

**HEARTLAND CASH AND TERM PIE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

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**HEARTLAND CASH AND TERM PIE FUND
MANAGER'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2015**

Statutory Base

The Heartland Cash and Term PIE Fund (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 1 December 2014. 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 2014 and 30 June 2015, 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

18 August 2015



Director

**HEARTLAND CASH AND TERM PIE FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 \$000	2014 \$000
Investment revenue			
Interest revenue on Heartland Bank Limited deposits	6	1,391	1,235
Total investment revenue		1,391	1,235
Total operating income		1,391	1,235
Profit for the year attributable to Unit Holders		1,391	1,235
Total comprehensive income attributable to Unit Holders		1,391	1,235

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 2015**

	Note	2015 \$000	2014 \$000
Net assets attributable to Unit Holders at beginning of year	5	38,819	33,226
Total comprehensive income		1,391	1,235
Transactions with Unit Holders			
Contributions		39,825	36,605
Redemptions		(34,448)	(31,832)
Unit Holder attributed taxation	3	(477)	(415)
Movements in net assets attributable to Unit Holders for the year		4,900	4,358
Net assets attributable to Unit Holders at end of year	5	45,110	38,819

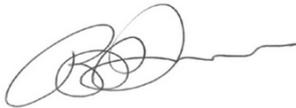
The accounting policies and notes form part of, and should be read in conjunction with, these financial statements.

**HEARTLAND CASH AND TERM PIE FUND
STATEMENT OF NET ASSETS
AS AT 30 JUNE 2015**

	Note	2015 \$000	2014 \$000
Assets			
Current investment in Heartland Bank Limited deposits	4 & 6	45,110	38,819
Other receivables		98	56
Total assets		45,208	38,875
Liabilities			
Other liabilities	3	98	56
Total liabilities		98	56
Net assets attributable for Unit Holders	5	45,110	38,819

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 18 August 2015.



Director



Director

**HEARTLAND CASH AND TERM PIE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015**

	2015 \$000	2014 \$000
Cash flows from operating activities		
Cash was provided from:		
Interest received on Heartland Bank Limited deposits	1,391	1,235
Total cash provided from operating activities	1,391	1,235
Net cash flows from operating activities	1,391	1,235
Cash flows from investing activities		
Cash was provided from:		
Redemption of Heartland Bank Limited deposits	33,534	31,012
Total cash provided from investing activities	33,534	31,012
Cash was applied to:		
Purchase of Heartland Bank Limited deposits	39,825	36,605
Total cash applied to investing activities	39,825	36,605
Net cash flows applied to investing activities	(6,291)	(5,593)
Cash flows from financing activities		
Cash was provided from:		
Unit Holders' contributions received	39,825	36,605
Total cash provided from financing activities	39,825	36,605
Cash was applied to:		
Payment of Unit Holders' redemptions	34,925	32,247
Total cash applied to financing activities	34,925	32,247
Net cash flows from financing activities	4,900	4,358
Net increase in cash held	-	-
Add opening cash	-	-
Ending cash carried forward ¹	-	-

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

	2015 \$000	2014 \$000
Net profit after taxation and before Unit Holder activities	1,391	1,235
Net cash flows from operating activities	1,391	1,235

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

¹ Cash reflects the balance of cash and liquid assets used in the day-to-day cash management of the fund.

HEARTLAND CASH AND TERM PIE FUND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Basis of reporting

Reporting entity

The Fund is constituted by a master trust deed (Trust Deed) dated 1 December 2008 (as amended and restated on 26 November 2012 and 1 December 2014) between The New Zealand Guardian Trust Company Limited (Trustee) and Heartland PIE Fund Limited (Manager). The Fund is a unit trust established under the Unit Trusts Act 1960. The Manager is a subsidiary of Heartland Bank Limited (Heartland Bank) and has appointed Heartland Bank 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

Basis of preparation

These financial statements have been prepared by the Registrar in accordance with the Trust Deed, the Financial Reporting Act 1993 (as permitted by the transitional requirements of the Financial Markets Conduct Act 2013) 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.

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.

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

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.

HEARTLAND CASH AND TERM PIE FUND

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Performance

1 Segmental information

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

2 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.

3 Income tax

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 expense or deferred tax assets or liabilities. Accordingly, no income tax expense is recognised in profit or loss.

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 Prescribed Investor Rate (PIR) by deducting the amount of tax from their number of units held in the Fund.

The Registrar has withheld \$477k (June 2014: \$415k) of tax payable on income allocated to each investor, of which \$98k (June 2014: \$56k) remains due to the Inland Revenue.

**HEARTLAND CASH AND TERM PIE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

Financial position

4 Investments

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

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.

	2015	2014
	\$000	\$000
On demand	15,261	25,581
0-6 months	7,972	6,102
6-12 months	20,280	7,136
1-2 years	1,247	-
2-5 years	350	-
Total	45,110	38,819

The effective weighted interest rate of these investments as at 30 June 2015 is 4.38% p.a (June 2014: 4.14%).

5 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.

	2015	2014
	\$000	\$000
Units on issue		
Units on issue at beginning of the year	38,819	33,226
Units issued during the year	41,216	37,840
Units redeemed during the year	(34,925)	(32,247)
Total movements for the year	6,291	5,593
Units on issue at end of year	45,110	38,819

**HEARTLAND CASH AND TERM PIE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

6 Related party transactions

The Fund is managed by Heartland PIE Fund Limited.

The Manager's immediate parent is Heartland Bank 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 in the normal course of business, in its capacity as Registrar of the Fund and also invests in Heartland Bank Deposits.
- b) Fees and expenses, including audit fees are paid on behalf of the Fund by Heartland Bank, in its capacity as the Registrar of the Fund.
- c) No amounts owed to the Fund by related parties have been written off or forgiven during the year.
- d) Key management personnel include Directors, Executives and their immediate relatives. Key management personnel of the Manager and Heartland Bank have transacted with the Fund during the year as follows:

	2015	2014
	\$000	\$000
Related party Unit Holders' investing		
Closing balance	218	313
Contributions	130	190
Redemptions	233	12

7 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.

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 at the end of the reporting period during which the change has occurred.

Investments in Heartland Bank deposits

The fair value of all investments in Heartland Bank 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).

**HEARTLAND CASH AND TERM PIE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

Risk management

8 Credit risk

Credit risk is the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to do so. The Fund invests only in deposits with Heartland Bank and the Fund's maximum credit risk is considered to be the carrying value of this investment. The Funds credit risk is mitigated by Heartland Banks external credit rating of BBB (Outlook Stable) by Fitch Ratings.

9 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 Deposits with the term of the units issued. In the event the Unit Holders redeem their investments in the Fund, the Fund also has the ability to withdraw its underlying investments in Heartland Bank. The Fund is reliant on Heartland Bank repaying the Fund at the required time.

10 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.

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

In the Heartland Cash PIE Fund, interest rates are effectively matched between the deposits the Fund holds with Heartland Bank and the investments the Unit Holders hold in the Fund. Therefore, the Fund is not exposed to interest rate risk and sensitivity analysis is not presented.

**HEARTLAND CASH AND TERM PIE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

Other disclosures

11 Contingent liabilities and commitments

At 30 June 2015 there were no material contingent liabilities or commitments (June 2014: Nil).

12 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 which are not yet effective for the year ended 30 June 2015 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 2018 and expected to be applied for the year ending 30 June 2019.

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

13 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
Heartland House
35 Teed Street
Newmarket
Auckland 1023

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

Investment Enquiries

T 0800 85 20 20
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Independent auditor's report

To the members of the Heartland Cash and Term PIE Fund

Report on the financial statements

We have audited the accompanying financial statements of the Heartland Cash and Term PIE Fund ("the fund") on pages 2 to 10. The financial statements comprise the statement of net assets as at 30 June 2015, 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 10:

- 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 2015 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 the Heartland Cash and Term PIE Fund as far as appears from our examination of those records.

KPMG

18 August 2015
Auckland