

Heartland Cash and Term PIE Fund

2014 FINANCIAL STATEMENTS



HEARTLAND

**HEARTLAND CASH AND TERM PIE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

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**HEARTLAND CASH AND TERM PIE FUND
MANAGER'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014**

Statutory Base

The Heartland Cash and Term PIE Fund was established under the Unit Trust Act 1960, a Master Trust Deed dated 1 December 2008 and an Establishment Deed dated 1 December 2008 (Establishment Date). The Heartland Cash and Term PIE Fund is currently governed by a replacement Trust Deed dated 26 November 2012. Each of these Deeds are between The New Zealand Guardian Trust Company Limited (Trustee) and Heartland PIE Fund Limited (Manager).

Statement by the Manager

After due enquiry by us in relation to the period between 1 July 2013 and 30 June 2014, being the date of the accompanying financial statements there have not, in our opinion, been any material or adverse changes to the value of the Fund's assets relative to its liabilities (including contingent liabilities) and the ability of the Fund to pay its debts as they become due in the normal course of business.

For and on behalf of the Manager
Heartland PIE Fund Limited



Director



Director

25 August 2014

**HEARTLAND CASH AND TERM PIE FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2014 \$000	2013 \$000
Investment revenue			
Interest revenue on Heartland Bank Limited deposits	4	1,235	806
Total investment revenue		1,235	806
Total operating income		1,235	806
Profit for the year attributable to Unit Holders		1,235	806
Total comprehensive income attributable to Unit Holders		1,235	806

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

**HEARTLAND CASH AND TERM PIE FUND
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2014 \$000	2013 \$000
Net assets attributable to Unit Holders at beginning of year	7	33,226	12,347
Total comprehensive income		1,235	806
Transactions with Unit Holders			
Contributions		36,605	35,881
Redemptions		(31,832)	(15,538)
Unit Holder attributed taxation	6	(415)	(270)
Movements in net assets attributable to Unit Holders for the year		4,358	20,073
Net assets attributable to Unit Holders at end of year	7	38,819	33,226

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

**HEARTLAND CASH AND TERM PIE FUND
STATEMENT OF NET ASSETS
AS AT 30 JUNE 2014**

	Note	2014 \$000	2013 \$000
Assets			
Current investment in Heartland Bank Limited deposits	4 & 9	38,819	33,226
Other receivables		56	62
Total assets		38,875	33,288
Liabilities			
Other liabilities	6	56	62
Total liabilities		56	62
Net assets attributable for Unit Holders	7	38,819	33,226

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

For and on behalf of the directors of Heartland PIE Fund Limited as Manager who authorised these financial statements for issue on 25 August 2014.



Director



Director

**HEARTLAND CASH AND TERM PIE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014**

	2014 \$000	2013 \$000
Cash flows from operating activities		
Cash was provided from:		
Interest received on Heartland Bank Limited deposits	1,235	806
Total cash provided from operating activities	1,235	806
Net cash flows from operating activities	1,235	806
Cash flows from investing activities		
Cash was provided from:		
Redemption of Heartland Bank Limited deposits	31,012	15,002
Total cash provided from investing activities	31,012	15,002
Cash was applied to:		
Purchase of Heartland Bank Limited deposits	36,605	35,881
Total cash applied to investing activities	36,605	35,881
Net cash flows applied to investing activities	(5,593)	(20,879)
Cash flows from financing activities		
Cash was provided from:		
Unit Holders' contributions received	36,605	35,881
Total cash provided from financing activities	36,605	35,881
Cash was applied to:		
Payment of Unit Holders' redemptions	32,247	15,808
Total cash applied to financing activities	32,247	15,808
Net cash flows from financing activities	4,358	20,073
Net increase in cash held	-	-
Add opening cash	-	-
Ending cash carried forward	-	-

**Reconciliation of net profit after taxation and before Unit Holder activities
to net cash flows from operating activities**

Net profit after taxation and before Unit Holder activities	1,235	806
Net cash flows from operating activities	1,235	806

The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

HEARTLAND CASH AND TERM PIE FUND

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 Reporting entity

The Heartland Cash and Term PIE Fund (Fund) was established under the Unit Trusts Act 1960 and a Master Trust Deed on 1 December 2008 (Establishment Date) between The New Zealand Guardian Trust Company Limited (Trustee) and MARAC Finance Limited. The Fund is currently governed by a replacement Trust Deed dated 26 November 2012.

On 15 November 2013, Heartland PIE Fund Limited (Manager), a wholly owned subsidiary of Heartland Bank Limited, replaced MARAC Finance Limited as manager of the Fund under the Trust Deed pursuant to a Deed of Retirement and Appointment of New Manager. The Manager has appointed Heartland Bank Limited as Registrar in accordance with the Registry Management Agreement dated 26 November 2012. The Registrar provides all services to, or for, the Manager.

The Fund is domiciled in New Zealand and its registered office is Heartland House, 35 Teed Street, Newmarket, Auckland 1023, New Zealand.

The financial statements for the Fund comprise of the following types of account:

- Heartland Cash PIE Account
- Heartland Term PIE Account

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared by the Registrar in accordance with the Trust Deed, the Financial Reporting Act 1993 and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards as appropriate to profit-oriented entities. The Fund is a profit-oriented entity.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical cost, unless stated otherwise.

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars which is the Fund's functional currency. Unless otherwise indicated amounts are rounded to the nearest thousand.

(d) Estimates and judgements

The preparation of financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements.

(e) Comparative information

Certain comparatives have been restated to comply with current year presentation.

3 Significant accounting policies

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Fund and that revenue can be reliably measured. The principal source of revenue is interest income. For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income recognised in profit or loss.

Taxation

The Fund qualifies as and has elected to be a Portfolio Investment Entity (PIE) for tax purposes. Under the PIE regime, income is effectively taxed in the hands of the Unit Holder and therefore the Fund has no tax expenses or deferred tax assets or liabilities. Accordingly, no income tax expense is recognised in profit or loss.

HEARTLAND CASH AND TERM PIE FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

3 Significant accounting policies (continued)

Taxation (continued)

Under the PIE regime, the Registrar attributes the taxable income of the Fund to the Unit Holders in accordance with their proportionate interest in a fund. Income attributed to each Unit Holder is taxed at the Unit Holders "prescribed investor rate" (PIR) which is capped at 28% and any resident and foreign withholding taxes are deducted at source.

Statement of Cash Flows

Cash reflects the balance of cash and liquid assets used in the day-to-day cash management of the Fund.

Investments

The valuation of investments in Heartland Bank Limited's Term and Call Deposits (Deposits) takes into account the accrual of interest. These investments are classified as held to maturity investments and are measured at amortised cost using the effective interest rate method. This approximates their fair value.

Unit Holders' funds

Unit Holders' funds are classified as equity. Units issued by the Fund provide the Unit Holders with the right to require redemption for cash at the value proportionate to the Unit Holders' share in the Fund's net asset value. The units qualify as puttable instruments.

Changes in accounting policies

There have been no changes in accounting policies in the current year.

New standards and interpretations not yet adopted

New standards not yet effective for the year ended 30 June 2014 have not been applied in preparing these financial statements. The new standard identified which may have an effect on the financial statements of the Fund is:

- NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets, effective 1 January 2017 and expected to be applied for the year ending 30 June 2018.

This standards is not expected to have a significant impact on the financial statements of the Fund.

4 Related party transactions

The Fund is managed by Heartland PIE Fund Limited.

As at 30 June 2014 Heartland PIE Fund Limited's immediate parent is Heartland Bank Limited and its ultimate parent is Heartland New Zealand Limited.

The following disclosure of related party transactions and balances is made:

- a) The Fund deals with Heartland Bank Limited in the normal course of business, in its capacity as Registrar of the Fund and also invests in Heartland Bank Limited Deposits.
- b) Directors of Heartland PIE Fund Limited, Heartland Bank Limited and Heartland New Zealand Limited, their spouses and family may be Unit Holders of the Fund.
- c) Fees and expenses, including audit fees are paid on behalf of the Fund by Heartland Bank Limited, in its capacity as the Registrar of the Fund.
- d) No amounts owed to the Fund by related parties have been written off or forgiven during the year.
- e) Key management personnel, being directors of Heartland PIE Fund Limited, Heartland Bank Limited, those staff reporting directly to the Chief Executive Officer of these entities, and their immediate relatives, have transacted with the Fund during the year as follows:

**HEARTLAND CASH AND TERM PIE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

4 Related party transactions (continued)

	2014	2013
	\$000	\$000
Related party Unit Holders' investing		
Maximum balance	313	140
Closing balance	313	128
Contributions	190	7
Redemptions	12	20

5 Segmental information

The Fund operates in one industry segment, being the financial investment sector, and in one geographic segment, being New Zealand.

6 Income tax

As a PIE, each Fund allocates all of its taxable income (or losses) between its unit holders based on the number of units held by each unit holder. Consequently the Fund has no liability for income tax in its own right. The Registrar has calculated tax payable on income allocated to each unit holder at their nominated PIR by deducting the amount of tax from their number of units held in the Fund.

The Registrar has withheld \$415k of tax payable on income allocated to each investor (June 2013: \$270k), of which \$56k remains due to the Inland Revenue at 30 June 2014 (June 2013: \$62k).

7 Unit Holders' Funds

	2014	2013
	000	000
Units on issue		
Units on issue at beginning of the year	33,226	12,347
Units issued during the year	37,840	36,687
Units redeemed during the year	(32,247)	(15,808)
Total movements for the year	5,593	20,879
Units on issue at end of year	38,819	33,226

8 Contingent liabilities and commitments

At 30 June 2014 there were no material contingent liabilities or commitments (June 2013: Nil).

9 Financial instruments

Credit risk

Financial instruments which potentially subject the Fund to credit risk principally consist of investments in Heartland Bank Limited Deposits. The Fund has 100% concentration with Heartland Bank Limited. Heartland Bank Limited has an investment grade credit rating of BBB by Standard & Poor's. These are deemed to be of acceptable quality. The amount that best represents the maximum credit risk exposure is the carrying value of investments.

The credit risk stemming from Heartland Bank Limited is managed by Heartland Bank Limited's Risk Committee, which is a sub committee of the Board that has been delegated the task of overseeing a formal risk management strategy.

Fair Value

The Fund measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

**HEARTLAND CASH AND TERM PIE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

9 Financial instruments (continued)

Fair Value (continued)

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Fund recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Investments in Heartland Bank Limited deposits

The fair value of all investments in Heartland Bank Limited deposits are considered equivalent to their carrying value due to their short term nature (Level 1 in the fair value hierarchy).

Other receivables and other liabilities

The Fund has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values (Level 3 in the fair value hierarchy).

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of monetary assets and liabilities. The Fund manages this risk by matching the term of its investments in Heartland Bank Limited Deposits with the term of the units issued. The Fund is reliant on Heartland Bank Limited repaying the Fund at the required time. Heartland Bank Limited manages its liquidity risk by maintaining a prudent level of liquid assets, utilisation of securitisation vehicles and management control of the growth of the business.

Interest rate risk

Interest rate risk is the risk that market interest rates will change and impact on the Fund's financial results by affecting the margin between interest earning assets and interest bearing liabilities.

Interest rate risk is managed by Heartland Bank Limited in their capacity as Registrar.

In the Fund, the interest rates on Unit Holders' contributions are determined at the time of contribution. The agreed rate is locked in by Heartland Bank Limited as Registrar through simultaneous investment in Heartland Bank Limited Deposits. No interest rate fluctuations can occur on this account during its term.

Repricing and maturity analysis of investments

The interest rate risk profile of investments that follows has been prepared on the basis of maturity which is the repricing date.

	2014 \$000	2013 \$000
On demand	25,581	16,954
0-6 months	6,102	5,518
6-12 months	7,136	10,754
Total	38,819	33,226

The effective weighted interest rate of these investments as at 30 June 2014 is 4.14% p.a (June 2013: 4.51%).

10 Events after reporting date

There have been no material events subsequent to reporting date that would affect the interpretation of the financial statements or the performance of the Fund.

HEARTLAND CASH AND TERM PIE FUND DIRECTORY INFORMATION

Trustee

The New Zealand Guardian Trust Company Limited
48 Shortland Street
Auckland 1010

Manager

Heartland PIE Fund Limited
Heartland House
35 Teed Street
Newmarket
Auckland 1023

Registrar

Heartland Bank Limited
75 Riccarton Road
Riccarton
Christchurch 8011

Auditor

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

All correspondence from Unit Holders may be sent to:

The Manager
Heartland PIE Fund
PO Box 9919
Newmarket
Auckland 1149
T 0800 85 20 20
F +64 9 927 9321

Correspondence specifically for the Trustee may be sent to:

Relationship Manager, Corporate Trusts
The New Zealand Guardian Trust Company Limited
PO Box 1934
Auckland 1140
T +64 9 909 5100
F +64 9 969 3732

HEARTLAND CASH AND TERM PIE FUND CONTACT DETAILS

Investment Enquiries

T 0800 85 20 20

F +64 9 927 9321

E invest@heartland.co.nz

W www.heartland.co.nz



Independent auditor's report

To the members of Heartland Cash and Term PIE Fund

Report on the financial statements

We have audited the accompanying financial statements of Heartland Cash and Term PIE Fund ("the fund") on pages 2 to 8. The financial statements comprise the statement of net assets as at 30 June 2014, the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's responsibility for the financial statements

The manager is 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 manager determines 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 fund'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 fund'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 fund in relation to other assurance services, general accounting and other advisory services. Subject to certain restrictions, partners and employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Opinion

In our opinion the financial statements on pages 2 to 8:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the fund as at 30 June 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 Heartland Cash and Term PIE Fund as far as appears from our examination of those records.

KPMG

25 August 2014
Auckland