

Australian Unity Pooled Mortgage Fund

ARSN 121 895 690

Annual financial report for the year ended 30 June 2016

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Directors' report

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Australian Unity Pooled Mortgage Fund ("the Scheme"), present their report together with the financial statements of the Scheme for the year ended 30 June 2016.

Directors

The following persons were directors of the Responsible Entity during the whole of the financial year and up to the date of this report (unless otherwise stated):

Rohan Mead, Chairman and Group Managing Director (appointed Chairman 30 June 2016)
David Bryant, Chief Executive Officer, Investments and Chief Investment Officer
Kevin McCoy, Chief Financial Officer
Glenn Barnes, Chairman (resigned 30 March 2016)
Melinda Cilento, Non-Executive Director (resigned 30 June 2016)
Stephen Maitland, Non-Executive Director (resigned 30 June 2016)
Su McCluskey, Non-Executive Director (appointed 27 January 2016, resigned 30 June 2016)
Peter Promnitz, Non-Executive Director and appointed Chairman from 30 March 2016 (resigned 30 June 2016)
Greg Willcock, Non-Executive Director (resigned 30 June 2016)

Principal activities

The principal activities of the Scheme are to provide investors with a regular income from a pool of high yielding loans secured by registered first mortgages over real property.

Review and results of operations

Results

Unit price (ex distribution) as at 30 June 2016 is \$0.9668 (2015: \$0.9668)*

*The reported performance numbers and reported unit prices (which are not audited) have been derived based on the declared unit prices calculated in accordance with the Responsible Entity's unit pricing policy, and are not based on the net assets of these IFRS compliant financial statements.

The performance of the Scheme, as represented by the results of its operations, was as follows:

	2016 \$'000	2015 \$'000
Profit before finance costs attributable to unitholders	856	859
Distribution paid and payable	856	966

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the year, except those mentioned elsewhere in the report.

Events occurring after end of the financial year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

Likely developments and expected results of operations

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Scheme.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Funds Management Limited or the auditors of the Scheme. So long as the officers of Australian Unity Funds Management Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Fees paid to and interests held in the Scheme by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in note 16 to the financial statements.

No fees were paid out of Scheme property to the directors of the Responsible Entity during the year.

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the year are disclosed in note 16 to the financial statements.

Units in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 7 to the financial statements.

The value of the Scheme's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in note 2 to the financial statements.

Environmental regulation

The Scheme's operations are not subject to environmental regulations under Australian law.


Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of a kind referred to in Class Order 2016/191 (as amended) issued by Australian Securities and Investments Commissions relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, where indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Signed in accordance with a resolution of the directors of Australian Unity Funds Management Limited.



Director



Director

8 September 2016



Ernst & Young
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Auditor's Independence Declaration to the Directors of Australian Unity Funds Management Limited as responsible entity for Australian Unity Pooled Mortgage Fund

As lead auditor for the audit of Australian Unity Funds Management Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Luke Slater
Partner
Melbourne

8 September 2016

Australian Unity Pooled Mortgage Fund
Statement of comprehensive income
For the year ended 30 June 2016

Statement of comprehensive income

	Notes	2016 \$'000	2015 \$'000
Investment income			
Interest income	3	351	562
Distribution income	4	700	574
Net losses on financial instruments held at fair value through profit or loss	5	-	(59)
Total investment income		1,051	1,077
Expenses			
Responsible Entity's fees	16	155	199
Other expenses		40	19
Total expenses		195	218
Profit before finance costs attributable to unitholders		856	859
Finance costs attributable to unitholders			
Distributions to unitholders	8	(856)	(966)
Decrease in net assets attributable to unitholders	7	-	107
Total comprehensive income for the year attributable to unitholders		-	-

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Australian Unity Pooled Mortgage Fund
Statement of financial position
As at 30 June 2016

Statement of financial position

	Notes	2016 \$'000	2015 \$'000
Assets			
Cash and cash equivalents	9	152	1,518
Receivables	10	38	26
Financial assets held at fair value through profit or loss	11	12,943	7,013
Mortgage loans	12	5,124	5,861
Total assets		<u>18,257</u>	<u>14,418</u>
Liabilities			
Distributions payable	8	59	48
Payables	13	61	33
Total liabilities (excluding net assets attributable to unitholders)		<u>120</u>	<u>81</u>
Net assets attributable to unitholders	7	<u>18,137</u>	<u>14,337</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

Australian Unity Pooled Mortgage Fund
Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2016

Statement of changes in net assets attributable to unitholders

	2016	2015
	\$'000	\$'000
Net assets attributable to unitholders at the beginning of the year	14,337	22,316
Profit before finance costs attributable to unitholders	856	859
Distributions to unitholders	(856)	(966)
Applications of units	10,000	-
Redemptions of units	(6,200)	(7,872)
Net assets attributable to unitholders at the end of the year	18,137	14,337

The above statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.

Australian Unity Pooled Mortgage Fund
Statement of cash flows
For the year ended 30 June 2016

Statement of cash flows

	Notes	2016 \$'000	2015 \$'000
Cash flows from operating activities			
(Purchase)/sale of financial assets held at fair value through profit or loss		(5,930)	5,037
Sale/(purchase) of mortgage loans		737	(1,520)
Interest and fees received		348	583
Distributions received		700	574
Responsible Entity's fees paid		(155)	(199)
Payment to suppliers		(21)	(321)
Net cash (outflow)/inflow from operating activities	17(a)	<u>(4,321)</u>	<u>4,154</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		10,000	-
Payments for redemptions by unitholders		(6,200)	(7,872)
Distributions paid to unitholders		(845)	(1,017)
Net cash inflow/(outflow) from financing activities		<u>2,955</u>	<u>(8,889)</u>
Net decrease in cash and cash equivalents		(1,366)	(4,735)
Cash and cash equivalents at the beginning of the year		<u>1,518</u>	<u>6,253</u>
Cash and cash equivalents at the end of the year	9	<u>152</u>	<u>1,518</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

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1 General information

These financial statements cover Australian Unity Pooled Mortgage Fund ("the Scheme") as an individual entity. The Scheme was constituted on 21 September 2006 and will terminate on the 80th anniversary unless terminated earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Funds Management Limited (ABN 60 071 497 115) (the "Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements are for the period from 1 July 2015 to 30 June 2016.

The financial statements were authorised for issue by the directors of the Responsible Entity on 8 September 2016. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The Scheme is a for-profit entity for the purposes of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguish between current and non-current. All balances are generally expected to be recovered or settled within 12 months, except for financial assets held at fair value through profit or loss, mortgage loans and net assets attributable to unitholders, where the amount expected to be recovered or settled within 12 months after the end of the reporting period cannot be reliably determined.

(i) Compliance with Australian Accounting Standards and International Financial Reporting Standards

The financial statements of the Scheme comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board ("AASB") and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial statements are presented in the local reporting currency being Australian dollars.

(ii) Amended standards adopted by the Fund

There are no new standards or amendments to standards that became mandatory for the first time during the year.

(b) Financial instruments

(i) Classification

- *Financial instruments designated at fair value through profit or loss*

The Scheme's investments are classified as held at fair value through profit or loss. They comprise:

- *Financial instruments designated at fair value through profit or loss upon initial recognition*
Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Classification (continued)

These include financial assets and liabilities that are not held for trading purposes and which may be sold. These may include investments in listed trusts and other unlisted trusts.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Mortgage loans and receivables/payables*
Mortgage loans and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short term receivables/payables.

(ii) Recognition/derecognition

The Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement

- *Financial assets and financial liabilities held at fair value through profit or loss*
Financial assets and financial liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.
- *Fair value in an active market*
The fair value of financial assets and financial liabilities traded in active markets is based on their quoted market prices at the end of the year without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement (continued)

• Mortgage loans

Mortgage loans are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any.

The Responsible Entity assesses each year whether there is any objective evidence that mortgage loans are impaired. A mortgage loan is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the mortgage loan (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the mortgage loan that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing other financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If any such indication of impairment exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the loan loss provision account.

For the purpose of a collective evaluation of impairment the Scheme considers credit risk characteristics such as asset type, industry, geographic location, collateral type, past due status and other relevant factors.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option via withdrawal facility offers by the Responsible Entity and are therefore classified as financial liabilities. The units can be put back to the Scheme for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the year if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the statement of comprehensive income as they arise.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the statement of financial position.

Payments and receipts relating to the purchase and sale of financial instruments are classified as cash flows from operating activities, as movements in the fair value of these financial instruments represent the Scheme's main income generating activity.

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Net gains/(losses) on financial assets and liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the end of the year and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

(f) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in statement of comprehensive income on an accruals basis.

(g) Income tax

Under current legislation, the Scheme is not subject to income tax as unitholders are presently entitled to the income of the Scheme.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefit of imputation credits and foreign tax paid, if any, are passed on to unitholders.

(h) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

(i) Increase/decrease in net assets attributable to members

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in statement of comprehensive income as finance costs.

(j) Receivables

Receivables may include amounts for interest, trust distributions, and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each year from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

(k) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the year.

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the end of each year are included in payables.

The distribution amount payable to unitholders as at the end of each year is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

2 Summary of significant accounting policies (continued)

(k) Payables (continued)

Liabilities for trade creditors are carried at original invoice amount which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Scheme.

Payables to related parties are recognised and carried at the nominal amount due. They are carried at the nominal amount due to the short term nature of the payable. Interest is taken up as an expense on an accrual basis.

Provisions are recognised when the Scheme has a present obligation as a result of the past event and it is probable that the Scheme will be requested to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(l) Applications and redemptions

Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined in accordance with the Scheme's Constitution by reference to the net assets of the Scheme divided by the number of units on issue.

(m) Goods and Services Tax (GST)

The income statement is shown exclusive of GST, unless the GST incurred (or part thereof) on expenses that are not recoverable. Expenses of various services provided to the Scheme by third parties, such as custodial services and investment management fees, may have non-recoverable GST components, as applicable. In these cases, the non-recoverable GST component is recognised as part of the particular expense in the income statement.

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the statement of financial position.

Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(n) Use of judgements and estimates

The preparation of the Scheme's financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Scheme's financial instruments are valued primarily based on the prices provided by independent pricing services.

When the fair values of the reported financial instruments cannot be derived from active markets, they are determined using prices obtained from inactive or unquoted markets and/or other valuation techniques. The inputs to these valuation techniques (if applicable) are taken from observable markets to the extent practicable. Where observable inputs are not available, the inputs may be estimated based on a degree of judgements and assumptions in establishing fair values.

2 Summary of significant accounting policies (continued)

(n) Use of judgements and estimates (continued)

Where appropriate, the outcomes of the valuation techniques that are used in establishing fair values are validated using prices from observable current market transactions for similar instruments (without modification or repackaging) or based on relevant available observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Scheme. The Scheme considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

In addition, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

(o) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting period and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules for hedge accounting and impairment. The Standard is not applicable until 1 January 2018 but is available for early adoption. The Scheme does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting. AASB 9 introduces a new impairment model. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the reporting period commencing from 1 July 2018. The Scheme does not expect a material impact from the application of this standard.

(ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. The standard requires enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively. AASB 15 applies to an annual reporting period beginning on or after 1 January 2018 with early adoption permitted. At this stage, the Scheme is determining the effect on the financial statements and will finalise its assessments of the effect over the next twelve months.

(p) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 2016/191 (as amended), issued by Australian Securities and Investment Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, where indicated.

Australian Unity Pooled Mortgage Fund
Notes to the financial statements
30 June 2016
 (continued)

3 Interest income

	2016	2015
	\$'000	\$'000
Cash and cash deposits	21	200
Mortgage loans	<u>330</u>	<u>362</u>
	<u>351</u>	<u>562</u>

4 Distribution income

	2016	2015
	\$'000	\$'000
Related unlisted managed investment schemes	<u>700</u>	<u>574</u>
	<u>700</u>	<u>574</u>

5 Net losses on financial instruments held at fair value through profit or loss

	2016	2015
	\$'000	\$'000
Related unlisted managed investment scheme	<u>-</u>	<u>(59)</u>
	<u>-</u>	<u>(59)</u>

6 Auditors' remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Scheme:

	2016	2015
	\$	\$
<i>Audit services</i>		
Audit and review of financial statements	<u>12,000</u>	<u>12,318</u>
Total remuneration for audit services	<u>12,000</u>	<u>12,318</u>
<i>Non-audit services</i>		
Tax compliance services	<u>5,832</u>	<u>8,004</u>
Total remuneration for taxation services	<u>5,832</u>	<u>8,004</u>

7 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme.

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	2016	2015	2016	2015
	No. '000	No. '000	\$'000	\$'000
Contributed equity				
Opening balance	14,829	22,944	15,590	23,462
Applications	10,343	-	10,000	-
Redemptions	<u>(6,413)</u>	<u>(8,115)</u>	<u>(6,200)</u>	<u>(7,872)</u>
Closing balance	<u>18,759</u>	<u>14,829</u>	<u>19,390</u>	<u>15,590</u>
Undistributed income				
Opening balance			(1,253)	(1,146)
Decrease in net assets attributable to unitholders			<u>-</u>	<u>(107)</u>
Closing balance			<u>(1,253)</u>	<u>(1,253)</u>
Total net assets attributable to unitholders			<u>18,137</u>	<u>14,337</u>

8 Distributions to unitholders

Timing of distributions

The distributions for the year were as follows:

	2016 \$'000	2015 \$'000
Distributions		
31 July	49	102
31 August	66	103
30 September	71	101
31 October	83	104
30 November	80	79
31 December	81	77
31 January	75	80
28 February	70	74
31 March	75	80
30 April	73	64
31 May	74	54
30 June (payable)	59	48
Total distributions	856	966

As unitholders are presently entitled to the distributable income of the Scheme, no income tax is payable by the Responsible Entity.

9 Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank	132	35
Cash management trusts	20	1,483
	152	1,518

10 Receivables

	2016 \$'000	2015 \$'000
Trade receivables	4	-
Accrued income	27	24
GST receivables	7	2
	38	26

11 Financial assets held at fair value through profit or loss

	2016	2015
	\$'000	\$'000
Related unlisted managed investment scheme	12,943	7,013
Total financial assets held at fair value through profit or loss	12,943	7,013

An overview of the risk exposures and fair value measurements relating to financial assets and liabilities at fair value through profit or loss is included in note 14.

12 Mortgage loans

	2016	2015
	\$'000	\$'000
Mortgage loans	5,124	5,861
	5,124	5,861

Gross impaired assets represent those assets that are contractually past due with security insufficient to cover the principal and arrears. The Scheme does not hold any gross assets that are considered impaired at 30 June 2016. The impairment on these assets less anticipated recoveries including security (being real property held as collateral) has been provided for through the loan loss provision.

The Scheme's assets past due but with adequate security is shown below:

	2016	2015
	\$'000	\$'000
Days past due		
< 30 days	-	616
30 - 60 days	-	-
60 - 90 days	-	-
> 90 days	616	737
Total	616	1,353

The fair value of collateral held for total assets past due with adequate security was \$880,000 as at 30 June 2016 (2015: \$2,080,000). The mortgage loans disclosed above are gross of the loan loss provision.

	2016	2015
	\$'000	\$'000
Loan loss reconciliation		
Opening balance	-	-
Charge for the year	-	-
Loan loss write off	-	-
Closing balance	-	-

The Scheme does not issue credit commitments to any third parties.

13 Payables

	2016	2015
	\$'000	\$'000
Accrued expenses	24	10
Other creditors	37	23
	61	33

14 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's disclosure documents and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed. Financial risk management is carried out by the Investment Manager ("the Investment Manager") under policies approved by the Board of Directors of the Responsible Entity ("the Board").

The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, other price risks, and ratings analysis for credit risk.

As part of its risk management strategy, the Scheme uses interest rate swaps to manage exposures resulting from changes in interest rates.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme.

The sensitivity of the Scheme's net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) to price risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

As of 30 June 2016, the overall market exposures were as follows:

	2016	2015
	\$'000	\$'000
Financial assets held at fair value through profit or loss	12,943	7,013
Mortgage loans	5,124	5,861
	18,067	12,874

14 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Scheme's investment in securities. The investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

The Investment Manager mitigates this price risk through diversification and a careful selection of financial instruments within specified limits set by the Board.

The Scheme has exposures to price risk as shown in the table below. The table also demonstrates the sensitivity to reasonably possible changes in prices, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or net assets attributable to unitholders, while a positive amount reflects a net potential increase. There is no impact on distributable earnings as they are net fair value movements only.

	2016 \$'000	2015 \$'000
Assets		
Related unlisted managed investment scheme	12,943	7,013
Net exposure	<u>12,943</u>	<u>7,013</u>
Sensitivity		
Impact on profit		
Securities prices + 10%	1,294	701
Securities prices - 10%	(1,294)	(701)
Impact on equity		
Securities prices + 10%	1,294	701
Securities prices - 10%	(1,294)	(701)

14 Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk

There was no significant direct foreign exchange risk in the Scheme as at 30 June 2016 (2015: \$nil).

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme's interest bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Scheme has established limits on investments in interest bearing assets, which are monitored on a daily basis. The Scheme may use derivatives to hedge against unexpected increases in interest rates and/or multiple rollover dates for debt instruments to manage repricing risk. The interest rate risk is measured using sensitivity analysis.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's overall interest sensitivity on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

The Scheme has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain entities in which the Scheme invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model.

The table below summarises the Scheme's exposure to interest rate risks. It includes the Scheme's assets and liabilities at fair values, categorised by the maturity dates:

2016	Floating interest rate \$'000	Fixed interest rate				Non-interest bearing \$'000	Total \$'000
		3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000		
Assets							
Cash and cash equivalents	152	-	-	-	-	-	152
Receivables	-	-	-	-	-	38	38
Financial assets held at fair value through profit or loss	9,744	122	2,342	735	-	-	12,943
Mortgage loans	-	616	-	4,508	-	-	5,124
Total assets	9,896	738	2,342	5,243	-	38	18,257
Liabilities							
Distribution payable	-	-	-	-	-	59	59
Payables	-	-	-	-	-	61	61
Total liabilities	-	-	-	-	-	120	120
Net assets attributable to unitholders	9,896	738	2,342	5,243	-	(82)	18,137

14 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

2015	Floating interest rate \$'000	Fixed interest rate				Non-interest bearing \$'000	Total \$'000
		3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000		
Assets							
Cash and cash equivalents	1,518	-	-	-	-	-	1,518
Receivables	-	-	-	-	-	26	26
Financial assets held at fair value held through profit or loss	3,275	496	537	2,705	-	-	7,013
Mortgage loans	-	1,353	-	4,508	-	-	5,861
Total assets	4,793	1,849	537	7,213	-	26	14,418
Liabilities							
Distribution payable	-	-	-	-	-	48	48
Payables	-	-	-	-	-	33	33
Total liabilities	-	-	-	-	-	81	81
Net assets attributable to unitholders	4,793	1,849	537	7,213	-	(55)	14,337

At 30 June 2016, should interest rates have (decreased)/increased by the basis points indicated below, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

	2016		2015	
	Increased by 50 bps \$'000	Decreased by 50 bps \$'000	Increased by 25 bps \$'000	Decreased by 25 bps \$'000
	Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)	49	(49)	12

(iv) Prepayment risk

Prepayment risk is the risk that the Scheme may incur a reduced margin of earnings because its borrowers repay or request repayment earlier than expected. The Scheme manages prepayment risk by actively monitoring its borrowers. Due to the Scheme's largely variable rate mortgage book the likelihood of prepayment risk eventuating is reduced.

14 Financial risk management (continued)

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk primarily arises from cash and cash equivalents, and deposits with banks and other financial institutions.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these investments as disclosed in the statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the end of the reporting period.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

The Scheme holds collateral as security for its investments.

Counterparty credit limits and the list of authorised brokers are reviewed by the relevant parties within the Responsible Entity on a regular basis as deemed appropriate.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's credit position on a regular basis. This information and the compliance with the Scheme policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

Credit quality per class of instrument

The credit quality of mortgage loans is managed by the Scheme using LVR analysis. Within the portfolio there exist some loans that are actively managed by the Responsible Entity. LVR of construction loans are reported on "as if complete" valuation basis. The table below shows the LVR of the loan portfolio based on the Scheme's credit rating system.

	2016 \$'000	2015 \$'000
Loan to valuation ratios		
< 40%	-	-
40% - 60%	1,395	1,395
60% - 80%	3,729	4,466
80% - 85%	-	-
> 85%	-	-
Total	5,124	5,861

(d) Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic conditions. These similarities would cause the counterparties' liabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are monitored by the Investment Manager to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Concentrations of risk are managed by industry sector for equity instruments and by counterparty for debt instruments and selected derivatives.

Based on the concentrations of risk that are managed by industry sector and/or counterparty, the following investments can be analysed by the industry sector and/or counterparty as at 30 June 2016 and 30 June 2015:

14 Financial risk management (continued)

(d) Concentrations of risk (continued)

Property Type	2016 \$'000	2015 \$'000
Commercial	5,124	5,124
Residential investment	-	737
Total	<u>5,124</u>	<u>5,861</u>

As at 30 June 2016, the Scheme held a mortgage loan which represented 34.40% of the total mortgage book (2015: 30.07%). This mortgage loan is classified within the commercial (2015: commercial) sector in the table above.

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme is exposed to the applicable withdrawal offer put in place by the Responsible Entity.

The Scheme's investments may include listed securities that are considered readily realisable, as they are listed on recognised stock exchanges.

The Scheme may invest in investments in unlisted unit trusts that expose the Scheme to the risk that the Investment Manager of those trusts may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Scheme.

Under the terms of its Constitution, the Scheme has the ability to manage liquidity risk by delaying withdrawals to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholders option via withdrawal facility offers by the Responsible Entity. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term and withdrawal offers are subject to limits set by the Responsible Entity.

The Scheme's policy is to hold a proportion of their investments in liquid assets.

14 Financial risk management (continued)

(e) Liquidity risk (continued)

Maturities analysis of financial liabilities

The table below analyses the Scheme's financial liabilities into relevant maturity groupings based on the remaining period at the end of the year to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Financial liabilities such as trade payables, where there are no specific contractual settlement dates, have been grouped into the 'less than 1 year' maturity grouping as such liabilities are typically settled within 30 days.

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2016				
Distributions payables	59	-	-	-
Payables	61	-	-	-
Net assets attributable to unitholders	18,137	-	-	-
Total financial liabilities	18,257	-	-	-
	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2015				
Distributions payables	48	-	-	-
Payables	33	-	-	-
Net assets attributable to unitholders	14,337	-	-	-
Total financial liabilities	14,418	-	-	-

As disclosed above, the Scheme manages its liquidity risk by investing in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents and listed property trusts. As at 30 June 2016, these assets amounted to \$152,388 (2015: \$1,518,375).

(f) Estimation of fair values of financial assets and financial liabilities

The carrying amounts of the Scheme's assets and liabilities at the end of each year approximate their fair values, other than certain mortgage loans whereby fair value has been assessed based on valuation techniques including discounted cash flows and capitalisation approaches.

The Scheme values its investments in accordance with the accounting policies set out in note 2(b).

For the reporting periods ended 30 June 2016 and 30 June 2015, the Scheme did not hold financial assets that were determined using valuation techniques. The fair values of the Scheme's assets held at fair value through profit or loss for the period then ended were determined directly, in full or in part, by reference to the estimated fair value of the cash funds and mortgage loans in Australian Unity Select Mortgage Income Fund that are held by the Scheme.

15 Fair value hierarchy

The Scheme measures and recognises the financial assets/(liabilities) held at fair value through profit or loss and investment properties at fair value on a recurring basis.

(a) Fair value hierarchy

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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 (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The carrying amounts of the Scheme's financial assets and financial liabilities at the end of each year approximate their fair values.

The fair value of mortgage loans that reprice within 6 months of reporting date is assumed to equate to the carrying value. The fair value of all other loans and advances are calculated using discounted cash flow models based on expectations of cash flows, contracts of sale and the maturity of the mortgage asset. The difference between estimated fair values of mortgage loans and carrying value reflects changes in interest rates since loan origination and credit worthiness of the borrower.

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held at fair value through profit or loss				
Related unlisted managed investment scheme	-	12,943	-	12,943
Mortgage loans	-	-	5,124	5,124
Total financial assets	-	12,943	5,124	18,067
2015				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held at fair value through profit or loss				
Related unlisted managed investment scheme		7,013	-	7,013
Mortgage loans	-	-	5,861	5,861
Total financial assets	-	7,013	5,861	12,874

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year. There are no transfers between levels 1, 2 and 3 for fair value measurements during the year.

16 Related party transactions

Responsible entity

The Responsible Entity of Australian Unity Pooled Mortgage Fund is Australian Unity Funds Management Limited (ABN 60 071 497 115) whose immediate and ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Australian Unity Funds Management Limited at any time during the year as follows:

Rohan Mead, Chairman and Group Managing Director (appointed Chairman 30 June 2016)
 David Bryant, Chief Executive Officer, Investments and Chief Investment Officer
 Kevin McCoy, Chief Financial Officer
 Glenn Barnes, Chairman (resigned 30 March 2016)
 Melinda Cilento, Non-Executive Director (resigned 30 June 2016)
 Stephen Maitland, Non-Executive Director (resigned 30 June 2016)
 Su McCluskey, Non-Executive Director (appointed 27 January 2016, resigned 30 June 2016)
 Peter Promnitz, Non-Executive Director and appointed Chairman from 30 March 2016 (resigned 30 June 2016)
 Greg Willcock, Non-Executive Director (resigned 30 June 2016)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the year.

Other transactions within the Scheme

From time to time directors of Australian Unity Funds Management Limited, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme unitholders and are trivial in nature.

Responsible Entity's fees and other transactions

The Scheme's Constitution provides that the Responsible Entity will be paid out of the income or capital of the Scheme a fee not exceeding 1.375% per annum of the gross assets.

Administration expenses incurred in the day to day running of the scheme are reimbursed in accordance with the Scheme's Constitution.

The transactions during the year and amount payable at year end between the Scheme and the Responsible Entity were as follows:

	2016	2015
	\$	\$
Responsible Entity's fees for the year paid/payable by the Scheme to the Responsible Entity	154,760	199,303
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	31,708	22,702

16 Related party transactions (continued)

Related party unitholdings

Parties related to the Scheme (including Australian Unity Funds Management Limited, its related parties and other schemes managed by Australian Unity Funds Management Limited), held units in the Scheme as follows:

2016

Unitholder	No. of units held opening	No. of units held closing	Fair value of investment	Interest held	No. of units acquired	No. of units disposed	Distributions paid/payable by the Scheme
	'000	'000	\$'000	(%)	'000	'000	\$'000
Australian Unity Health Limited	-	6,620	6,400	35.29	6,620	-	192
Grand United Corporate Health	-	1,655	1,600	8.82	1,655	-	48
Australian Unity Capital Guaranteed Bond	-	654	632	3.49	1,045	391	31
Australian Unity Capital Guaranteed Mortgage Bond	-	641	620	3.42	1,024	383	30
Total	-	9,570	9,252	51.02	10,344	774	301

(a) Investments

The Scheme held investments in the following schemes which are also managed by Australian Unity Funds Management Limited or its related parties:

	Fair value of investment		Interest held		Distributions received/receivable	
	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	%	%	\$'000	\$'000
Australian Unity Select Mortgage Income Fund	12,943	7,013	14.9	12.01	695	574
Australian Unity Wholesale Cash Fund	20	-	-	-	-	-
	12,963	7,013			695	574

Distributions received/receivable includes an amount of \$25,029 (2015: \$19,993) which remains unpaid at the end of the year.

17 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	2016	2015
	\$'000	\$'000
Profit/(loss) for the year attributable to unitholders	-	-
(Decrease)/increase in net assets attributable to unitholders	-	(107)
(Purchase)/sale of financial instruments held at fair value through profit or loss	(5,930)	5,037
Proceeds/(purchase) of mortgage loans	737	(1,520)
Net losses on financial instruments held at fair value through profit or loss	-	59
(Increase)/decrease in accrued income and receivables	(12)	44
Increase/(decrease) in accounts payable/liabilities	28	(325)
Distribution to unitholders	856	966
Net cash inflow from operating activities	(4,321)	4,154

(b) Components of cash and cash equivalents

Cash as at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:

Cash and cash equivalents	152	1,518
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18 Events occurring after end of the financial year

No significant events have occurred since the end of the year which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2016 or on the results and cash flows of the Scheme for the year ended on that date.

19 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2016 and 30 June 2015.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 5 to 30 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2016 and of its performance, as represented by the results of its operations and cash flows for the year ended on that date.
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable,
- (c) The financial statements are in accordance with the Scheme's Constitution, and
- (d) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director



Director

8 September 2016



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Independent auditor's report to the unitholders of Australian Unity Pooled Mortgage Fund

We have audited the accompanying financial report of Australian Unity Pooled Mortgage Fund, which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Australian Unity Pooled Mortgage Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.



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Opinion

In our opinion:

- a. the financial report of Australian Unity Pooled Mortgage Fund is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of Australian Unity Pooled Mortgage Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Ernst & Young

Ernst & Young

Luke Slater

Luke Slater
Partner
Melbourne
8 September 2016