calliden group

CALLIDEN GROUP LIMITED
APPENDIX 4D
INTERIM FINANCIAL REPORT
PERIOD ENDED 30 JUNE 2013

1. Details of the reporting period

Report for the six months ended 30 June 2013. The previous corresponding period was the six months ended 30 June 2012.

2. Results for announcement to the market

	Up / Down	Change %		30 June 2012 $'000		30 June 2013 $'000
Revenue from ordinary activities	Down	31	from	198,374	to	137,564
Profit / (loss) after tax attributable to members	Up	n/a	from	(231)	to	2,011
Net profit / (loss) attributable to members	Up	n/a	from	(231)	to	2,011

3. Net tangible assets per security

30 June 2013: 21.4 cents per share

31 December 2012: 20.1 cents per share

4. Changes to controlled entities

Not applicable.

5. Dividends

On 28 March 2013, the Directors paid a fully franked dividend of 0.4 cents per share.

Subsequent to 30 June 2013, the Directors have declared a fully franked dividend of 0.5 cents per share. The record date for the dividend is 16 September 2013, with a payment date of 30 September 2013.

6. Dividend reinvestment plan

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

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PERIOD ENDED 30 JUNE 2013

7. Associates and joint venture entities

During the six months ended to 30 June 2013, Calliden Group Limited held an interest in the following joint ventures:

	Ownership interest	
	30 June 2013 %	30 June 2012 %
Arena Underwriting Pty Ltd	**50**	50
QUS Pty Ltd	**50**	50

The company's aggregate share of profits from joint ventures in which a continuing interest is held for the six months ended 30 June 2013 is $0.1m (30 June 2012: $0.3m).

8. Foreign entities GAAP applied

Not applicable.

9. Audit report issues

There was no qualification or dispute relating to the financial report.

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INTERIM FINANCIAL REPORT

ACN 061 215 601

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CALLIDEN GROUP LIMITED
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INTERIM FINANCIAL REPORT

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DIRECTORS' REPORT

The Directors of Calliden Group Limited (the "Company") present their report together with the consolidated financial report for the six months ended 30 June 2013 and the auditor review report thereon.

1. DIRECTORS OF CALLIDEN GROUP LIMITED

The Directors of the Company at any time during or since the end of the interim period are:

Name	Date of Appointment
Non-executive	
RJ Hill Chairman	19 April 2000
JT Lowenstein Non-Executive Director	19 April 2000
MW Loomes Non-Executive Director	24 October 2000
JI Messenger Non-Executive Director	24 May 2007
AV Connon Non-Executive Director	21 September 2007
GGM Smith Non-Executive Director	23 October 2008
Executive	
NG Kirk Chief Executive Officer	1 January 2005

DIRECTORS' REPORT (continued)

2. PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS

2.1. 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") and the NSW Self-Insurance Corporation ("SICorp");
- The investment management of shareholders' and policyholders' funds; and
- Ownership interests in several underwriting agencies.

2.2. REVIEW OF OPERATIONS

The Group's financial results for the first half of 2013 represent the continuing transition to its new 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 transition is due to be completed in mid-2014.

The Group's insurance operations undertook a number of portfolio management actions in late 2012 that are reflected in the 2013 half 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;
- improved 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.

As a consequence, CIL's insurance book is structurally more profitable. Following the rebuilding of the capital base in 2012, CIL has been able to reduce its reinsurance coverage through a lower quota share cession in 2013 which will allow the Group to take advantage of this improved profitability. The financial effect of the reduced quota share cession will predominantly be seen in the second half of 2013, as the proportion of earned premium at lower quota share levels increases.

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;
- 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; and

DIRECTORS' REPORT (continued)

- reaching agreement with ACE Insurance to distribute a range of Accident and Health products.

The Group is undertaking a restructuring of the business to align the operations with the new model. This restructuring will continue throughout 2013 and into early 2014, with Calliden consolidating its agency business into the wholly-owned subsidiary, Calliden Agency Services Limited ("CAS"), formerly Mansions of Australia Limited. CAS also acts as an agent for CIL.

2.3. OPERATING RESULT FOR THE FINANCIAL YEAR

The Group continued to expand on its MGA operations and returned a net profit after tax of $2.0m for the first half of 2013, compared with a $0.2m loss in the first half of 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 for the first half;
- Calliden's agency operations continuing to grow through the alliance with GLA, Lloyd's and SICorp;
- CIL continuing to develop improved risk selection. The change in reinsurance retention is seeing higher net premium retained during the first half of 2013; and
- the claims ratio being slightly up on the same period the previous year due to storm activity following Cyclone Oswald in the early months of 2013, in addition to the strengthening of the Builders Warranty portfolio reserves.

2.3.1. GENERAL INSURANCE UNDERWRITING

The insurance profit for the year was $1.8m, compared with a profit of $0.3m in the same period last year.

The insurance performance of the Group for this year is much improved principally due to decreased reinsurance costs, and a decrease in net acquisition costs resulting from the transition of portfolios to an agency basis. The Group reported an underwriting profit of $0.5m compared with a loss of $1.5m in the same period last year.

CIL underwrote Gross Written Premium ("GWP") of $53.9m, which was 48% lower than at 30 June 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 high natural catastrophe risk such as the transition of the QUS residential strata portfolio to WR Berkley.

For the first half of the year, CIL's gross earned premium fell 37% to $75.7m and net earned premium fell 22% to $33.6m, driven chiefly by the decrease in proportional reinsurance.

DIRECTORS' REPORT (continued)

As a result of the changes to our portfolio, Calliden's exposure to claims in the first half of 2013 was reduced, with net incurred claims dropping from $21.1m in the first half of 2012 to $19.5m.

Our net incurred claims include a $0.1m positive impact as a result of an increase in the discount rate from 2.8% at 31 December 2012 to 2.9% at 30 June 2013.

2.3.2. UNDERWRITING AGENCY

Calliden's agency produced a profit of $2.0m in contrast with the prior half year profit of $1.2m. 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 three external insurers: GLA – part of the Munich Re Group, Lloyd's and SICorp. The Group increased its GWP underwritten by third party insurers by 133% from $18.9m in the first half of 2012 to $44.1m in the first half of 2013, and in 2013 almost half of Calliden's overall GWP is forecast to be underwritten by third party insurers.

2.3.3. JOINT VENTURES

Our Joint ventures, Arena Underwriting Pty Ltd and QUS Pty Ltd, decreased their contribution to our half year profit by $0.2m to $0.1m, compared with the same period last year, primarily due to underwriting exposure restrictions placed on QUS prior to the transition of this portfolio to WR Berkley.

2.4. REVIEW OF FINANCIAL CONDITION

2.4.1. FINANCIAL POSITION

The Group's financial position was strengthened over the first half of 2013, with Shareholders' Equity increasing to $97.0m and Net Tangible Assets increasing from 20.1 cents per share at 31 December 2012 to 21.4 cents per share at 30 June 2013.

The total assets of the Group as at 30 June 2013 were $321.8m compared with $360.8m at 31 December 2012. The movement is mainly attributable to:

- A reduction in cash and investments of $9.1m reflecting the payment of a dividend to shareholders, minimum and deposit reinsurance premiums and Fire Service Levies in the first half of 2013.
- A reduction in deferred acquisition costs of $4.0m flowing from lower written premium as a result of the transition of the Business Pack and Farm Pack portfolios to GLA;
- A reduction in reinsurance and other recoveries receivable of $9.2m due to reduced exposure, fewer losses and the reduction of the proportional reinsurance from 60% to 25%; and
- A reduction in intangible assets of $1.6m as a result of amortisation of past software development costs and identifiable intangibles relating to past acquisitions.

The total liabilities of the Group as at 30 June 2013 were $224.8m compared to $265.0m at 31 December 2012. The movement is mainly attributable to:

DIRECTORS' REPORT (continued)

- A reduction in unearned premium liability of $21.8m principally as a result of the Business Pack, Farm and QUS portfolio movements;
- A reduction in outstanding claims of $14.8m following lower claims being reported, due to the transition of business onto an agency basis; and
- A reduction in unearned reinsurance commission of $9.1m as a result of a reduction in GWP and proportional reinsurance.

The increase in the Group's equity from $95.9m at 31 December 2012 to $97.0m at 30 June 2013 reflects the results of operations for the first half of the year, partially offset by the payment of a dividend in March 2013 of $0.9m.

2.4.2. CASH FROM OPERATIONS

The Group's net cash outflow from operating activities for the first half year of 2013 was $7.7m compared to a net outflow of $31.6m at 30 June 2012. The majority of this outflow was attributable to a reduction in the size of the underwritten business offset by decreased reinsurance premiums.

2.4.3. CAPITAL MANAGEMENT

As a result of the profit in the first half of 2013, the Group's and CIL's capital positions have improved, as reflected in the Capital Adequacy Multiple ("CAM").

The Group's CAM was 2.0 as at 30 June 2013 compared with 1.9 as at 31 December 2012. CIL's CAM improved to 2.3 as at 30 June 2013 compared with 2.2 at 31 December 2012.

2.5. 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.

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.

2.6. INVESTMENT ACTIVITIES

The Group continued its investment strategy from 2012 by investing in fixed term deposits and cash at call with Australian banks. This ensured Calliden was protected against volatile investment markets. In anticipation of falling interest rates, the Group sought to lock in term deposits, which has largely protected its investment returns in 2013. 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 $0.1m in the first half of 2013.

DIRECTORS' REPORT (continued)

The investment portfolio was made up of $75.6m in term deposits and $9.8m in cash at call as at 30 June 2013, compared with $70.0m in term deposits and $24.5m in cash at call at 31 December 2012.

Total investment income earned during the first half of 2013 was $2.3m (30 June 2012: $3.0m). The weighted average rate of return has been on a downward trend in the first half of 2013, consistent with the decline in the Bank Bill rate. As at 30 June 2013 the weighted average rate of return was 5.89%,compared to 6.15% at 30 June 2012. The average term to maturity for term deposits is 3.13 years.

The Group also holds a number of joint venture investments. The Group's share of net profits from joint ventures was $0.1m (30 June 2012: $0.3m).

2.7. OUTLOOK

In the second half of 2013 Calliden will continue the transition to its new 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 Insurance. This is forecast to result in Calliden generating around 50% of its business in 2013 from policies underwritten by third party insurers.

CIL will continue to focus on improving the underlying profitability of the underwritten portfolio, taking advantage of a less conservative 2013 reinsurance programme, and improved loss ratios arising from portfolio management actions in 2012. The Group will also continue to pursue new agency opportunities to complement our existing product suite, and look to source new joint venture investment opportunities.

2.8. LIKELY DEVELOPMENTS

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

2.9. EVENTS SUBSEQUENT TO REPORTING DATE

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.

3. DIVIDENDS

On 28 March 2013, the Directors paid a fully franked dividend of 0.4 cents per share.

On 29 August 2013, the Directors declared a fully franked dividend of 0.5 cents per share. The record date for the dividend is 16 September 2013, with a payment date of 30 September 2013. This dividend has not been provided for and will be recognised in subsequent financial reports.

DIRECTORS' REPORT (continued)

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

The lead auditor's independence declaration is set out on page 12 and forms part of the Directors' Report for the six months ended 30 June 2013.

5. ROUNDING OFF

The Group is of a kind referred to in the class order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the condensed consolidated interim financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

RJ Hill
Chairman
Dated at Sydney this 29th day of August 2013.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Calliden Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 30 June 2013 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Madeleine Mattera

Madeleine Mattera
Partner

Sydney
29 August 2013

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	30 June 2013 $'000	30 June 2012 $'000
CONTINUING OPERATIONS			
Gross written premium		**53,908**	104,103
Gross premium revenue	5	**75,694**	119,759
Reinsurance premium expense	6	**(42,117)**	(76,953)
Net premium revenue		**33,577**	42,806
Gross claims expense	6	**(47,137)**	(65,354)
Reinsurance and other recoveries revenue	5	**27,665**	44,288
Net claims expense		**(19,472)**	(21,066)
Acquisition costs	6	**(16,223)**	(33,023)
Reinsurance commission revenue	5	**13,495**	24,187
Net acquisition costs		**(2,728)**	(8,836)
Other underwriting expenses	6	**(4,877)**	(4,023)
Levies and charges	6	**(5,955)**	(10,417)
Underwriting expenses		**(10,832)**	(14,440)
Underwriting profit / (loss)		**545**	(1,536)
Investment income on assets backing insurance liabilities		**1,231**	1,882
Insurance profit / (loss)		**1,776**	346
Agency commission and fee revenue	5	**18,279**	6,869
Agency acquisition costs		**(8,731)**	(3,471)
Agency expenses	6	**(7,580)**	(2,238)
Agency profit / (loss)		**1,968**	1,160
Investment income on shareholders' funds		**1,102**	1,106
Share of net profits of joint ventures	5	**93**	283
Other revenue		**5**	-
Administration and other expenses	6	**(2,933)**	(3,126)
PROFIT / (LOSS) BEFORE INCOME TAX		**2,011**	(231)
Income tax expense		**-**	-
PROFIT FROM CONTINUING OPERATIONS		**2,011**	(231)
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**2,011**	(231)
Basic earnings per ordinary share (cents)		**0.89**	(0.10)
Diluted earnings per ordinary share (cents)		**0.89**	(0.10)

The condensed notes on pages 17 to 23 are an integral part of this condensed interim financial report.

calliden group

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	30 June 2013 $'000	31 Dec 2012 $'000
ASSETS			
Cash and cash equivalents		**9,839**	24,504
Investments		**75,592**	70,000
Premium receivable		**56,314**	52,456
Trade and other receivables		**19,652**	12,296
Reinsurance and other recoveries receivable		**63,665**	72,902
Prepayments		**712**	817
Deferred levies and charges		**2,864**	7,455
Deferred reinsurance expense		**25,318**	46,561
Deferred acquisition costs		**16,754**	20,792
Deferred tax assets		**3,750**	3,750
Plant and equipment		**2,013**	2,180
Equity-accounted investees		**446**	603
Intangible assets		**10,512**	12,147
Goodwill	9	**34,371**	34,371
TOTAL ASSETS		**321,803**	360,834
LIABILITIES			
Trade and other payables		**32,719**	27,947
Employee benefits		**1,352**	1,254
Unearned premium liability		**59,545**	81,331
Unearned reinsurance commission		**7,075**	16,141
Unearned agency commission		**1,827**	1,252
Outstanding claims liability		**122,237**	137,058
TOTAL LIABILITIES		**224,755**	264,983
NET ASSETS		**97,048**	95,851
EQUITY			
Share capital		**99,539**	99,539
Treasury shares held in trust		**(161)**	(70)
Share-based payments reserve		**561**	379
(Accumulated losses) / retained earnings		**(2,891)**	(3,997)
TOTAL EQUITY		**97,048**	95,851

The condensed notes on pages 17 to 23 are an integral part of this condensed interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2013

CONSOLIDATED	Share capital $'000	Treasury shares held in trust $'000	Share-based payments reserve $'000	(Accumulated losses) / retained earnings $'000	Total equity $'000
For the six months ended 30 June 2013					
Balance at 1 January 2013, as previously reported	**99,539**	**(70)**	**379**	**(3,997)**	**95,851**
Total comprehensive income for the period	**-**	**-**	**-**	**2,011**	**2,011**
Transactions with owners of the Company, recognised directly in equity					
Dividend to owners of the Company	**-**	**-**	**-**	**(905)**	**(905)**
Acquisition of shares by the Calliden Employee Share Trust (1)	**-**	**(91)**	**-**	**-**	**(91)**
Long-term incentive expense	**-**	**-**	**182**	**-**	**182**
Total transactions with owners of the Company	**-**	**(91)**	**182**	**(905)**	**(814)**
Balance at 30 June 2013	**99,539**	**(161)**	**561**	**(2,891)**	**97,048**
For the six months ended 30 June 2012					
Balance at 1 January 2012, as previously reported	99,539	(2)	-	(5,086)	94,451
Total comprehensive income for the period	-	-	-	(231)	(231)
Transactions with owners of the Company, recognised directly in equity					
Dividend to owners of the Company	-	-	-	-	-
Acquisition of shares by the Calliden Employee Share Trust	-	-	-	-	-
Long-term incentive expense	-		55	-	55
Total transactions with owners of the Company	99,539	(2)	55	(5,317)	94,275
Balance at 30 June 2012	99,539	(2)	55	(5,317)	94,275

(1) Cash transferred to broker, however no trades were completed as at reporting date.

The condensed notes on pages 17 to 23 are an integral part of this condensed interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	30 June 2013 $'000	30 June 2012 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received (1)		**88,245**	109,508
Reinsurance and other recoveries received		**38,899**	49,638
Acquisition costs paid		**(9,569)**	(28,398)
Reinsurance premium paid		**(24,984)**	(62,592)
Claims paid		**(62,022)**	(82,427)
Underwriting expenses paid		**(20,578)**	(20,425)
Interest received		**3,215**	2,293
Dividends received from joint ventures		**250**	375
Commission income received		**14,853**	2,193
Agency fee income received		**3,088**	1,587
Agency commission expenses paid		**(7,857)**	(1,481)
Premiums paid to underwriters (2)		**(31,284)**	(1,632)
Other operating income / (expenses)		**-**	(268)
Net cash from / (used in) operating activities		**(7,744)**	(31,630)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments		**(5,592)**	-
Outlays / (proceeds) of plant and equipment		**(8)**	8
Outlays for software development expenditure		**(323)**	(545)
Net cash from / (used in) investing activities		**(5,923)**	(537)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(907)**	-
Repayment of loan provided to joint ventures		**-**	388
Outlay for purchase of treasury shares		**(91)**	-
Net cash from / (used in) financing activities		**(998)**	388
Net increase / (decrease) in cash and cash equivalents		**(14,665)**	(31,779)
Cash and cash equivalents at the beginning of the period		**24,504**	40,140
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**9,839**	8,361

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

(2) Includes premiums paid to GLA, Lloyd's and SICorp.

The condensed notes on pages 17 to 23 are an integral part of this condensed interim financial report.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

NOTE 1. REPORTING ENTITY

Calliden Group Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 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.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2012 are available upon request from the Company's registered office Level 7, 100 Arthur Street, North Sydney, NSW 2060, Australia or at www.calliden.com.au.

NOTE 2. BASIS OF PREPARATION

2.1. STATEMENT OF COMPLIANCE

The condensed consolidated interim financial report is a general purpose financial report prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001, and with IAS 34 Interim Financial Reporting.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial report as at and for the year ended 31 December 2012. The condensed consolidated interim financial report does not include all of the information required for the full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2012.

This condensed consolidated interim financial report was approved by the Board of Directors on the 29 August 2013.

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

2.2. ESTIMATES

Preparing the condensed consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2012.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in the condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2012. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial report as at and for the year ending 31 December 2012.

3.1. CHANGES IN ACCOUNTING POLICIES

3.1.1. PRESENTATION OF TRANSACTIONS RECOGNISED IN OTHER COMPREHENSIVE INCOME

From 1 January 2013, the Group applied amendments to AASB 134 Interim Financial Reporting outlined in AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss.

3.2. RESTATEMENT OF COMPARATIVES

Certain comparative amounts have been reclassified to conform to current year presentation in this condensed consolidated financial report. This relates to:

- a reclassification between other underwriting expenses and agency expenses in Note 6 - Expenses of $0.5m. This has resulted in the Insurance result being restated down from a $0.8m profit to a $0.3m profit. The corresponding combined Agency and Head Office result was restated up from a $1.0m loss to a $0.6m loss. Overall, this has had a nil impact in the Statement of Comprehensive Income; and
- a restatement of the 30 June 2012 balances in the Statement of Cash Flows to reflect the inclusion of the Mansions Trust. The balances restated are Premiums received and Premiums paid to underwriters lines. This has an impact of reducing the Cash and Cash Equivalents balance from $10.2m to $8.4m.

NOTE 4. FINANCIAL INSTRUMENTS

4.1. FINANCIAL RISK MANAGEMENT – CREDIT RISK OF TRADE AND OTHER RECEIVABLES

Aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial report as at and for the year ended 31 December 2012.

4.2. FAIR VALUE HIERARCHY

The Group holds investment in term deposits with a fair value of $75.6m at 30 June 2013 (30 June 2012: $80m).

The term deposits have been categorised into the Level 1 fair value hierarchy.

NOTE 5. REVENUE

	30 June 2013 $'000	30 June 2012 $'000
(i) General insurance revenue		
Gross premium revenue	**75,694**	119,759
Reinsurance and other recoveries revenue	**27,665**	44,288
Reinsurance commission revenue	**13,495**	24,187
Total general insurance revenue	**116,854**	188,234
(ii) Agency commission and fee revenue	**18,279**	6,869
(iii) Investment income	**2,333**	2,988
(iv) Share of net profit of joint ventures	**93**	283
(v) Other revenue	**5**	-
Total revenue	**137,564**	198,374

NOTE 6. EXPENSES

	30 June 2013 $'000	30 June 2012 $'000
Profit / (loss) before income tax includes the following specific expenses:		
Gross claims expense	**47,137**	65,354
Reinsurance premium expense	**42,117**	76,953
Acquisition costs - insurance	**16,223**	33,023
Acquisition costs - agency	**8,731**	3,471
Other underwriting expenses	**4,877**	4,023
Levies and charges	**5,955**	10,417
Administration and other expenses (1):		
Defined contribution superannuation expense	**762**	780
Depreciation expense	**176**	147
Amortisation expense - systems development costs	**1,442**	1,570
Amortisation expense - customer relationships	**553**	629
Other agency expenses	**7,580**	2,238
Total expenses	**135,553**	198,605

(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.

NOTE 7. OPERATING SEGMENTS

7.1. OPERATING SEGMENTS

			Consolidated	
	General Insurance			
BUSINESS AREA	**Underwriting**	**Agency**	**Corporate**	**Total**
OPERATING SEGMENTS	**$'000**	**$'000**	**$'000**	**$'000**
For the six months ended 30 June 2013				
Gross written premium [1]	53,908	44,122	-	98,030
Gross premium revenue	75,694	-	-	75,694
Reinsurance premium expense	(42,117)	-		(42,117)
Net premium revenue	33,577	-	-	33,577
Commission and fee income	-	18,279	-	18,279
Net claims expense	(19,472)	-	-	(19,472)
Net acquisition costs	(2,728)	(8,731)	-	(11,459)
Operating expenses	(10,832)	(7,580)	-	(18,412)
Profit / (loss)	545	1,968	-	2,513
Investment income on assets backing insurance liabilities	1,231	-	-	1,231
Depreciation and amortisation expense	-	-	(2,171)	(2,171)
Share of net profit of joint ventures	-	-	93	93
Investment income on shareholders' funds	-	-	1,102	1,102
Other revenue	-	-	5	5
Administration and other expenses	-	-	(762)	(762)
Profit / (loss) before income tax	1,776	1,968	(1,733)	2,011

(1) Agency GWP is not earned by the Group and is exclusive of any Fire Services Levy.

7.2. PRIOR YEAR COMPARATIVE

There is no prior year comparative as there was only one operating segment at 30 June 2012.

NOTE 8. EARNINGS PER SHARE

	30 June 2013 Cents	Consolidated 30 June 2012 Cents
8.1 REPORTING PERIOD VALUES		
Basic earnings per ordinary share	**0.89**	(0.10)
Diluted earnings per ordinary share	**0.89**	(0.10)

	30 June 2013 $'000	30 June 2012 $'000
8.2 RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit / (loss) for the year	**2,011**	(231)
Profit / (loss) attributable to equity holders of the Parent which is used in calculating basic and diluted earnings per share	**2,011**	(231)

	30 June 2013 Number	30 June 2012 Number
8.3 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

NOTE 9. GOODWILL

9.1. 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	30 June 2013 $'000	31 Dec 2012 $'000
Underwriting	**29,493**	29,493
Agency	**4,878**	4,878
Total goodwill	**34,371**	34,371

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

9.2. 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 (31 December 2012: 12.0%);
- Terminal growth rate at year 2018 of 2.5% (31 December 2012: 2.5%) and beyond is based on management's expectation for future performance in both the Underwriting CGU and the Agency CGU;
- Average investment return from assets backing insurance liabilities is expected to be 5.0% 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 2013 financial year.

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

NOTE 9. GOODWILL (continued)

9.3. IMPACT OF POSSIBLE CHANGES IN KEY ASSUMPTIONS

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

The recoverable amount of the goodwill of the Underwriting CGU is estimated to be $89.6m (31 December 2012: $96.6m). This exceeds the carrying amount of the Underwriting CGU's goodwill as at 30 June 2013 by $60.1m (31 December 2012: $67.1m).

If the discount rate applied to the cash flow projections of the Underwriting CGU was 16.88% p.a. instead of 12.00% 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 future valuation of the CGUs is dependent on the revenue assumptions. The revenue in both CGUs involves both GWP and Agency Fees which are driven by policy count.

If the policy count applied to the cash flow projections of the Underwriting CGU and was reduced by 19.8%, the recoverable amount of the Underwriting CGU's goodwill would equal its carrying amount.

If the policy count applied to the cash flow projections of the Agency CGU and was reduced by 41.3%, the recoverable amount of the Agency CGU's goodwill would equal its carrying amount.

The recoverable amount of the goodwill of the Agency CGU is estimated to be $32.1m (31 December 2012: $29.6m). This exceeds the carrying amount of the CGU's goodwill at 30 June 2013 by $27.3m (31 December 2012: $24.7m).

If the discount rate applied to the cash flow projections of the Agency CGU was 23.94% p.a. instead of 12.00% 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.

9.4. IMPAIRMENT CHARGE

There is no impairment charge as no impairment was indicated.

NOTE 10. SUBSEQUENT EVENTS

On 29 August 2013, the Directors declared a fully franked dividend of 0.5 cents per share (30 June 2012: nil). The record date for the dividend is 16 September 2013, with a payment date of 30 September 2013.

As at the date of this report, there was 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 Company"):

1. the condensed consolidated financial report and notes set out on pages 13 to 23, are in accordance with the Corporations Act 2001 including:

   (a) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the six month period ended on that date; and

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

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

RJ Hill

Chairman

Dated at Sydney this 29th day of August 2013

Independent auditor's review report to the members of Calliden Group Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Calliden Group Limited, which comprises the Condensed Consolidated Statement of Financial Position as at 30 June 2013, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Cash Flows for the half year ended on that date, notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half year's end or from time to time during the half year.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2013 and its performance for the half year ended on that date; and complying with *Australian Accounting Standard* AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Calliden Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

KPMG

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the half year ended on that date; and

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

KPMG

KPMG

Madeleine Mattera

Madeleine Mattera
Partner

Sydney
29 August 2013