BALLANCE AGRI-NUTRIENTS INSURANCE LIMITED

FINANCIAL STATEMENTS

31 MAY 2013

BALLANCE AGRI-NUTRIENTS INSURANCE LIMITED

ANNUAL REPORT 2013

The Directors are pleased to present to the shareholder the Annual Report and audited financial statements of the Company for the period ended 31 May 2013.

Activities
The Company's principal activity during the period was providing insurance to Ballance Agri-Nutrients Limited and its subsidiaries.

Financial Performance
Gross earned premium revenue was $6,042,263 (2012: $4,926,767) and the Company net profit for the year after tax is $499,188 (2012: $1,200,642). Reinsurance premiums increased substantially in December 2011 and continued at a similar level on renewal in December 2012. The increased reinsurance cost was passed on to the Group companies and the 2013 year represents a full year reflecting the higher premium.

The Ballance Agri-Nutrients (Kapuni) Limited ("Kapuni") claim for the fire on 15 August 2011 was settled in April 2013. The claim value paid to Kapuni was $38,251,544 and the reinsurance recovery was $36,934,162. There are no outstanding claims payable or outstanding reinsurance recoveries at 31 May 2013. The difference of $1,317,382 between the claim paid and the recovery from reinsurance is the insured risk that the captive had under the insurance policy. Based on professional advice from Marsh FACS at balance date last year the Company did not anticipate there was any net claims cost incurred by the Company.

Financial Position
Total Assets are $11,059,364 (2012: $29,309,937) and Shareholders' Equity is $7,408,920 (2012: $6,909,732). Total assets reduced with the settlement of the Kapuni fire claim.

Dividend
Directors recommend that no dividend be paid.

Directors
During the year LD Bilodeau was appointed as a Director. On the 31st July 2013 DF O'Reilly resigned as a Director. RK Hopkins was appointed as a Director on the 1st August 2013. DS Graham resigned as a Director on the 25th September 2013. No Directors remuneration has been paid.

Share Dealings
There have been no share transactions requiring disclosure to the Board under section 148(2) of the Companies Act 1993.

Disclosure
As permitted by section 211(3) of the Companies Act 1993 the shareholder has agreed the Company will not disclose Director and employee remuneration that are otherwise reported under section 211(1)c, f and g.

Company Information
No requests have been received from Directors under section 145 of the Companies Act 1993 to use Company information received in their capacity as Directors that would not otherwise have been available to them.

Auditors
KPMG have been appointed auditors of the Company. It will be necessary for the Annual Meeting to record that the auditors continue in office.

Conclusion
Directors consider the affairs of the Company are satisfactory.

LD Bilodeau Chairman 30 September 2013	**RK Hopkins** Director 30 September 2013

Ballance Agri-Nutrients Insurance Limited
Income statement
For the year to 31 May 2013

	Note	2013 $	2012 $
Revenue			
Gross earned premium	5	6,042,263	4,926,767
Outward reinsurance premium expense	5	(4,294,074)	(3,493,651)
Net premium income		**1,748,189**	**1,433,116**
Claims expense	6	(5,251,544)	(33,000,000)
Reinsurance and other recoveries	6	3,934,162	33,000,000
Net claims incurred		**(1,317,382)**	**-**
Reinsurance commission revenue	5	154,468	124,757
Net underwriting result		**585,275**	**1,557,873**
Investment revenue	7	226,996	194,724
Net change in fair value of investments		(11,457)	(3,524)
Other operating expenses	8	(107,497)	(81,515)
		108,042	**109,685**
Profit for the year before income tax		**693,317**	**1,667,558**
Income tax expense	9	(194,129)	(466,916)
Profit for the year		**499,188**	**1,200,642**

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

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Ballance Agri-Nutrients Insurance Limited
Statement of comprehensive income
For the year to 31 May 2013

	Note	2013	2012
		$	$
Other comprehensive income, net of income tax		-	-
Profit for the year		499,188	1,200,642
Total comprehensive income for the year		499,188	1,200,642

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

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Ballance Agri-Nutrients Insurance Limited
Statement of movements in equity
For the year to 31 May 2013

	Share capital	Retained earnings	Total equity
	$	$	$
Balance at 1 June 2011	**1,000,000**	**4,709,090**	**5,709,090**
Profit for the year	-	1,200,642	1,200,642
Total comprehensive income for the year	-	1,200,642	1,200,642
Balance at 31 May 2012	**1,000,000**	**5,909,732**	**6,909,732**
Balance at 1 June 2012	**1,000,000**	**5,909,732**	**6,909,732**
Profit for the year	-	499,188	499,188
Total comprehensive income for the year	-	499,188	499,188
Balance at 31 May 2013	**1,000,000**	**6,408,920**	**7,408,920**

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

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Ballance Agri-Nutrients Insurance Limited
Balance sheet
As at 31 May 2013

	Note	2013 $	2012 $	2011 $
Shareholder's equity				
Paid in capital	10	1,000,000	1,000,000	1,000,000
Retained earnings		6,408,920	5,909,732	4,709,090
Total equity		7,408,920	6,909,732	5,709,090
Current liabilities				
Outstanding claims liabilities	11	-	18,840,000	-
Unearned premium liability	12	3,076,820	2,998,709	1,960,654
Unearned reinsurance commission	13	76,431	79,102	51,720
Trade payables	14	8,598	9,000	7,806
Income tax payable		488,595	473,394	124,565
Total current liabilities		3,650,444	22,400,205	2,144,745
Total equity and liabilities		11,059,364	29,309,937	7,853,835
Current assets				
Reinsurance and other recoveries	15	-	18,840,000	-
Deferred reinsurance premiums	16	2,191,458	2,126,437	1,390,328
Trade and other receivables	17	193,077	41,596	41,596
Inter-company receivable	22	8,140,434	7,791,508	5,907,992
Total current assets		10,524,969	28,799,541	7,339,916
Non-current assets				
Investments - Government stock	18	534,395	510,396	513,919
Total non-current assets		534,395	510,396	513,919
Total assets		11,059,364	29,309,937	7,853,835

For and on behalf of Board of Directors:

30 September 2013   30 September 2013

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

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Ballance Agri-Nutrients Insurance Limited
Statements of cash flows
For the year to 31 May 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Premiums received		6,120,375	5,964,821
Reinsurance commission received		-	152,139
Reinsurance recoveries		22,774,162	14,160,000
Claims paid		(24,091,544)	(14,160,000)
Payments to reinsurers		(4,359,095)	(4,229,760)
Interest received		241,404	194,724
Income tax (paid) refunded		(178,927)	(118,087)
Other expenses paid		(107,900)	(80,321)
Net cash flow from operating activities	21	**398,475**	**1,883,516**
Cash flows from investing activities			
Sale of Government stock		500,000	-
Purchase of Government Stock		(549,549)	-
Net cash flow from investing activities		(49,549)	-
Net increase/(decrease) in Inter-company balance with Parent	3j	348,926	1,883,516
Inter-company balance with Parent at the beginning of the year		7,791,508	5,907,992
Inter-company balance with Parent at the end of the year	22b	8,140,434	7,791,508

The accompanying Notes form part of and should be read in conjunction with these Financial Statements

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BALLANCE AGRI-NUTRIENTS INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MAY 2013

1 **REPORTING ENTITY**

Ballance Agri-Nutrients Insurance Limited ("the Company") is a company incorporated and domiciled in New Zealand and is a wholly owned subsidiary of Ballance Agri-Nutrients Limited ("Ballance" or the "Parent"). The registered office is care of Ballance Agri-Nutrients Limited, Administration Building, Hewletts Road, Mount Maunganui, New Zealand. The Company is a general insurer and was incorporated to insure members of the Ballance Group of companies in which Ballance has at least a 51% interest. The Company is a "captive insurer" in that it only insures Ballance Group companies and currently only provides insurance for material damage and business interruption risks. The Company retains an insurance deductible that the Ballance Group determines is acceptable for the Group risk profile and purchases reinsurance from international markets to cover the remaining insurance risk.

The Company is registered under the Companies Act 1993. With the introduction of the Insurance (Prudential Supervision) Act 2010 ("IPSA") all insurers carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand ("RBNZ"). The Company was granted a provisional license on 17 February 2012 and subsequently was granted a full license on the 2 May 2013, the Company is deemed to be an issuer under section 4(1)(da) of the Financial Reporting Act 1993 as of 1 June 2012. These financial statements have been prepared in accordance with the Financial Reporting Act 1993 and the IPSA.

The financial statements for the Company are for the year ended 31 May 2013 and have been authorised for issue by the Board of Directors on 30 September 2013.

2 **BASIS OF PREPARATION**

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP").They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS"). These are the Company's first NZ IFRS financial statements and NZ IFRS 1 has been applied.

An explanation of how the transition to NZ IFRS has affected the reported financial position and financial performance of the Company is provided in note 26.

(b) Functional currency

These financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest dollar.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for investments which are stated at fair value.

(d) Critical accounting estimates and judgements

The preparation of financial statements 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 estimate is revised and in any future periods affected. The key areas of significant estimation uncertainty and critical judgements in applying accounting policies relate to the outstanding claims liability, related reinsurance recoveries and the liability adequacy test. These are discussed in note 19.

3 **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and in preparing the opening NZ IFRS statement of financial position at 1 June 2011 for the purpose of the transition to NZ IFRSs.

(a) Revenue recognition

Premium revenue

Premium revenue comprises amounts charged to and payable by policyholders (direct premiums). Direct premiums exclude taxes and duties which are collected on behalf of third parties. Premium revenue is brought to account from the date of attachment of risk over the period of the contract. The earned portion of premiums received and receivable is recognised as revenue. The unearned premium liability is recognised in the Balance Sheet liability and is calculated by apportioning the premium income written in the year over the periods of risk from the date of attachment using the 365 days method.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance and other recoveries revenue
Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER") are recognised as revenue and as a reduction of the claims expense. Amounts due in respect of claims paid and anticipated recoveries in respect of outstanding claims are recognised as reinsurance and other recoveries receivable in the Balance Sheet. Reinsurance and other recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims, subject to any deductibles to be incurred by the Company.

Reinsurance commission revenue
Reinsurance commission revenue is received from reinsurers and is recognised in the Income Statement proportionately each month over the term of the policy period. At reporting date, any proportion of reinsurance commission revenue received and receivable but not earned is recognised in the Balance Sheet as an unearned reinsurance commission.

Investment revenue
Investment revenue comprises of interest income and is recorded as income when received or accrued using the effective interest rate method in respect of the period for which it is earned.

(b) Outward reinsurance premium expense
Premiums ceded to reinsurers are recognised by the Company as outwards reinsurance premium expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. Outward reinsurance premium expense is recognised as a reduction of gross premium revenue. A portion of outwards reinsurance premium is recognised as a deferred reinsurance asset and presented as deferred reinsurance premiums in the Balance Sheet.

(c) Claims
Claims expense
Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the insured on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expenses are recognised in profit and loss as losses are incurred.

Outstanding claims liability
The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs. Outstanding reported claims are assessed by review of individual claims files, whilst IBNR and IBNER are assessed based upon knowledge of the business and past experience. The liability for outstanding claims is not discounted due to the short term nature of claims incurred.

(d) Tax
Income tax comprises current and deferred tax. Current tax is the expected tax payable on the taxable income 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. Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference 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. The tax effect of income tax losses available for carry forward is recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

(e) Investments
Investments comprise of New Zealand Government Stocks and are designated as at fair value through profit or loss as the investments are managed and their performance evaluated on a fair value basis. The investment was designated as at fair value at the date of transition to NZ IFRS. Its value at designation was $513,919. Its carrying value did not change on designation. Initial recognition and subsequent measurement is at fair value in the Balance Sheet with any resultant unrealised gains and losses arising from changes in fair value recognised in the Income Statement. The fair value of investments are determined by reference to quoted bid prices as at reporting date. Investments are therefore classified as Level 1 in the fair value hierarchy, for which inputs into the valuation are based on quoted prices in active markets for identical financial instruments. Purchases and sales are accounted for at trade date.

(f) Other financial assets and liabilities
Other financial assets comprise of reinsurance, trade and intercompany receivables, which are initially recognised at fair value and stated at amortised cost less any impairment losses. Other financial liabilities comprise of trade payables which are initially recognised at fair value and stated at amortised cost.

(g) Impairment
A financial asset not carried at fair value through profit or loss, e.g. a trade and other receivable, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. Impairment losses are recognised in the Income Statement.

(h) Share capital
Ordinary shares are issued as fully paid shares and are recognised as equity.

(i) Goods and services tax
All amounts are shown exclusive of GST, except for receivables and payables that are stated inclusive of GST.

(j) Statement of Cash Flows
The Company does not operate a separate bank account and all receipts and payments are transacted by the Parent on its behalf. The inter-company account with the Parent is effectively the Company's quasi bank account. The inter-company account with the Parent meets the definition of "cash and cash equivalents" because the inter-company balance represents cash on hand or on-demand deposits, which are short term in nature, highly liquid and readily converted to cash for any cash payments required by the Company. Therefore, a Statement of Cash Flows has been presented to disclose cash flow information which represents the movement in the inter-company balance with the Parent.

(k) Comparatives
These financial statements include a balance sheet, as at transition to NZ IFRS, on 1 June 2011. Because no adjustments were required on transition to NZ IFRS the notes to the financial statements do not include comparative information as at 1 June 2011, as the directors do not believe this information would be useful to the reader.

4 New accounting standards and interpretations issued but not yet adopted
A number of new standards, amendments to standards and interpretations are issued but not yet effective for annual periods beginning on or after 1 June 2012, and have not been applied in preparing these financial statements. None of these are expected to have any effects on the financial statements of the Company, except for:

(a) NZ IFRS 13 Fair Value Measurement, effective for the Company's May 2014 financial statements. This standard replaces the guidance on fair value measurement in existing NZ IFRS literature with a single standard. The standard is not expected to have a material impact on the financial statements.

(b) NZ IFRS 9 Financial instruments, effective for the Company's May 2016 financial statements, could change the classification and measurement of its financial assets. The Company does not plan to adopt this standard early and the new standard is not expected to have a material impact on the financial statements.

5 UNDERWRITING INCOME

	2013	2012
	$	$
Gross premium written	6,120,375	5,964,823
Less movement in gross unearned premiums	(78,112)	(1,038,056)
Gross premium revenue	6,042,263	4,926,767
Reinsurance premium ceded	4,359,095	4,229,760
Less movement in deferred reinsurance premiums	(65,021)	(736,109)
Outward reinsurance premium expense	4,294,074	3,493,651
Reinsurance commission deferred	151,797	152,139
Less movement in unearned reinsurance commission	2,671	(27,382)
Reinsurance commission revenue	154,468	124,757

6 CLAIMS EXPENSE
Current year claims relate to risks borne in the current financial year. Prior year claims relates to the reassessment of prior year claims where the amounts are adjusted as the costs and recoveries are finalised. Claims expenses and reinsurance recoveries are not discounted given they are short term in nature.

	Current	Prior	Total
	$	$	$
Gross incurred claims (undiscounted)	-	5,251,544	5,251,544
Reinsurance and other recoveries (undiscounted)	-	(3,934,162)	(3,934,162)
Net claims incurred	0	1,317,382	1,317,382

The claims expense and related reinsurance recovery relates to a claim by Ballance Agri-Nutrients (Kapuni) Ltd as a result of a fire at the Kapuni plant in August 2011. The gross incurred claim of $38.251m is the cost of the fire claim, comprising $33.000m reserved in 2012 plus the revised costs agreed with Ballance Agri-Nutrients (Kapuni) Ltd this year. The gross incurred claim has increased since 2012 due to revisions in the costs negotiated under the insurance contract, offset by the inclusion of a deductible for the first 7 days of business interruption costs. The deductible was not thought to be enforceable in 2012, and only eventuated on later negotiation of the claim.
The reinsurance recovery on the fire claim of $36.934m, comprising $33.000m reserved in 2012 plus the recoveries agreed with the reinsurers this year. The recovery has increased since 2012 due to revisions in the amounts negotiated under the reinsurance contract (equal to the increase in the gross incurred claim discussed above), offset by the inclusion of a deductible for the first 30 days of business interruption costs. The deductible was not thought to be enforceable in 2012, and only eventuated on later negotiation of the claim recovery.
The increase in net claims incurred arises from the treatment of the deductibles on further negotiation of the claim.

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7 INVESTMENT REVENUE

	2013	2012
	$	$
Other interest income	-	442
Investment income on Government Stock	33,092	32,500
Inter-company interest income	193,904	161,782
	226,996	194,724

8 OPERATING EXPENSES

	2013	2012
	$	$
Operating expenses includes the following expenditure items :		
Audit fees paid to Auditors	6,000	6,000
Other fees paid to Auditors	24,275	-
Management fee paid	75,000	75,000
Other expenses	2,222	515
	107,497	81,515

Other fees paid to KPMG include consultancy fees related to the Company's transition to NZ IFRS and fees relating to regulatory reporting. Tax services are provided at a Ballance Agri-Nutrients Limited Group level and the fees are not separately identifiable for, or charged to, the Company.
Claims handling expense is nil as any costs are covered by the management fee, or borne by the Parent.

9 INCOME TAX

	2013	2012
	$	$
(a) Income tax expense in the Income Statement		
Current taxation	194,129	466,916
Under/(over) provision in prior years	-	-
Income tax expense	194,129	466,916
(b) Reconciliation of effective tax rate		
Profit before tax	693,317	1,667,558
Tax charge thereon @ 28%	194,129	466,916
Adjustments (tax effected)		
Non-assessable income	-	-
Non-deductible expenditure	-	-
Income tax expense	194,129	466,916

(c) Deferred tax asset

The Company has no recognised or unrecognised deferred tax assets or liabilities.

	2013	2012
(d) Imputation credit account:		
Imputation credits available for use in subsequent reporting periods	1,929,269	1,766,364

10 SHAREHOLDER'S EQUITY

	2013	2012
	$	$
1,000,000 ordinary shares	1,000,000	1,000,000
	1,000,000	1,000,000

All shares have equal voting rights and share equally in dividends and surplus on winding up.

The capital of the Company comprises its share capital and retained earnings. Share capital and retained earnings are maintained to ensure that the maximum amount of probable loss that can be sustained by the Company, from any individually large or multiple event, is able to be met after taking into account premiums received and reinsurance purchased.

With effect from 31 December 2012, the Company is required to maintain a solvency margin of at least $0 and hold Actual Solvency Capital of at least $1m. The Company complied with those externally imposed capital requirements throughout the period. The minimum solvency capital required to be retained to meet solvency requirements is shown below. The actual solvency capital exceeds the minimum requirements by $4,041,335 (2012: $3,425,924).

	2013	2012
	$	$
Actual solvency capital	7,408,920	6,909,732
Minimum solvency capital	3,367,585	3,483,808
Solvency margin	4,041,335	3,425,924

The methodology and bases for determining the solvency margin are in accordance with the requirements of the Solvency Standard for Captive Insurers Transacting Non-life Insurance Business.

11 OUTSTANDING CLAIMS LIABILITY

	2013	2012
	$	$
Balance at 1 June	18,840,000	-
Claims incurred in the current year	-	33,000,000
Other movements in claims incurred in prior years	5,251,544	-
Claims paid during the year	(24,091,544)	(14,160,000)
Balance at 31 May	0	18,840,000

12 UNEARNED PREMIUM LIABILITY

	2013	2012
	$	$
Balance at 1 June	2,998,709	1,960,654
Deferral of premiums on contracts written during the year	6,120,374	5,964,822
Premiums released to Income Statement during the year	(6,042,263)	(4,926,767)
Balance at 31 May	3,076,820	2,998,709

All premiums received in advance are current as the premiums are expected to be released to the Income Statement within 12 months of reporting date.

13 UNEARNED REINSURANCE COMMISSION

	2013	2012
	$	$
Balance at 1 June	79,102	51,720
Deferral of commission received on reinsurance contracts during the year	151,797	152,139
Reinsurance commission released to Income Statement during the year	(154,468)	(124,757)
Balance at 31 May	76,431	79,102

All unearned reinsurance commissions received in advance are current as the commissions are expected to be released to the Income Statement within 12 months of reporting date.

14 TRADE AND OTHER PAYABLES

	2013	2012
	$	$
Trade payables	8,598	9,000
	8,598	9,000

15 REINSURANCE AND OTHER RECOVERIES

	2013	2012
	$	$
Balance at 1 June	18,840,000	-
Reinsurance and other recoveries claimed	3,934,162	33,000,000
Reinsurance payments received	(22,774,162)	(14,160,000)
Balance at 31 May	0	18,840,000

This reinsurance recovery relates to the one claim described in note 6. There are no outstanding recoveries in the current year.

The reinsurance counterparties had a minimum credit rating of B++ at 31 May 2012. 25% of the total recoverable balance was due from Allianz Global Risks. All other reinsurers each represented less than 20% of the recoverable balance. All reinsurance recoverables are current as they were settled within 12 months of reporting date.

16 DEFERRED REINSURANCE PREMIUMS

	2013	2012
	$	$
Balance at 1 June	2,126,437	1,390,328
Reinsurance premiums incurred	4,359,095	4,229,760
Reinsurance premiums expensed during the year	(4,294,074)	(3,493,651)
Balance at 31 May	2,191,458	2,126,437

17 TRADE AND OTHER RECEIVABLES

	2013	2012
	$	$
Trade receivables	155,577	4,096
Prepayments	37,500	37,500
	193,077	41,596

18 INVESTMENTS

	2013	2012
	$	$
Financial asset at fair value through profit or loss		
New Zealand Government Stock	534,395	510,396
	534,395	510,396

The investment in the Government Stock was previously held as a deposit with the Public Trust as required by the Insurance Companies Deposits Act 1953 (now repealed) and restrictions existed on the Company's ability to deal in this stock. The Government Stock matured on 15 April 2013. A new bond was purchased as the Company was a provisional license holder at the date of maturity. The new bond matures 15 April 2015 and bears a coupon rate of 6%.

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19 INSURANCE RISK

(a) Insurance risk management

The Company engages the services of Marsh Limited to assist with managing the insurance programme. The key terms of the contracts for losses incurred after 1 December 2012 are outlined below.

The Company is exposed to claims from Ballance Group companies. Each claim is reduced for a deductible by the Ballance Group companies of $1m on property damage claims and 7 days of costs on business interruption claims. Between days 8 and 45 of a business interruption claim Ballance Group companies may claim up to $6.5m only, although this may increase if the maximum deductible is exceeded. The maximum deductible that the Company can enforce against Ballance Group companies is capped at $7.5m for material damage and business interruption claims in aggregate, per occurrence. The Company only insures property and related business interruption risks.

The Company reinsures 100% of its exposure to Ballance Group companies, above the reinsurers' deductible limits, as approved by its Parent. The deductible limit for each claim is $1m on property damage claims and 45 days of costs on business interruption claims. The maximum deductible that the reinsurers can enforce against the Company is capped at $7.5m for material damage and business interruption claims in aggregate, per occurrence.

The Company's net exposure to each occurrence is therefore $6.5m.
The deductibles above vary for material damage claims arising from an earthquake. The reinsurance agreements mirror the variations in the Company's contract with the Ballance Group, such that the Company's exposure is passed on to the reinsurers for these variations.

The concentration of insured risks for the Company are the manufacturing and distribution operations of the Ballance Group within New Zealand. The manufacturing sites are predominantly in the North Island and the distribution facilities are geographically dispersed throughout both Islands.

The insured base of the Ballance Group companies is small and claims are infrequent therefore claims volatility is high. The insured assets are geographically dispersed.

(b) Principle of reinsurance programme

Reinsurance is purchased to ensure that the Company's results are more predictable by reducing the effect that individually large claims and catastrophic events that lead to multiple claims have on its result. Reinsurance is purchased only from highly rated and reputable reinsurance companies.

(c) Outstanding claims liability - methodology and key assumptions

As at 31 May 2012, the provision for gross outstanding claims is the estimated future cost of claims incurred, whether reported or not, including direct and indirect claim handling costs, at a 75% probability of sufficiency. Reinsurance recoverables are assessed on a consistent basis. Reported claims are assessed based on information available at the balance date and taking account of expected trends in future settlements. Claims are infrequent and the risk margin for gross outstanding claims is assessed as the value of the specific insurance liabilities at the time, at a 75% level of sufficiency.

All claims are expected to be settled within one year and there is no provision for inflation or discounting. No claims handling costs are assumed as these costs are borne by the Parent or covered by the management fee.

At 31 May 2013 there were no outstanding claims and no allowance for incurred but not reported or re-opened claims. As a result the central estimate of gross outstanding claims, allowance for diversification and the risk margin at 75% probability of sufficiency are nil. While the Kapuni claim discussed in Note 6 has not yet been closed, the directors believe the likelihood of any further claims payments , or reinsurance recoveries, is remote.

	2013	2012
	$	$
Gross outstanding claims liability		
Central estimate	-	18,840,000
Risk margin*	-	-
Claims handling costs	-	-
	0	18,840,000

* The risk margin has been determined net of reinsurance. The net margin is zero.

(d) Liability adequacy test

The adequacy of the unearned premium liability is assessed by considering current estimates of the expected future cash flows relating to future claims covered by current insurance contracts, plus a risk margin to reflect a 75% probability of sufficiency. Claims are expected to be infrequent and so the 75% probability of sufficiency is calculated using a risk margin of 50% of the standard deviation for the expected claim distribution. The risk margin is 16% of the net claims expense. This indicated a surplus in the unearned premium liability. The same approach has been adopted for the year ending 31 May 2012 and 31 May 2011.

	2013	2012
	$	$
Central estimate of the present value of expected future cash flows	388,303	386,750
Risk margin	51,666	50,355
Net premium liabilities	439,969	437,105
Net unearned premium liability	885,362	872,272
Surplus	445,393	435,167
Risk margin as a percentage of the central estimate of the present value of expected future cash flows	13%	13%

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20 FINANCIAL RISKS MANAGEMENT AND FINANCIAL INSTRUMENTS INFORMATION

The Company has exposure to the following financial risks: credit risk, market risk and liquidity risk. This note presents information about the Company's exposure to each of the financial risks, the Company's objectives, policies and processes for measuring and managing such risks.

(a) Credit risk

Credit risk is the risk of financial loss to the Company when a counterparty to a financial instrument or a contract fails to meet its contractual obligations. In the normal course of its business, the Company is exposed to credit risk from its trade receivables, reinsurance counterparties, dealings with related company policyholders and inter-company balance with its Parent.

The Company manages credit risk by setting minimum requirements for the credit worthiness of key counterparties. The reinsurers selected to be on the current insurance panel are required to have a credit rating from an independent credit rating agency equivalent to a Standard & Poors of A- or better. all other counterparties are unrated. The Company does not require collateral or security to support financial instruments. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

There are no past due receivables (2012: nil).

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or value of its holdings of financial instruments. The Company is not exposed to currency and equity price risks.

Interest rate risk

The Company is exposed to interest rate risk from its investment in New Zealand Government Stock and its inter-company balance with its Parent.

Fixed interest rate assets create exposure in respect of their fair value as interest rates move. Financial assets with floating rates create exposure in respect of uncertainty in cash flows as interest rates move due to re-pricing.

The following summarises the sensitivity of the Company's interest bearing financial assets to interest rate risks.

Cash flow Sensitivity Analysis for Floating Rate Instruments

			Interest Rate Risk	
	Effective Interest Rate	Carrying Amount	-1% Profit/Equity	+1% Profit/Equity
		$	$	$
2013				
Intercompany balance with Parent	2.50%	8,140,434	(81,404)	81,404
2012				
Intercompany balance with Parent	2.50%	7,791,508	(77,915)	77,915

Fair Value Sensitivity Analysis for Fixed Rate Instruments

			Interest Rate Risk	
	Effective Interest Rate	Carrying Amount	-1% Profit/Equity	+1% Profit/Equity
		$	$	$
2013				
New Zealand Government Stock	6.00%	534,395	9,603	(9,340)
2012				
New Zealand Government Stock	6.50%	510,396	4,374	(4,300)

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting the obligations to settle operating expenses and claims payments in a timely manner.

The Company mitigates liquidity risk by holding the inter-company loan which is repayable on demand.

Due to the short term nature of the Company's captive insurance business, the maturity profile of all financial liabilities is that they are all payable within 12 months of reporting date. Contractual cash flows of financial liabilities approximate the carrying amounts in the balance sheet.

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(d) Accounting classification and fair values

The carrying values of financial assets and liabilities in the balance sheet reasonably approximate their fair values.

	Designated at fair value	Loans & receivables	Other financial liabilities	Carrying and fair values
2013	**$**	**$**	**$**	**$**
Trade and other receivables	-	193,077	-	193,077
Inter-company balance with Parent	-	8,140,434	-	8,140,434
Investments	534,395	-	-	534,395
Trade payables	-	-	(8,598)	(8,598)
	534,395	8,333,511	(8,598)	8,859,308
2012				
Trade and other receivables	-	41,596	-	41,596
Inter-company balance with Parent	-	7,791,508	-	7,791,508
Investments	510,396	0	-	510,396
Trade payables	-	-	(9,000)	(9,000)
	510,396	7,833,104	(9,000)	8,334,500

21 RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2013	2012
	$	$
Profit for the year	499,188	1,200,642
Non-cash transactions	11,457	3,524
Non-operating transactions within movement in receivables	14,093	-
Adjustments:		
Movement in receivables	18,623,498	(19,576,109)
Movement in payables	(18,764,962)	19,906,630
Movement in income tax payable	15,201	348,829
Net cash flows from operating activities	398,475	1,883,516

22 RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Ballance Agri-Nutrients Limited (the Parent and ultimate holding company), which is a cooperatively owned company incorporated in New Zealand. All members of the Ballance Group of companies are considered to be related parties of the Company.

(a) Transactions and balances

The Company is a captive insurer and only provides insurance to members of the Ballance Group of companies. Therefore all premium revenue and claim expenses reported in the Income Statements are related party transactions. Similarly, outstanding claims liabilities and unearned premiums in the Balance Sheet represent related party balances as at reporting date. Premium revenue is apportioned to Parent and Group Companies based on their relative proportion of the insurance programme. The allocation is based on their property damage and business interruption values. Of the $6,120,374 (2012: $5,964,822) for premiums on contracts written referred to in note 12, $3,745,287 (2012: $3,607,220) was charged to the parent and the balance to subsidiaries.

(b) Inter-company balance with Parent

As explained in Note 3(j), the Company uses the Inter-company account with its Parent as a quasi bank account. As at reporting date, the Company had an inter-company balance owing from the Parent of $8,140,434 (2012: $7,791,508). Inter-company balances between the Company and the parent are unsecured, repayable on demand and interest bearing.

(c) Key management personnel

There were no transactions or balances involving the Company's key management personnel.

23 CONTINGENT LIABILITIES AND COMMITMENTS

The directors are not aware of any contingent liabilities or capital commitments at the reporting date.

24 CREDIT RATING

Under the terms of the Company's license issued by the Reserve Bank of New Zealand, the Company is exempt from the requirements of sections 60(1) and 63 to 71 of the IPSA, and as a result the Company is not required to have a financial strength rating.

25 SUBSEQUENT EVENTS

There have been no subsequent events.

26 EXPLANATION OF TRANSITION TO NZ IFRSs

As stated in note 2, these are the Company's first financial statements prepared in accordance with NZ IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 May 2013, the comparative information presented in these financial statements for the year ended 31 May 2012 and in the preparation of an opening NZ IFRS balance sheet at the date of transition 1 June 2011.

In preparing its opening NZ IFRS balance sheet, the Company has assessed whether amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous NZ GAAP) need to be adjusted. An explanation of the differences in accounting policies from previous NZ GAAP to NZ IFRSs is set out in the following tables and the notes that accompany the tables.

(a) Reconciliation of equity

The effects on total equity on the transition from previous NZ GAAP to NZ IFRS are as follows.

	1-Jun-11	31-May-12
	$	$
Total equity under previous NZ GAAP	5,709,090	6,909,732
Effects of transition to NZ IFRS:		
Liability adequacy testing	0	0
Risk margin	0	0
Valuation of investment assets	0	0
Total equity under NZ IFRS	5,709,090	6,909,732

(b) Reconciliation of total comprehensive income for the year ended 31 May 2012

The effects on total comprehensive income for the year on the transition from previous NZ GAAP to NZ IFRS are as follows.

	31-May-12
	$
Total comprehensive income for the year under previous NZ GAAP	1,200,642
Effects of transition to NZ IFRS:	
Liability adequacy testing	0
Risk margin	0
Valuation of investment assets	0
Total comprehensive income under NZ IFRS	1,200,642

(c) Notes to the reconciliations

Insurance contracts

The significant changes arising out of the transition from old NZ GAAP to NZ IFRS 4 *Insurance contracts* are the introduction of a new liability adequacy test and the inclusion of an explicit risk margin when measuring the outstanding claims liability.

(i) Liability adequacy test

NZ IFRS introduces the liability adequacy test and requires that unearned premium liability adequacy be assessed at each reporting date. Under old NZ GAAP the liability adequacy test was not required. The liability adequacy test identified no deficiencies on the date of transition or on 31 May 2012.

(ii) Risk margin

Under NZ IFRS, it is a requirement that outstanding claims liability includes an additional risk margin to allow for the inherent uncertainty in the central estimate. Risk margins are determined on a basis that reflects the Company's business. At 1 June 2011 there was no outstanding claims liability and at 31 May 2012 the actuary determined the net outstanding liability was nil and a risk margin was not required.

Valuation of investments

Under old NZ GAAP, investments were measured at net market value (fair value less disposal costs) with movements in net market value recorded in the Income Statement. Under NZ IFRS, investments are to be measured at fair value without any deduction for disposal costs.

Under NZ IFRS, the fair value of investments is determined by reference to the quoted bid prices instead of last sale prices under old NZ GAAP. Analysis performed suggests that there is immaterial differences on the valuation of the Company's investment in New Zealand Government Stock and therefore no adjustment has been made as at 1 June 2011 for the year ended 31 May 2012.

Independent auditor's report

To the shareholder of Ballance Agri-Nutrients Insurance Limited

Report on the financial statements

We have audited the accompanying financial statements of Ballance Agri-Nutrients Insurance Limited ("the company") on pages 3 to 16. The financial statements comprise the balance sheet as at 31 May 2013, the income statement and statements of comprehensive income, movements in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Our firm has also provided other services to the company in relation to taxation and general accounting services. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

KPMG

Opinion

In our opinion the financial statements on pages 3 to 16:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company as at 31 May 2013 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Ballance Agri-Nutrients Insurance Limited as far as appears from our examination of those records.

KPMG

3 October 2013
Auckland

Richard Hopkins
Chief Financial Officer/Director
Ballance Agri-Nutrients Insurance Ltd
Private Bag 12503
Tauranga 3143

26 September 2013

Appointed actuary's review of actuarial information for Ballance Agri-Nutrients Insurance Limited

Dear Richard

This letter has been prepared for Ballance Agri-Nutrients Insurance Limited (BIL) to met the requirements of Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act) in respect of Section 77 of the Act, which requires that each licensed insurer must ensure that the actuarial information contained in, or used in preparation of, the financial statements of the insurer is reviewed by the appointed actuary.

I have reviewed the following actuarial information to be included in the audited financial statements for BIL as at 31 May 2013:

Item	Amount
Outstanding claims liability, at a 75% probability of sufficiency	$0
Reinsurance and other recoveries	$0
Net outstanding claims liability	$0
Liability adequacy test on the premium liability, at a 75% probability of adequacy.	No additional provision required

I have been provided with all the information and explanations that I have required to complete my review.

I am the appointed actuary to BIL and am employed by PricewaterhouseCoopers New Zealand. I am independent of BIL.

pwc

In my opinion:

- the actuarial information contained in the financial statements has been appropriately included in those statements; and
- the actuarial information used in the preparation of the financial statements has been used appropriately; and
- BIL is maintaining a solvency margin as required under Solvency Standard for Captive Insurers Transacting Non-life Insurance Business issued by the Reserve Bank of New Zealand.

Reliances and limitations

This letter has been prepared for Ballance Agri-Nutrients Insurance Limited and is provided in accordance with the terms set out in our engagement letter dated 4 February 2013.

No distribution of this letter to third parties, other than as required by law is permitted by us. There may be requests for our report to be copied to third parties. We will be happy to consider these requests, as and when they arise.

Our responsibilities and liabilities are limited to Ballance Agri-Nutrients Insurance Limited and exist only in the context of their use of our letter. No liability or responsibility will be accepted by us in relation to the use of our report for any other purpose. We will not accept any liability or responsibility to any third party recipients.

We have relied on information provided to us in the course of carrying out our work. We perform some data validation checks but we have not verified all of the information provided to us, nor have we carried out anything in the nature of an audit. Accordingly, we express no opinion on the total reliability, accuracy or completeness of the information provided to us and upon which we have relied. We have no reason to believe that the information provided to us is inaccurate or misleading.

This letter must be read in its entirety. Individual sections of this letter could be misleading if considered in isolation from each other. If distributed, this letter must be distributed in its entirety.

Yours sincerely
for **PricewaterhouseCoopers**

Christine Ormrod FNZSA
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