** | | | | | |
| Base | | 137,058 | 64,156 | | |
| Loss ratio | +10% | 7,369 | 3,450 | 5.4% | (3,450) |
| | -10% | (7,369) | (3,450) | (5.4%) | 3,450 |
| Incurred claims development factor | +50% | 3,685 | 1,725 | 2.7% | (1,725) |
| | -50% | (3,558) | (1,665) | (2.6%) | 1,665 |
| Discount rate | +1% | (2,315) | (1,083) | (1.7%) | 1,083 |
| | -1% | 2,419 | 1,133 | 1.8% | (1,133) |
| Claims handling expenses ratio | +1% | 1,369 | 1,369 | 2.1% | (1,369) |
| | -1% | (1,369) | (1,369) | (2.1%) | 1,369 |

## NOTE 29. UNEARNED AGENCY COMMISSION

### 29.1. Reconciliation of Movement in Unearned Agency Commission

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Balance at the beginning of the year | **1,252** | – | **–** | – |
| Agency commission movement during the year | **920** | 1,252 | **–** | – |
| **Balance at the end of the year** | **2,172** | 1,252 | **–** | – |

The carrying value of unearned agency commission is expected to be earned within 12 to 24 months from reporting date.

## NOTE 30. EQUITY

### 30.1. Share Capital

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| 226,683,914 (2012: 226,683,914) issued ordinary shares, fully paid | **99,539** | 99,539 | **99,539** | 99,539 |

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.

### 30.2. Movements in Ordinary Share Capital

| DATE | DETAILS | NUMBER OF SHARES | BALANCE $'000 |
|---|---|---|---|
| 1 January 2012 | Balance | 226,683,914 | 99,539 |
| 31 December 2012 | Balance | 226,683,914 | 99,539 |
| **31 December 2013** | **Balance** | **226,683,914** | **99,539** |

### 30.3. Treasury Shares Held in Trust

| | CONSOLIDATED AND COMPANY | |
|---|---|---|
| DETAILS | **2013 $'000** | 2012 $'000 |
| Balance at the beginning of the year | **(70)** | (2) |
| Acquisition of shares | **(1,318)** | (68) |
| **Balance at the end of the year** | **(1,388)** | (70) |

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

# Notes to the Consolidated Financial Report
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## NOTE 31. SHARE-BASED PAYMENT ARRANGEMENTS

| | CONSOLIDATED AND COMPANY | |
|---|---|---|
| DETAILS | **2013 $'000** | 2012 $'000 |
| Balance at the beginning of the year | **379** | – |
| Transfer from the reserve upon lapsing of rights | **–** | – |
| Charged to Statements of Comprehensive Income | **319** | 379 |
| **Balance at the end of the year** | **698** | 379 |

### 31.1. Eligibility and Purpose

Eligible Executives are invited to participate in the Calliden long-term incentive plan (the "Plan"). The Plan is intended to engage Executives in the success of the business by linking rewards with the performance of the Group. This is achieved by employing objective performance measures directly linked to the creation of shareholder wealth, such as growth in earnings per share and total shareholder returns, as well as encouraging their retention. The Plan commenced in 2005.

Eligibility is considered by the Board based on Executives' ability to influence the overall and long-term performance of the business.

### 31.2. 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 and service 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").

### 31.3. Number of Performance Rights

In 2012, two LTI grants were made to Executives and various employees. The 2011 Plan grant date was 1 February 2012. The 2012 Plan grant date was 8 October 2012.

The number of performance rights is determined by dividing the value of the LTI component of each Executive's remuneration by the value of the Rights in the grant. For any proposed grant, the LTI component of each Executive's remuneration ranges from 60% to 120% of salary plus superannuation and the value of each Right is calculated based on the volume-weighted average price ("VWAP") of Calliden's shares in the 5 days prior to the performance period (that is, up to and including 31 December at the relevant year), less the projected dividends over the performance period.

For the 2011 LTI the performance period was 1 January 2011 to 31 December 2013. For the 2012 LTI the performance period is 1 January 2012 to 31 December 2014. Where Rights are subject only to service conditions ("Retention Rights") then the resulting value is used. Rights subject to performance conditions ("Performance Rights") have an Adjusted Right Value determined where the value is discounted recognising the attaching performance vesting conditions – for the grant in respect of 2011 and 2012 the discount is 50%.

It is noted that the proportion of value of Retention Rights of all Rights in the 2011 and 2012 grant varies from 100% to 33%. The decision was made by the Board that, in consideration of APRA's Prudential Standard GPS 510, only Retention Rights would be granted to risk and financial control personnel so as to ensure that this performance-based component of remuneration does not in any way compromise the independence of these personnel in carrying out their functions.

Details on rights over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

| GRANT DATE | VESTING CONDITIONS | FAIR VALUE AT GRANT DATE $ | RIGHTS ON ISSUE AT 1 JAN | RIGHTS GRANTED DURING THE YEAR | RIGHTS LAPSED DURING THE YEAR | RIGHTS ON ISSUE AT 31 DEC |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| **2012 rights** | **Non-market** | **0.000** | **–** | **–** | **–** | **–** |
| **08/10/2012** | **Market** | **0.000** | **–** | **–** | **–** | **–** |
| **2011 rights** | **Non-market** | **0.000** | **–** | **–** | **–** | **–** |
| **01/02/2012** | **Market** | **0.000** | **–** | **–** | **–** | **–** |
| **2012** | | | | | | |
| 2012 rights | Non-market | 0.116 | – | 5,289,334 | – | 5,289,334 |
| 08/10/2012 | Market | 0.090 | – | 3,297,667 | – | 3,297,667 |
| 2011 rights | Non-market | 0.100 | – | 2,061,840 | – | 2,061,840 |
| 01/02/2012 | Market | 0.036 | – | 1,374,560 | – | 1,374,560 |

All options were granted during the reporting period. No rights have been granted since the end of the reporting period.

### 31.4. 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.

### 31.5. 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 was 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 was adopted and this was used for all of the 2011 and 2012 rights.

The value of each 2011 right subject to market vesting conditions was $0.036. The value of each 2012 right subject to market vesting conditions was $0.090.

### 31.6. 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 both the 2011 and 2012 rights that depend on earnings per share.

The value of each 2011 right subject to non-market vesting conditions was $0.100. The value of each 2012 right subject to non-market vesting conditions was $0.116.

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## NOTE 32. AUDITOR'S REMUNERATION

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2013 $** | 2012 $ | **2013 $** | 2012 $ |
| **(i) Audit services – KPMG Australia** | | | | |
| Audit and review of financial reports | **233,465** | 276,795 | **–** | 110,355 |
| Other regulatory audit services: | | | | |
| APRA review and audit | **40,250** | 47,250 | **8,750** | 15,750 |
| Australian Financial Services Licences | **10,355** | 10,355 | **–** | – |
| Fire services levy | **13,200** | 6,600 | **–** | – |
| **(ii) Audit related services – KPMG Australia** | | | | |
| Other services: | | | | |
| Actuarial peer review services | **30,700** | 30,700 | **–** | – |
| Home Warranty Insurance Fund returns audit and controls review | **52,500** | 55,000 | **–** | – |
| Extended Assurance | **10,000** | – | **–** | – |
| **Total auditor's remuneration** | **390,470** | 426,700 | **8,750** | 126,105 |

# NOTE 33. OPERATING LEASES

## 33.1. Leases as Lessee

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows.

| | CONSOLIDATED AND COMPANY | |
|---|---|---|
| | **2013 $'000** | 2012 $'000 |
| **Less than one year** | | |
| Lease of premises | **1,019** | 661 |
| Lease of computer equipment | **374** | 579 |
| | **1,393** | 1,240 |
| **Between one and five years** | | |
| Lease of premises | **3,374** | 5,053 |
| Lease of computer equipment | **110** | 395 |
| | **3,484** | 5,448 |
| **More than five years** | | |
| Lease of premises | **–** | 337 |
| Lease of computer equipment | **–** | – |
| | **–** | 337 |
| **Total commitments** | **4,877** | 7,025 |

The Group leases two office facilities under operating leases. The leases typically run for a period of 5 years, with an option to renew the lease after that date. Lease payments are increased every year to reflect market rentals.

The Company entered into a new contract for the Sydney office premises in December 2012 for a period of 5 years and expires in February 2018. The Company entered into a new contract for the Melbourne office premises in April 2012 for a period of 4.6 years and expires in October 2017.

During the year $1.1m was recognised as an expense in profit or loss in respect of operating leases.

The Group has determined that the office leases are operating leases. The rent paid to the landlord is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 34. RELATED PARTY DISCLOSURES

### 34.1. Parent Entity

The parent entity within the Group is Calliden Group Limited.

### 34.2. Subsidiaries

Investments in subsidiaries are set out in Note 22.

### 34.3. Inter-Company Transactions

Transactions between the Company and its controlled entities during the years ended 31 December 2013 and 31 December 2012 consisted of management fees being charged to the subsidiaries below for administration and support services provided during the year:

| | COMPANY | |
|---|---|---|
| | **2013 $** | 2012 $ |
| Aggregate amounts included in the determination of the operating result before income tax from these transactions: | | |
| Calliden Insurance Limited | **33,498,540** | 35,058,305 |
| Dawes Underwriting Australia Pty Limited | **2,590,148** | 928,056 |
| IUA Pty Limited | **454,153** | 587,329 |
| Calliden Agency Services Limited | **3,742,695** | 1,108,927 |
| **Total management fees** | **40,285,536** | 37,682,617 |
| Aggregate amounts receivable from/(payable to) entities in the wholly-owned Group at reporting date: | | |
| ARGIS Pty Limited | **–** | – |
| Calliden Insurance Limited | **(7,319,337)** | (9,908,275) |
| Dawes Underwriting Australia Pty Ltd | **3,199,241** | 1,980,674 |
| IUA Pty Ltd | **(42,710)** | (161,323) |
| Calliden Agency Services Limited | **(2,300,605)** | 4,607,509 |

### 34.4. Key Management Personnel Remuneration

The key management personnel compensation comprised:

| | CONSOLIDATED AND COMPANY | |
|---|---|---|
| | **2013 $** | 2012 $ |
| Short-term employee benefits | **2,078,233** | 1,925,584 |
| Long-term employee benefits | **–** | – |
| Post-employment benefits | **148,003** | 141,012 |
| Share-based payment benefits | **–** | – |
| Termination benefits | **–** | 8,551 |
| **Total** | **2,226,236** | 2,075,147 |

The Group has applied the exemption under AASB 124 Related Party Disclosures which exempts listed companies from providing remuneration disclosure in relation to their key management personnel in the notes to this financial report where this information is disclosed in the Remuneration report section of the Directors' Report. Information regarding Key Management Personnel's remuneration and some equity instruments disclosure is provided in the Remuneration Report section of the Directors' Report.

### 34.5. Individual Directors and Executives Compensation Disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

### 34.6. Joint Ventures

The joint ventures make the results of their activities available to the Group as well as to other joint venture partners. From time to time, to support the activities of the joint venture, the venture partners may increase their investment in the joint venture.

## NOTE 35. CONTINGENT LIABILITIES

The Group is exposed to a range of contingencies. Some are specific to instruments or transactions, others relate more to risk faced in the normal course of business.

Contingent liabilities are not recognised in the balance sheet but are disclosed where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure. The measurement involves judgement.

In the normal course of business, transactions are entered into that may generate a range of contingent liabilities. These include:

- litigation arising out of insurance policies; and
- undertakings for maintenance of net worth and liquidity support to subsidiaries in the Consolidated entity. It is normal practice to provide wholly owned subsidiaries with support and assistance as may be appropriate with a view to enabling them to meet their obligations and to maintain their good standing. Such undertakings constitute a statement of present intent only and are not intended to give rise to any binding legal obligation. The Company has guaranteed to pay all of the debts of all of its subsidiaries as and when they fall due.

It is not believed that there are any other potential material exposures to the Consolidated entity and there are no known events that would require it to satisfy the guarantees or take action under a support agreement.

## NOTE 36. CAPITAL MANAGEMENT

### 36.1. Capital Management Strategy

The capital management strategy plays a central role in managing risk to create shareholder value, whilst meeting the crucial and equally important objectives of providing an appropriate level of capital to protect policyholders' and lenders' interests, and satisfy regulators. The Group has a defined risk appetite regarding capital that is supported by strategies around the key levers of underwriting, reinsurance, asset allocation and risk management. The target level of capitalisation for the Group is identified by consideration of factors including:

- the probability of ruin over the next one to three years;
- the probability of falling below the APRA Prescribed Capital Requirement ("PCR") over the next one to three years;
- other stakeholder perspectives on capitalisation, including rating agency capital models and associated ratings; and
- domestic and international levels of capitalisation.

The amount of capital required in light of these factors varies according to the business underwritten, the extent of reinsurance and asset allocation. Assessments of capital adequacy are aided by the use of dynamic financial analysis modelling.

For ease of communication both internally and externally, the Group has translated targets and actual capital levels into a multiple of Prescribed Capital Amount ("PCA") by applying the APRA prescribed methodology for a Level 2 Insurance Group. Internal policies are in place to ensure significant deviations from this benchmark will result in the Board considering how any shortfall should be made good or any surplus utilised. The PCA is a calculated amount based on formulae set out in APRA's capital standards, whereas the PCR is the amount of capital that APRA requires a regulated entity to hold. The PCR may be equivalent to the PCA, but this is not necessarily so.

In accordance with the provisions of the new Life and General Insurance Capital review ("LAGIC") regulatory environment in effect from 1 January 2013, the Group has implemented an Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP framework further strengthens the Group's ability to continuously identify, measure, monitor and manage its risks to ensure capital levels are maintained that are consistent the Group risk appetite and regulatory requirements.

### 36.2. Regulatory Capital

It is Group policy to ensure that each of the APRA authorised entities within the Group maintain an adequate capital position, and to hold regulatory capital levels in excess of the PCR. The Capital Adequacy Multiple ("CAM"), being a multiple of PCA as at 31 December 2013 for Calliden Group Limited is 2.3 (2012: 1.9); and for Calliden Insurance Limited is 2.8 (2012: 2.2).

### 36.3. Capital Composition

The Group's capital comprises equity as shown in the Statements of Financial Position.

# Notes to the Consolidated Financial Report
CONTINUED

## NOTE 36. CAPITAL MANAGEMENT
CONTINUED

### 36.4. Regulatory Capital Compliance
The Company and the insurers within the Consolidated entity have at all times during the current and prior financial year complied with the externally imposed capital requirements to which they are subject. The Group contains an APRA authorised general insurer, CIL, and one authorised non-operating holding Company ("NOHC"), Calliden Group Limited. The PCA calculation provided below is based on applying the APRA Level 2 Insurance Group requirements.

| | CALLIDEN GROUP LIMITED $'000 | CALLIDEN INSURANCE LIMITED $'000 |
|---|---|---|
| **Statutory capital** | **49,990** | **56,998** |
| **Prescribed Capital Amount** | **21,464** | **20,515** |
| **Capital adequacy multiple** | | |
| **2013** | **2.3** | **2.8** |
| 2012 | 1.9 | 2.2 |

## NOTE 37. EVENTS SUBSEQUENT TO REPORTING DATE
On 27 February 2014, the Directors declared a fully franked final dividend of 1.7 cents per share (2013: 0.4 cents per share) and a fully franked special dividend of 0.5 cents per share (2013: nil).

As at the date of this report, there were no other material or unusual events or transactions occurring after the reporting date that the Directors are aware of that would significantly affect the Group's operations or the state of affairs of the Group in future years.

# Directors' Declaration

In the opinion of the Directors of Calliden Group Limited:

- the financial report and Notes 1 to 37, including all the remuneration disclosures that are contained in the remuneration report of the Directors' report, are in accordance with the *Corporations Act 2001*, including:
  - giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance, for the year ended on that date; and
  - complying with Australian Accounting Standards (including Australian Interpretations) and the *Corporations Regulations 2001*; and
  - the financial report also complies with International Financial Reporting Standards as disclosed in Note 2; and
- The remuneration report of the Directors' report complies with Australian Accounting Standard AASB 124 Related Party Disclosures;
- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 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 2013.
- The Directors draw attention to Note 2 in this consolidated financial report, which includes a statement of compliance with International Financial Reporting Standards.

Signed at Sydney this 27th day of February 2014 in accordance with a resolution of the Directors.

**RJ Hill**
Chairman

KPMG

# 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 2013, 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 37 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 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply 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.

### 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 2013 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 2.

## REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 17 to 26 of the Directors' report for the year ended 31 December 2013. 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 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG

**KPMG**

**Madeleine Mattera**

Partner

Sydney

27 February 2014

# Additional Information

## A. SHAREHOLDERS INFORMATION AS AT 11 MARCH 2014

### 1.0. TWENTY LARGEST SHAREHOLDERS

| NAME | NO. OF SHARES HELD | % ISSUED CAPITAL |
|---|---|---|
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 39,827,933 | 17.57 |
| AUSTRALIAN UNITY STRATEGIC HOLDINGS PTY LTD | 30,142,850 | 13.30 |
| CITICORP NOMINEES PTY LIMITED | 23,051,522 | 10.17 |
| NATIONAL NOMINEES LIMITED | 10,367,156 | 4.57 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 9,896,991 | 4.37 |
| CHEMBANK PTY LIMITED < CABAC SUPER FUND A/C > | 4,000,000 | 1.76 |
| CPU SHARE PLANS PTY LIMITED < CIX IRP UNALLOCATED A/C > | 3,972,285 | 1.75 |
| CHEMBANK PTY LIMITED < PHILANDRON ACCOUNT > | 3,500,000 | 1.54 |
| JP MORGAN NOMINEES AUSTRALIA LIMITED < CASH INCOME A/C > | 3,146,333 | 1.39 |
| HORRIE PTY LTD | 2,800,000 | 1.24 |
| ONE MANAGED INVESTMENT FUNDS LIMITED ACF SANDON CAPITAL INVESTMENTS LI | 2,594,066 | 1.14 |
| MR BRYAN F SHORT < SHORT FAMILY S/F A/C > | 2,500,000 | 1.10 |
| CPU SHARE PLANS PTY LIMITED < CIX-LTI CONTROL ACCOUNT > | 2,199,610 | 0.97 |
| POCRY INVESTMENTS PTY LIMITED < POCRY INVESTMENT A/C > | 1,405,000 | 0.62 |
| MR ANTHONY WOOLLEY < WOOLLEY KENCIAN S/FUND A/C > | 1,350,000 | 0.60 |
| HILLMORTON CUSTODIANS PTY LTD < THE LENNOX UNIT A/C > | 1,276,500 | 0.56 |
| SANDHURST TRUSTEES LTD < LMA A/C > | 1,230,000 | 0.54 |
| UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 1,212,600 | 0.53 |
| JAGEN PTY LTD | 1,100,000 | 0.49 |
| TW INVESTMENTS PTY LTD | 1,040,000 | 0.46 |
| **Total** | **146,612,846** | **64.68** |

## 2.0. DISTRIBUTION OF SHAREHOLDINGS

| NO. OF SHARES HELD | NO. OF HOLDERS | % ISSUED CAPITAL |
|---|---|---|
| 1 – 1,000 | 354 | 0.08 |
| 1,001 – 5,000 | 829 | 1.08 |
| 5,001 – 10,000 | 380 | 1.36 |
| 10,001 – 100,000 | 831 | 13.66 |
| 100,001 and over | 172 | 83.82 |
| **Total** | **2,566** | **100.00** |

### 2.1. Unmarketable Parcels

| MINIMUM PARCEL SIZE* | HOLDERS | UNITS |
|---|---|---|
| 1,563 | 485 | 357,352 |

*Minimum $500 parcel at $ 0.32 per unit

## 3.0. SUBSTANTIAL SHAREHOLDERS AS AT DATE OF LAST NOTICE TO THE COMPANY

| SHAREHOLDER | DATE OF LAST NOTICE | NO. SHARES HELD | % OF TOTAL ISSUED CAPITAL* |
|---|---|---|---|
| Hunter Hall Investment Management Limited | 29/07/2013 | 24,424,282 | 10.77 |
| Australian Unity Strategic Holdings Pty Ltd | 29/07/2008 | 30,142,850 | 13.04 |
| Challenger Financial Services Group Limited | 14/05/2013 | 20,732,061 | 9.15 |
| Greencape Capital Pty Ltd | 13/05//2013 | 18,633,622 | 8.22 |
| NAOS Asset Management Ltd | 08/01/2014 | 15,462,794 | 6.82 |

* The % of issued capital is based on the total issued capital as at 11 March 2014: 226,683,914 shares.

## 4.0. OPTIONS OVER ORDINARY SHARES

As at 10 March 2014 there were no options over unissued ordinary shares granted to Directors or to employees of the Company.

## 5.0. ON-MARKET SHARE BUY-BACK

The Company did not participate in any on-market share buy-back program during 2013.

### B. Classes of Shares and Voting Rights

The Company has fully paid ordinary shares on issue. At a general meeting, every ordinary shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and, on a poll, one vote for each fully paid share held.

### C. Corporate Governance Statement

This Statement sets out details of the Company's compliance with the "Principles of Good Corporate Governance and Best Practice Recommendations" published by the ASX Corporate Governance Council and explains any departures from those recommendations, as required by ASX Listing Rule 4.10. Unless indicated otherwise, the documentation referred to in this Statement can be accessed from the Corporate Governance section of the Company's website, www.calliden.com.au.

The Company periodically reviews its policies and practices against the ASX principles and recommendations. The following table outlines the manner by which the Company complies with each of the recommendations.

# Corporate Governance Statement

| | | DOCUMENTATION |
|---|---|---|
| **PRINCIPLE 1** | **Lay solid foundations for management and oversight** | |
| **Recommendation 1.1** | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | |
| Response | The Company has adopted a formal Board Charter that sets out the responsibilities of the Board. The Company provides formal letters of appointment for all Company Directors. A comprehensive check of their fitness and propriety is also undertaken prior to appointment.<br><br>There is a clear delegation of authority to Senior Executives, and the Board has direct authority to amend and approve these. | Board Charter |
| **Recommendation 1.2** | Companies should disclose the process for evaluating the performance of senior executives. | |
| Response | The Company adopts an annual review process for all staff, including Senior Executives. This review process consists of establishing a number of objectives at the beginning of the year that are linked to the Business Plan and performance objectives of the Company. At the end of the year the Senior Executives are measured against the objectives. | |
| **Recommendation 1.3** | Companies should provide the information indicated in the *Guide to Reporting on Principle 1.* | |
| | › an explanation of any departure from Recommendations 1.1, 1.2 or 1.3. | |
| Response | There has been no material departure from recommendations 1.1, 1.2 or 1.3. | |
| | › whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the process disclosed. | |
| Response | A review of the performance of Senior Executives has taken place in accordance with recommendation 1.2. | |
| **PRINCIPLE 2** | **Structure the Board to add value** | |
| **Recommendation 2.1** | A majority of the Board should be independent directors. | |
| Response | Five of the seven Company Directors are considered to be independent. Mr Kirk is not independent because he is an Executive Director. Mr Connon is not independent because of his connection with a substantial shareholder of the Company, Australian Unity Strategic Holdings Limited. Messrs Hill, Lowenstein, Smith, Messenger and Loomes are considered to be independent. | |
| **Recommendation 2.2** | The Chairperson should be an independent director. | |
| Response | The Chairman, Mr Hill, is an independent Company Director. | |
| **Recommendation 2.3** | The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual. | |
| Response | The Chairman and the Managing Director are not the same individual. The Board's policy is that the Managing Director may not become the Chairman. | |
| **Recommendation 2.4** | The Board should establish a Nomination Committee. | |
| Response | The Board has established a Remuneration and Nominations Committee that met three times during 2013. | Board Charter<br><br>Remuneration and Nominations Committee Charter |

| | | DOCUMENTATION |
|---|---|---|
| **Recommendation 2.5** | Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors. | |
| Response | The Board undertakes an annual review of its performance. This review consists of each board member undertaking a self-assessment questionnaire which draws answers from each Company Director about the degree to which the Board has satisfied its obligations. The Board has conducted a review of its 2013 performance. | |
| **Recommendation 2.6** | Provide the information set out in the *Guide to Reporting on Principle 2*. | |
| | › the skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report. | |
| Response | This information is provided on pages 9 to 10 of this Annual Report. | Annual Report |
| | › the names of the directors considered by the Board to constitute independent directors and the Company's materiality thresholds. | |
| Response | This information is provided on pages 9 to 10 of this Annual Report. The Company adopts the materiality thresholds prescribed in APRA Prudential Standard CPS510 Governance. | Annual Report |
| | › the existence of any of the relationships listed in Box 2.1 and an explanation of why the board considers a director to be independent, notwithstanding the existence of those relationships. | |
| Response | Until November 2011 Mr Lowenstein was directly associated with Hunter Hall Limited, a significant shareholder of the Company. | |
| | › a statement as to whether there is a procedure agreed by the Board for directors to take independent professional advice at the expense of the Company. | |
| Response | Company Directors may seek independent professional advice at the expense of the Company in respect of matters relating to their role as a Company Director. This is codified in the Board Charter. | Board Charter |
| | › a statement as to the mix of skills and diversity for which the board of directors is looking to achieve in membership of the board. | |
| Response | The Board undertakes regular reviews of its composition and structure to ensure an appropriate mix of skills and diversity. | Remuneration and Nominations Committee Charter |
| | › the period of office held by each director in office at the date of the Annual Report. | |
| Response | This information is provided on page 9 of this Annual Report. | Annual Report |
| | › the names of members of the nomination committee and their attendance at meetings of the committee, or where a company does not have a nomination committee, how the functions of a nomination committee are carried out. | |
| Response | Details of the members of the Remuneration and Nominations Committee and their attendance at the meetings are provided on page 10 of this Annual Report. | |
| | › whether a performance evaluation for the board, its committees and directors has taken place in the reporting period and whether it was in accordance with the process disclosed. | |
| Response | The Board has conducted a review of its 2013 performance. | Board Charter |

# Corporate Governance Statement
CONTINUED

| | | DOCUMENTATION |
|---|---|---|
| **PRINCIPLE 3** | **Promote ethical and responsible decision-making** | |
| **Recommendation 3.1** | Establish a Code of Conduct to guide the directors, the Chief Executive Officer, the Chief Financial Officer and any other key executives as to:<br>3.1.1 the practices necessary to maintain confidence in the Company's integrity<br>3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders<br>3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | |
| Response | The Company has established a Code of Conduct for Company Directors and employees.<br>The Company has established a Compliance Policy which outlines the procedures and controls in place to maintain compliance with all legal obligations.<br>A Whistleblower Policy is in force which details how employees may escalate instances of unethical practices. | Code of Conduct<br>Compliance Policy (not publicly available) |
| **Recommendation 3.2** | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. | |
| Response | During 2013 the Company reviewed its published diversity policy.<br>It is important for the sustainability and growth of the Company to attract and retain people with appropriate skills, knowledge and experience to meet the Company's current and future needs. | Diversity Policy (not publicly available) |
| **Recommendation 3.3** | Companies should disclose the measurable objectives for achieving gender diversity and progress towards achieving them. | |
| Response | The Company has established the following diversity objectives to be achieved by 31 December 2015:<br>1. Appointment of a female Company Director (currently no female directors);<br>2. 20% to 40% of Executive positions to be filled by females (currently 20%);<br>3. 30% to 50% of employees in roles classified as industry Career Level 5 and higher are female (currently 19%);<br>4. 40% to 60% of leadership roles (executives, managers, and team leaders) are female (currently 30%);<br>5. Retention and representation of females in stepping-stone roles and talent development pipelines (see response to recommendation 3.4). | |
| **Recommendation 3.4** | Companies should disclose the proportion of women employees in the organisation, senior executives and board members. | |
| Response | The composition of female employees within the Company fluctuates, although the Company is currently composed of 51% females and 49% males.<br>There is currently one female Senior Executive, constituting 20% of the executive team.<br>The front-line leadership training run by the Company consists of 40% females. The program covers core leadership competencies for all managers and team leaders below Senior Executive level. The program is open to all managers and team leaders, and potential successors to each role.<br>Further, the Company runs a mentoring program for career development. The program consists of 50% female mentees and 36% female mentors.<br>Also, 50% of employees receiving education support are female and 55% of employees enrolled in professional and short courses are female. | |

| | | DOCUMENTATION |
|---|---|---|
| **Recommendation 3.5** | Provide the information indicated in the *Guide to Reporting on Principle 3*. | |
| Response | See responses to recommendations 3.1, 3.2, 3.3 and 3.4. | |
| **PRINCIPLE 4** | **Safeguard integrity in financial reporting** | |
| **Recommendation 4.1** | The Board should establish an Audit Committee. | |
| Response | The Board has established an Audit Committee. | Audit Committee Terms of Reference |
| **Recommendation 4.2** | The Audit Committee should be structured so that it:<br>› consists only of non-executive directors<br>› consists of a majority of independent directors<br>› is chaired by an independent chairperson who is not the chair of the Board<br>› has at least three members. | |
| Response | The Audit Committee consists of non-Executive Directors, a majority being independent Company Directors. The committee members are: Messrs Loomes, Lowenstein, Messenger, Smith (all independent Company Directors); and Mr Connon. Mr Loomes, the Chairman of the Audit Committee, is not the Chairman of the Board. | Audit Committee Terms of Reference |
| | Details of the committee members' attendance at the meetings are provided on page 10 of this Annual Report. | Annual Report |
| **Recommendation 4.3** | The Audit Committee should have a formal charter. | |
| Response | The Audit Committee operates under formal Terms of Reference. | Audit Committee Terms of Reference |
| **Recommendation 4.4** | Provide the information indicated in the *Guide to Reporting on Principle 4*:<br>› the names and qualifications of those appointed to the Audit Committee and their attendance at meetings of the committee, or where a company does not have an audit committee, how the functions of an audit committee are carried out<br>› number of meetings of the Audit Committee. | |
| Response | Details of the members of the Audit Committee and their attendance at Audit Committee meetings are provided on page 10 of this Annual Report. | Annual Report |
| | The Audit Committee has responsibility for reviewing and making recommendations to the Board on the appointment, removal and independence of the external auditor. Rotation of the Appointed Auditor is undertaken in accordance with the requirements of the Corporations Act 2001. | Audit Committee Terms of Reference |
| | The current Appointed Auditor is KPMG. | |
| **PRINCIPLE 5** | **Make timely and balanced disclosure** | |
| **Recommendation 5.1** | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose of those policies or a summary of those policies. | |
| Response | The Company has a documented Continuous Disclosure Protocol to ensure compliance with (in particular) ASX Listing Rule 3.1. | Continuous Disclosure Protocol |
| | The Company has in place a compliance management system to ensure that key dates are complied with and to obtain regular monitoring of continuous obligations. | |
| **Recommendation 5.2** | Provide the information indicated in the *Guide to Reporting on Principle 5*. | |
| Response | See response to recommendation 5.1. | |

# Corporate Governance Statement
CONTINUED

| | | DOCUMENTATION |
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| **PRINCIPLE 6** | **Respect the rights of shareholders** | |
| **Recommendation 6.1** | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | |
| Response | The Company aims to communicate clearly and transparently with existing and prospective shareholders. The Company's website is used as a core means of investor communication. All announcements made to the ASX are placed on the website, under the Investor tab, immediately after release to the market and past disclosures are archived on the website. The Company also offers an email service to alert interested parties of announcements made to the Company's website. The Company's policy is to provide periodic commentary on the Company's activities and financial results to enhance the clarity and balance of reporting and to provide information needed by an investor to make an informed assessment of the Company. The Company believes that its shareholders are afforded the opportunity for effective participation in general meetings of the Company. Prior to any investor briefing the Company announces any dial in and/or webcasting details through the ASX and releases any relevant material. | Announcements to ASX<br>Company's website<br>Continuous Disclosure Protocol |
| **Recommendation 6.2** | Companies should provide the information indicated in the *Guide to Reporting on Principle 6.* | |
| Response | See response to recommendation 6.1. | |
| **PRINCIPLE 7** | **Recognise and manage risk** | |
| **Recommendation 7.1** | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | |
| Response | The Company has in place a Risk Management Strategy which outlines the policies and procedures in place to manage the risk framework within the Company. | Board Charter<br>Risk Management Committee Charter<br>Risk Management Strategy (not publicly available) |
| **Recommendation 7.2** | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | |
| Response | The Board Risk Management Committee receives a quarterly report on the development of risks and associated controls that are implemented to manage those risks. Management regularly hold meetings at the executive and operational level to monitor and review material business risks. | |
| **Recommendation 7.3** | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | |
| Response | The CEO and CFO have provided such a statement to the Board. | Annual Report |

| | | DOCUMENTATION |
|---|---|---|
| **Recommendation 7.4** | Provide the information indicated in the *Guide to Reporting on Principle 7*:<br><br>› Whether the board has received the report from management under Recommendation 7.2. | |
| Response | The quarterly reports to the Board Risk Management Committee have been received. | Risk Management Strategy (not publicly available)<br><br>Internal Audit Policy (not publicly available) |
| | › Whether the board has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) under Recommendation 7.3. | |
| Response | See response to recommendation 7.3. | |
| **PRINCIPLE 8** | **Remunerate fairly and responsibly** | |
| **Recommendation 8.1** | The Board should establish a Remuneration Committee. | |
| Response | The Board has established a Remuneration and Nominations Committee that met three times during 2013. | Board Charter<br><br>Remuneration and Nominations Committee Charter |
| **Recommendation 8.2** | The remuneration committee should be structured so that it:<br><br>› consists of a majority of independent directors<br>› is chaired by an independent chair<br>› has at least three members. | |
| Response | The Remuneration and Nominations Committee is comprised of three independent Company Directors. Mr Smith is the Chairman of the committee, and Mr Hill and Mr Messenger are committee members.<br><br>Details of the committee members' attendance at the meetings are provided on page 10 of this Annual Report. | Remuneration and Nominations Committee Charter<br><br>Annual Report |
| **Recommendation 8.3** | Companies should clearly distinguish the structure of non-Executive Directors' remuneration from that of executive directors and senior executives. | |
| Response | Details of the Company Directors' remuneration are provided on page 23 of this Annual Report, and details of the remuneration of Executive Directors and Senior Executives are provided on pages 23 to 24 of this Annual Report.<br><br>Details of incentive schemes are set out on pages 17 to 26 of this Annual Report. | Annual Report |
| **Recommendation 8.4** | Provide the information indicated in the *Guide to Reporting on Principle 8*.<br><br>› Names of the members of the Remuneration Committee and attendance at meetings of the committee, or where the company does not have a remuneration committee, how the functions of a remuneration committee are carried out. | |
| Response | See response to recommendation 8.2. | |
| | › The existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non-Executive Directors. | |
| Response | As disclosed on page 20 of this Annual Report, non-Executive Directors do not receive retirement benefits other than statutory superannuation. | Annual Report |

# Corporate Directory


### Calliden Group Limited

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### Controlled Entities

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Dawes Underwriting Australia Pty Limited
Calliden Agency Services Limited
ARGIS Pty Limited
IUA Pty Ltd

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### Appointed Auditor

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Calliden Group Limited is listed as CIX on the Australian Securities Exchange
The home exchange is Sydney.

**Calliden Group Limited**
ACN 061 215 601