Richard Hopkins
Director
Ballance Agri-Nutrients Insurance Ltd
Private Bag 12503
Tauranga 3143

29 September 2014

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 2014:

Gross outstanding claims liability, at a 75% probability of sufficiency	$0
Net outstanding claims liability, at a 75% probability of sufficiency	$0
Reinsurance and other recoveries, , at a 75% probability of sufficiency	$0
Net unearned premium liability, at a 75% probability of sufficiency	$795,380

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.

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 5 December 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
Appointed Actuary, Ballance Agri-Nutrients Insurance Limited
christine.d.ormrod@nz.pwc.com
T: +64 (9) 355 8437

BALLANCE AGRI-NUTRIENTS INSURANCE LIMITED

FINANCIAL STATEMENTS

31 MAY 2014

BALLANCE AGRI-NUTRIENTS INSURANCE LIMITED

ANNUAL REPORT 2014

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 2014.

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 $6,101,752 (2013: $6,042,263) and the Company net profit for the year after tax is $1,399,844 (2013: $499,188).

Financial Position
Total Assets are $12,148,258 (2013: $11,059,364) and Shareholders' Equity is $8,808,764 (2013: $7,408,920). Total assets reduced with the settlement of the Kapuni fire claim.

Dividend
Directors recommend that no dividend be paid.

Directors
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 give approval for directors to determine the remuneration of auditors.

Conclusion
Directors consider the affairs of the Company are satisfactory.

LD Bilodeau
Chairman
Dated: 26 September 2014

RK Hopkins
Director
Dated: 26 September 2014

Ballance Agri-Nutrients Insurance Limited
Income statement
For the year to 31 May 2014

	Note	2014 $	2013 $
Revenue			
Gross earned premium	5	6,101,752	6,042,263
Outward reinsurance premium expense	5	(4,433,977)	(4,294,074)
Net premium income		**1,667,775**	**1,748,189**
Claims expense	6	-	(5,251,544)
Reinsurance and other recoveries	6	-	3,934,162
Net claims incurred		**-**	**(1,317,382)**
Reinsurance commission revenue	5	175,779	154,468
Net underwriting result		**1,843,554**	**585,275**
Investment revenue	7	247,894	226,996
Net change in fair value of investments		(18,714)	(11,457)
Other operating expenses	8	(128,506)	(107,497)
		100,674	**108,042**
Profit for the year before income tax		**1,944,228**	**693,317**
Income tax expense	9	(544,384)	(194,129)
Profit for the year		**1,399,844**	**499,188**

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

KPMG

Ballance Agri-Nutrients Insurance Limited
Statement of comprehensive income
For the year to 31 May 2014

	Note	2014	2013
		$	$
Other comprehensive income, net of income tax		-	-
Profit for the year		1,399,844	499,188
Total comprehensive income for the year		1,399,844	499,188

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

KPMG

Ballance Agri-Nutrients Insurance Limited
Statement of movements in equity
For the year to 31 May 2014

	Share capital	Retained earnings	Total equity
	$	$	$
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**
Balance at 1 June 2013	**1,000,000**	**6,408,920**	**7,408,920**
Profit for the year	-	1,399,844	1,399,844
Total comprehensive income for the year	-	1,399,844	1,399,844
Balance at 31 May 2014	**1,000,000**	**7,808,764**	**8,808,764**

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

KPMG

Ballance Agri-Nutrients Insurance Limited
Balance sheet
As at 31 May 2014

	Note	2014 $	2013 $
Shareholder's equity			
Paid in capital	10	1,000,000	1,000,000
Retained earnings		7,808,764	6,408,920
Total equity		**8,808,764**	**7,408,920**
Current liabilities			
Outstanding claims liabilities	11	-	-
Unearned premium liability	12	3,075,068	3,076,820
Unearned reinsurance commission	13	100,994	76,431
Trade payables	14	27,498	8,598
Income tax payable		135,934	488,595
Total current liabilities		**3,339,494**	**3,650,444**
Total equity and liabilities		**12,148,258**	**11,059,364**
Current assets			
Reinsurance and other recoveries	15	-	-
Deferred reinsurance premiums	16	2,279,688	2,191,458
Trade and other receivables	17	241,582	193,077
Investments - Government stock	18	515,682	-
Inter-company receivable	22	9,111,306	8,140,434
Total current assets		**12,148,258**	**10,524,969**
Non-current assets			
Investments - Government stock	18	-	534,395
Total non-current assets		-	**534,395**
Total assets		**12,148,258**	**11,059,364**

For and on behalf of Board of Directors:

Date: 26 September 2014 26 September 2014

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

KPMG

Ballance Agri-Nutrients Insurance Limited
Statements of cash flows
For the year to 31 May 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Premiums received		6,100,000	6,120,375
Reinsurance commission received		151,797	-
Reinsurance recoveries		-	22,774,162
Claims paid		-	(24,091,544)
Payments to reinsurers		(4,522,207)	(4,359,095)
Interest received		247,935	241,404
Income tax paid		(897,045)	(178,927)
Other expenses paid		(109,608)	(107,900)
Net cash flow from operating activities	**21**	**970,872**	**398,475**
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 in Inter-company balance with Parent	3j	970,872	348,926
Inter-company balance with Parent at the beginning of the year		8,140,434	7,791,508
Inter-company balance with Parent at the end of the year	22b	9,111,306	8,140,434

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

KPMG

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 local and 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 2014 and have been authorised for issue by the Board of Directors on 26 September 2014.

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").

From 1 April 2014, the new Financial Reporting Act 2013 ("FRA 2013") has come into force replacing the Financial Reporting Act 1993. This is effective for all for-profit entities with reporting periods beginning on or after 1 April 2014. This will be effective for the Company's 31 May 2015 year end. It is expected that the change in legislation will have no material impact on the Company's obligation to prepare general purpose financial statements.

In addition to the change in legislation the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Company is currently reporting under NZ IFRS. Under the new XRB framework Management expects that the Company is expected to continue to apply NZ IFRS as applicable for Tier 1 for-profit entities. Management expects that this will have no material impact on the preparation and disclosures included in the financial statements.

(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, and outstanding claims liabilities and reinsurance and other recoveries receivable which are recorded as described in notes 3(a) and (c).

(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.

(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.

KPMG

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. 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**

The accounting policies set out above have been applied consistently to all periods presented in these financial statements.

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 2013, 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) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32), effective for the Company's May 2015 financial statements. This standard clarifies the meaning of a legally enforcable right of offset. 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 2019 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.

(c) NZ IFRS 15 Revenue from Contracts with Customers, effective for the Company's May 2018 financial statements. The Company does not intend to adopt the new standard early. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or over time. The Company is still to determine what effect if any the new standard will have on its financial statements.

5 UNDERWRITING INCOME

	2014	2013
	$	$
Gross premium written	6,100,000	6,120,375
Less movement in gross unearned premiums	1,752	(78,112)
Gross premium revenue	6,101,752	6,042,263
Reinsurance premium ceded	4,522,207	4,359,095
Less movement in deferred reinsurance premiums	(88,230)	(65,021)
Outward reinsurance premium expense	4,433,977	4,294,074
Reinsurance commission deferred	200,342	151,797
Less movement in unearned reinsurance commission	(24,563)	2,671
Reinsurance commission revenue	175,779	154,468

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.

		2014	
	Current	Prior	Total
	$	$	$
Gross incurred claims (undiscounted)	-	0	0
Reinsurance and other recoveries (undiscounted)	-	-	-
Net claims incurred	0	0	0

		2013	
	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

2013 net claims incurred

The 2013 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 settled by 2013 was $38.251m. The gross incurred claim increased during 2013 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 in 2013 on later negotiation of the claim.

The reinsurance recovery on the fire claim by 2013 was $36.934m. The recovery increased in 2013 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 in 2013 on later negotiation of the claim recovery.

The increase in net claims incurred in 2013 arose from the treatment of the deductibles on further negotiation of the claim.

2014 net claims incurred

During the year ended 31 May 2014, a further claim was lodged by Kapuni in connection with the August 2011 claim. The value of the claim is estimated to be $1.335m (after deductibles) covering an element of the original claim relating to gas nomination costs that was deferred until contractual arrangements with the gas supplier to the Kapuni plant were resolved. The additional reinsurance recovery on the claim of $1.437m has been submitted to the reinsurers.

At the time of signing the financial statements the likelihood of payment of the claim and related reinsurance recovery is highly uncertain, and the additional net claims expense recognised in 2014 is $Nil. Refer note 19 (c) for further information.

7 INVESTMENT REVENUE

	2014 $	2013 $
Other interest income	699	-
Investment income on Government Stock	29,958	33,092
Inter-company interest income	217,237	193,904
	247,894	226,996

8 OPERATING EXPENSES

	2014 $	2013 $
Operating expenses includes the following expenditure items :		
Audit fees paid to Auditors	10,031	6,000
Other fees paid to Auditors - regulatory services	20,000	11,250
Other fees paid to Auditors - Other	0	13,025
Management fee paid	75,000	75,000
Other expenses	23,475	2,222
	128,506	107,497

Other fees paid to KPMG include consultancy fees related to the Company's transition to NZ IFRS (2013 only) and fees relating to regulatory reporting. Regulatory services in 2014 includes a catch up for fees under accrued in prior years. 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

	2014 $	2013 $
(a) Income tax expense in the Income Statement		
Current taxation	544,384	194,129
Under/(over) provision in prior years	-	-
Income tax expense	544,384	194,129
(b) Reconciliation of effective tax rate		
Profit before tax	1,944,228	693,317
Tax charge thereon @ 28%	544,384	194,129
Adjustments (tax effected)		
Non-assessable income	-	-
Non-deductible expenditure	-	-
Income tax expense	544,384	194,129

(c) Deferred tax asset

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

	2014 $	2013 $
(d) Imputation credit account:		
Imputation credits available for use in subsequent reporting periods	2,825,615	1,929,269

10 SHAREHOLDER'S EQUITY

	2014 $	2013 $
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. It is the directors' objective to maintain share capital and retained earnings 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.

	2014 $	2013 $
Actual solvency capital	8,808,764	7,408,920
Minimum solvency capital	3,354,317	3,367,585
Solvency margin	5,454,447	4,041,335

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

	2014	2013
	$	$
Balance at 1 June	0	18,840,000
Claims incurred in the current year	-	0
Other movements in claims incurred in prior years	-	5,251,544
Claims paid during the year	-	(24,091,544)
Balance at 31 May	0	0

Please refer to notes 6 and 19 (c) for further details.

12 UNEARNED PREMIUM LIABILITY

	2014	2013
	$	$
Balance at 1 June	3,076,820	2,998,709
Deferral of premiums on contracts written during the year	6,100,000	6,120,374
Premiums released to Income Statement during the year	(6,101,752)	(6,042,263)
Balance at 31 May	3,075,068	3,076,820

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

	2014	2013
	$	$
Balance at 1 June	76,431	79,102
Deferral of commission on reinsurance contracts written during the year	200,342	151,797
Reinsurance commission released to Income Statement during the year	(175,779)	(154,468)
Balance at 31 May	100,994	76,431

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

	2014	2013
	$	$
Trade payables	27,498	8,598
	27,498	8,598

15 REINSURANCE AND OTHER RECOVERIES

	2014	2013
	$	$
Balance at 1 June	0	18,840,000
Reinsurance and other recoveries claimed	-	3,934,162
Reinsurance payments received	-	(22,774,162)
Balance at 31 May	0	0

This reinsurance recovery relates to the one claim described in note 6.

16 DEFERRED REINSURANCE PREMIUMS

	2014	2013
	$	$
Balance at 1 June	2,191,458	2,126,437
Reinsurance premiums incurred	4,522,207	4,359,095
Reinsurance premiums expensed during the year	(4,433,977)	(4,294,074)
Balance at 31 May	2,279,688	2,191,458

17 TRADE AND OTHER RECEIVABLES

	2014	2013
	$	$
Trade receivables	204,082	155,577
Prepayments	37,500	37,500
	241,582	193,077

18 INVESTMENTS

	2014	2013
	$	$
Financial asset at fair value through profit or loss		
New Zealand Government Stock	515,682	534,395
	515,682	534,395

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%.

19 INSURANCE RISK

(a) Insurance risk management

The Company engages the services of Marsh Limited to assist with managing the insurance programme. The Company only insures property and related business interruption risks of Ballance Group companies. The key terms of the contracts as at 31 May 2014 for losses incurred after 1 December 2013 are outlined below.

Under the primary contract covering material damage and business interruption, each claim is reduced for a deductible by the Ballance Group companies of $1m on property damage claims (or $75k for distribution centres and certain other sites) and 45 days of costs on business interruption claims. The deductibles above vary for material damage claims arising from an earthquake. Under this contract the maximum deductible 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 reinsures 100% of its exposure under the above primary contract, as approved by its Parent.

The Company has issued an additional contract covering further business interruption costs. Under this contract, each claim is reduced for a deductible by the Ballance Group companies of 7 days of costs on business interruption claims. Claims are limited to a 38 day indemnity period (i.e. up to day 45) and limited to a total claim of $7.425m.

The Company's net exposure to each occurrence is therefore $7.425m of business interruption costs.

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

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 (2013: 75%). 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 had not yet been closed, the directors believed at the time that the likelihood of any further claims payments, or reinsurance recoveries, was remote.

During the 2014 year one further claim and related reinsurance recovery arose in connection with the above Kapuni claim (as discussed at note 6). At the time of signing the financial statements the likelihood of payment of the claim and related reinsurance recovery is highly uncertain. The directors have evaluated the likelihood and value of the claim/recovery in arriving at the outstanding claims liability and related resinsurance recovery.

There are no other outstanding claims and no allowance for incurred but not reported claims as at Balance Sheet date.

	2014	2013
	$	$
Gross outstanding claims liability		
Central estimate	-	-
Risk margin*	-	-
Claims handling costs	-	-
	0	0

* 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 was adopted in 2013.

	2014	2013
	$	$
Central estimate of the present value of expected future cash flows	389,173	388,303
Risk margin	51,809	51,666
Net premium liabilities	440,982	439,969
Net unearned premium liability	795,380	885,362
Surplus	354,398	445,393
Risk margin as a percentage of the central estimate of the present value of expected future cash flows	13%	13%

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. Other than the investment which is Standard and Poors AA+ (2013: Standard and Poors AA+) all other counterparties are unrated. The largest concentration of credit risk is the inter-company receivable with the Company's Parent, which is $9,111,306 (2013: $8,140,434) and 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 (2013: 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
		$	$	$
2014				
Intercompany balance with Parent	3.00%	9,111,306	(91,113)	91,113
2013				
Intercompany balance with Parent	2.50%	8,140,434	(81,404)	81,404

Fair Value Sensitivity Analysis for Fixed Rate Instruments

			Interest Rate Risk	
	Effective Interest Rate	Carrying Amount	-1% Profit/Equity	+1% Profit/Equity
		$	$	$
2014				
New Zealand Government Stock	6.00%	515,682	4,320	(4,394)
2013				
New Zealand Government Stock	6.00%	534,395	9,603	(9,340)

(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.

(d) Accounting classification and fair values

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

Other than the investments, the financial assets and liabilities in the table below are within level 2 of the fair value hierarchy, measured at amortised cost and are short term. The directors believe that the effect of discounting is immaterial.

	Designated at fair value	Loans & receivables	Other financial liabilities	Carrying and fair values
2014	$	$	$	$
Trade and other receivables	-	241,582	-	241,582
Inter-company balance with Parent	-	9,111,306	-	9,111,306
Investments	515,682	-	-	515,682
Trade payables	-	-	(27,498)	(27,498)
	515,682	9,352,888	(27,498)	9,841,072
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

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

	2014	2013
	$	$
Profit for the year	1,399,844	499,188
Non-cash transactions	18,713	11,457
Non-operating transactions within movement in receivables	0	14,093
Adjustments:		
Movement in receivables	(136,735)	18,623,498
Movement in payables	41,711	(18,764,962)
Movement in income tax payable	(352,661)	15,201
Net cash flows from operating activities	970,872	398,475

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 $6,100,000 (2013: $6,120,374) for premiums on contracts written referred to in note 12, $3,565,127 (2013: $3,745,287) was charged to the parent and the balance to subsidiaries.

Tax transfers to the Company totalling $488,644 were made from the Parent Company tax group named BOP South Fertiliser Tax Group (2013: $nil).

(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 $9,111,306 (2013: $8,140,434). 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

In June 2014 the Company was notified that storm damage had occurred to a roof at the Ballance Agri-Nutrients Limited Morrinsville service centre. The estimated total repair cost is $300,000. The reinsurers were notified and an assessor was appointed to assess the damage and repair costs. The estimated repair cost is prior to any excess deduction (expected to be $75,000 for a service centre) or adjustment for costs not covered by the policy (if any). It is anticipated by directors that the reinsurance recovery and claim expense cost will be neutral to the Company.

There have been no further subsequent events.

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 15. The financial statements comprise the balance sheet as at 31 May 2014, 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 audit related regulatory 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 15:

- 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 2014 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

1 October 2014
Auckland