Australian Unity Pooled Mortgage Fund

ARSN 121 895 690

Annual financial report
for the year ended 30 June 2018

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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 2018.

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
David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer
Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)
Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

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.

The Scheme also gains its mortgage exposure by investing in the Australian Unity Select Income Fund (ARSN 091 886 789).

Review and results of operations
Results
Unit price (ex distribution) as at 30 June 2018 is $0.9668 (2017: $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:

	2018	2017
	$	$
Profit before finance costs attributable to unitholders	**446,228**	643,490
Distributions paid and payable	**446,228**	643,490

Significant changes in the state of affairs
The Scheme has amended its constitution as part of a process to become eligible to elect into the new Attribution Managed Investment Trust ("AMIT") tax regime.

The Scheme has satisfied the eligibility for AMIT and has been operated as an AMIT effective 1 July 2017. The AMIT regime enacted under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (Cth)* has changed the way to which the net taxable income of a trust is allocated to its unitholders. Where a trust is an AMIT, responsible entities and trustees are required to attribute the trust's net taxable income to unitholders on a fair and reasonable basis in accordance with the tax law, taking into account the unitholders entitlement to distributable income.

In the opinion of the directors, there were no other 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 year
No matter or circumstance has arisen since 30 June 2018 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 14 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 14 to the financial statements.

Units in the Scheme
The movement in units on issue in the Scheme during the year is disclosed in note 6 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.

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 5.

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

Director

Director

20 September 2018

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Pooled Mortgage Fund for the year ended 30 June 2018, I declare that 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.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
20 September 2018

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Statement of comprehensive income

	Notes	2018 $	2017 $
Investment income			
Interest income	3	**76,500**	184,018
Distribution income	4	**371,326**	461,342
Other income		**73,238**	32,950
Total investment income		**521,064**	678,310
Expenses			
Responsible Entity's fees	14	**42,192**	-
Other expenses		**32,644**	34,820
Total expenses		**74,836**	34,820
Profit before finance costs attributable to unitholders		**446,228**	643,490
Finance costs attributable to unitholders			
Distributions to unitholders		**-**	(643,490)
Profit/(loss) for the year		**446,228**	-
Other comprehensive income		**-**	-
Total comprehensive income attributable to unitholders		**446,228**	-

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

Statement of financial position

	Notes	**2018** $	2017 $
Assets			
Cash and cash equivalents	7	**209,328**	282,506
Receivables	8	**25,766**	9,499
Financial assets held at fair value through profit or loss	9	**6,261,379**	10,411,379
Mortgage loans	10	**2,000,000**	1,762,500
Total assets		**8,496,473**	12,465,884
Liabilities			
Distributions payable		**28,290**	44,941
Payables	11	**62,809**	15,500
Total liabilities (30 June 2017: excluding net assets attributable to unitholders)		**91,099**	60,441
Net assets attributable to unitholders - liability*	6	**-**	12,405,443
Net assets attributable to unitholders - equity*	6	**8,405,374**	-

**Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to note 1 for further details.*

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

Statement of changes in equity*

	2018 $	2017 $
Balance at the beginning of the year*	**-**	-
Reclassification due to AMIT tax regime implementation*	**12,405,443**	-
Comprehensive income for the year		
Profit for the year	**446,228**	-
Other comprehensive income	**-**	-
Total comprehensive income	**446,228**	-
Transactions with unitholders		
Redemptions	**(4,000,069)**	-
Distributions paid and payable	**(446,228)**	-
Total transactions with unitholders	**(4,446,297)**	-
Balance at the end of the year*	**8,405,374**	**-**

**Effective 1 July 2017, the Scheme's units have been reclassified from financial liability to equity. Refer to note 1 and note 6 for further details. As a result, statement of changes in equity has been disclosed for the year ended 30 June 2018 (2017: statement of changes in net assets attributable to unitholders - liability). The prior year comparative in note 6 shows units as financial liability.*

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

	Notes	2018 $	2017 $
Cash flows from operating activities			
Proceeds from sale of mortgage loans		**1,762,500**	3,361,000
Issuance of mortgage loans		**(2,000,000)**	-
Sale of financial assets held at fair value through profit or loss		**4,150,000**	2,531,415
Interest and fees received		**149,448**	218,190
Distributions received		**355,782**	478,072
Payments to suppliers		**(27,959)**	(69,594)
Net cash inflow from operating activities	15	**4,389,771**	6,519,083
Cash flows from financing activities			
Payments for redemptions by unitholders		**(4,000,069)**	(5,731,416)
Distributions paid to unitholders		**(462,880)**	(657,549)
Net cash outflow from financing activities		**(4,462,949)**	(6,388,965)
Net (decrease)/increase in cash and cash equivalents		**(73,178)**	130,118
Cash and cash equivalents at the beginning of the year		**282,506**	152,388
Cash and cash equivalents at the end of the year	7	**209,328**	282,506

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

Notes to the financial statements

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 year 1 July 2017 to 30 June 2018.

On 5 May 2016, a new tax regime applying to Managed Investment Trust ("MIT") was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Scheme to elect into the AMIT Tax regime, the Scheme's constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently, the units in the Scheme have been reclassified from financial liability to equity on 1 July 2017, see note 6 for further information.

The financial statements were authorised for issue by the directors of the Responsible Entity on 20 September 2018. 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 (AASB) 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 and mortgage loans, where the amount expected to be recovered or settled within 12 months after the end of the year 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 AASB and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(ii) New accounting standards amendment adopted by the Scheme
The Scheme applied the following accounting standard amendment that became mandatory for the first time during the year:

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107
AASB 2016-2 amends AASB 107 *Statements of Cash Flows* to require entities to provide disclosure that enable users of financial statements to evaluate cash and non-cash changes in their financing activities. The adoption of the new disclosure requirement did not have a material impact on the Scheme’s financial statements.

2 Summary of significant accounting policies (continued)

(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.

  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 statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(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.

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.

The Scheme's financial instruments that are valued based on active markets generally include listed property trusts.

- *Fair value in an inactive or unquoted market*

The fair value of financial assets and liabilities not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is the market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period.

There may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Scheme recognises the difference in the statement of comprehensive income to reflect a change in factors, including time, that market participants would consider in setting a price.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Scheme would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as the net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the most appropriate option valuation model.

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

The Scheme's financial instruments that are valued based on inactive or unquoted markets generally include investments in unlisted unit trusts and over the counter derivatives, where applicable.

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. 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.

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Scheme's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial instruments, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Scheme, and it is not a contract settled in the Scheme's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

As at 30 June 2017, net assets attributable to unitholders were classified as a financial liability. Effective 1 July 2017, the Scheme's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

2 Summary of significant accounting policies (continued)

(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.

(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 provided it attributes the entirety of its taxable income to its 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. Where the Scheme’s units are classified as liabilities, the distributions are recognised in profit or loss as finance costs attributable to unitholders. Where the Scheme’s units are classified as equity, distributions are recognised in the statement of changes in equity as transactions with unitholders.

(i) Increase/decrease in net assets attributable to members
Income not distributed is included in net assets attributable to unitholders. Where the Scheme’s units are classified as liabilities, 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.

2 Summary of significant accounting policies (continued)

(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.

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 statement of comprehensive income 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 statement of comprehensive income.

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.

2 Summary of significant accounting policies (continued)

(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.

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 the 30 June 2018 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 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 standard introduces an expected-loss impairment model that requires entities to account for credit losses on a more timely basis starting from the financial instruments are first recognised. Based on the initial assessment, the new impairment model based on expected credit loss will have a potential impact to the Scheme. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the year commencing 1 July 2018. The Scheme is determining the amount of potential impact and will finalised its assessment over the next twelve months.

2 Summary of significant accounting policies (continued)

(o) New accounting standards and interpretations not yet adopted (continued)

(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. This notion of control replaces the existing notion of risks and rewards. The Scheme's main source of income includes interest and mortgage-related fees. All of these are outside the scope of the Revenue standard. Consequently, the Scheme does not expect AASB 15 to have a significant impact on the Scheme's financial statements. The Scheme does not intend to early adopt AASB 15. The Scheme will apply AASB 15 in its financial statements for the year commencing 1 July 2018.

(iii) AASB 2016-3 *Amendments to Australian Accounting Standards - Clarifications to AASB 15* (effective 1 January 2018)

AASB 2016-3 amends AASB 15 Revenue from Contracts with Customers to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. It also provides further practical expedients on transition to AASB 15. No significant impact is expected upon adoption of the amendments. The Scheme does not intend to early adopt AASB 2016-3. The Scheme will apply AASB 2016-3 in its financial statements for the year commencing 1 July 2018.

(p) Functional and presentation currency

Items included in the financial statements of each of the Scheme's operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Australian dollars, which is the Scheme's functional and presentation currency.

(q) Structured entities

The Scheme has assessed whether the funds in which it invests should be classified as structured entities. The Scheme has considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the fund manager or redeem holdings. The Scheme has also considered whether these rights are the dominant factor in controlling the funds, or whether the contractual agreement with the fund manager is the dominant factor in controlling these funds. The Scheme has concluded that the funds in which it invests in are not structured entities.

3 Interest income

	2018	2017
	$	$
Cash and cash deposits	**135**	76
Mortgage loans	**76,365**	183,942
	76,500	184,018

4 Distribution income

	2018	2017
	$	$
Related unlisted managed investment schemes	**371,326**	461,342
	371,326	461,342

5 Auditors' remuneration

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

	2018	2017
	$	$
Audit services - PricewaterhouseCoopers		
Audit and review of financial statements	**9,785**	9,500
Non-audit services - Ernst & Young		
Tax compliance services	**5,640**	7,560

6 Net assets attributable to unitholders

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Scheme shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2017 the Scheme classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. The Scheme has amended its constitution as part of a process to become eligible to elect into the AMIT tax regime. The Scheme has satisfied the eligibility for AMIT and has been operated as an AMIT effective 1 July 2017. The AMIT regime enacted under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (Cth)* has changed the way to which the net taxable income of a trust is allocated to its unitholders. The Scheme no longer has a contractual obligation to pay distributions to unitholders. Therefore the net assets attributable to unitholders of the Scheme meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Scheme's distributions are no longer classified as finance cost in the statement of comprehensive income, but rather as distributions paid in the statement of changes in equity.

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

	2018	2017	2018	2017
Contributed equity	**No. of Units**	No. of Units	**$**	$
Opening balance	**12,831,056**	18,759,289	**13,658,677**	19,390,093
Redemptions	**(4,137,432)**	(5,928,233)	**(4,000,069)**	(5,731,416)
Closing balance	**8,693,624**	12,831,056	**9,658,608**	13,658,677
Undistributed income				
Opening balance			**(1,253,234)**	(1,253,234)
Closing balance			**(1,253,234)**	(1,253,234)
Total net assets attributable to unitholders*			**8,405,374**	12,405,443

*Net assets attributable to unitholders are classified as equity at 30 June 2018 and as financial liability at 30 June 2017.

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.

7 Cash and cash equivalents

	2018 $	2017 $
Cash at bank	**169,347**	161,506
Cash management trusts	**39,981**	121,000
	209,328	282,506

8 Receivables

	2018 $	2017 $
Distributions receivable	**23,814**	8,270
Accrued income	**1,068**	778
GST receivables	**884**	451
	25,766	9,499

9 Financial assets held at fair value through profit or loss

	2018 $	2017 $
Related unlisted managed investment scheme	**6,261,379**	10,411,379
Total financial assets held at fair value through profit or loss	**6,261,379**	10,411,379

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 12.

10 Mortgage loans

	2018 $	2017 $
Mortgage loans	**2,000,000**	1,762,500
	2,000,000	1,762,500

The Scheme does not hold any gross assets that are considered impaired at 30 June 2018 (2017: $nil).

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

11 Payables

	2018 $	2017 $
Accrued expenses	**62,793**	15,309
GST payables	**16**	191
	62,809	15,500

12 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 2018, the overall market exposures were as follows:

	2018	2017
	$	$
Financial assets held at fair value through profit or loss	**6,261,379**	10,411,379
Mortgage loans	**2,000,000**	1,762,500
	8,261,379	12,173,879

12 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 and 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.

	2018	2017
	$	$
Assets		
Related unlisted managed investment scheme	**6,261,379**	10,411,379
Total exposure	**6,261,379**	10,411,379

Sensitivity	**Impact on profit and net assets attributable to unitholders**	
	2018	2017
	$	$
Securities prices + 10% (2017: + 10%)	**626,138**	1,041,138
Securities prices - 10% (2017: - 10%)	**(626,138)**	(1,041,138)

12 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 2018 (2017: $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.

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:

2018	**Floating interest rate $**	**3 months or less $**	**Fixed interest rate 3 to 12 months $**	**1 to 5 years $**	**Over 5 years $**	**Non-interest bearing $**	**Total $**
Assets							
Cash and cash equivalents	**209,328**	**-**	**-**	**-**	**-**	**-**	**209,328**
Receivables	**-**	**-**	**-**	**-**	**-**	**25,766**	**25,766**
Financial assets held at fair value through profit or loss	**3,384,839**	**5,354**	**1,206,530**	**1,664,656**	**-**	**-**	**6,261,379**
Mortgage loans	**-**	**-**	**-**	**2,000,000**	**-**	**-**	**2,000,000**
Total assets	**3,594,167**	**5,354**	**1,206,530**	**3,664,656**	**-**	**25,766**	**8,496,473**
Liabilities							
Distribution payable	**-**	**-**	**-**	**-**	**-**	**28,290**	**28,290**
Payables	**-**	**-**	**-**	**-**	**-**	**62,809**	**62,809**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**91,099**	**91,099**
Net assets attributable to unitholders	**3,594,167**	**5,354**	**1,206,530**	**3,664,656**	**-**	**(65,333)**	**8,405,374**

2017	Floating interest rate $'000	3 months or less $'000	Fixed interest rate 3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
Assets							
Cash and cash equivalents	282,506	-	-	-	-	-	282,506
Receivables	-	-	-	-	-	9,499	9,499
Financial assets held at fair value held through profit or loss	6,889,593	1,025,469	1,894,285	602,032	-	-	10,411,379
Mortgage loans	-	-	-	-	1,762,500	-	1,762,500
Total assets	7,172,099	1,025,469	1,894,285	602,032	1,762,500	9,499	12,465,884
Liabilities							
Distributions payable	-	-	-	-	-	44,941	44,941
Payables	-	-	-	-	-	15,500	15,500
Total liabilities	-	-	-	-	-	60,441	60,441
Net assets attributable to unitholders	7,172,099	1,025,469	1,894,285	602,032	1,762,500	(50,942)	12,405,443

At 30 June 2018, should interest rates have increased/(decreased) 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:

12 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

	2018		2017	
	Increased by 50 bps $	**Decreased by 50 bps $**	Increased by 50 bps $	Decreased by 50 bps $
Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)	**17,971**	**(17,971)**	35,860	(35,860)

(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 short term mortgage book the likelihood of prepayment risk eventuating is reduced.

(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 Loan to Valuation Ratio ("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.

	2018 $	2017 $
Loan to valuation ratios		
60% - 80%	**2,000,000**	1,762,500
Total	**2,000,000**	1,762,500

12 Financial risk management (continued)

(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 2018 and 30 June 2017:

	2018	2017
	$	$
Property Type		
Commercial	**-**	1,762,500
Residential - Construction	**2,000,000**	-
Total	**2,000,000**	1,762,500

As at 30 June 2018, the Scheme held a mortgage loan which represented 100% of the total mortgage book (2017: 100%). This mortgage loan is classified within the residential - construction (2017: 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 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.

12 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.

2018	**Less than 1 year $**	**1-2 years $**	**2-3 years $**	**3+ years $**
Distributions payable	**28,290**	**-**	**-**	**-**
Payables	**62,809**	**-**	**-**	**-**
Total financial liabilities	**91,099**	**-**	**-**	**-**

2017	Less than 1 year $	1-2 years $	2-3 years $	3+ years $
Distributions payable	44,941	-	-	-
Payables	15,500	-	-	-
Net assets attributable to unitholders	12,405,443	-	-	-
Total financial liabilities	12,465,884	-	-	-

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 2018, these assets amounted to $209,328 (2017: $282,506).

(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 2018 and 30 June 2017, 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 year 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 Income Fund that are held by the Scheme.

13 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 12 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.

2018	**Carrying value $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets held at fair value through profit or loss					
Related unlisted managed investment scheme	**6,261,379**	**-**	**6,261,379**	**-**	**6,261,379**
Mortgage loans	**2,000,000**	**-**	**-**	**2,000,000**	**2,000,000**
Total financial assets	**8,261,379**	**-**	**6,261,379**	**2,000,000**	**8,261,379**

2017	Carrying value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets held at fair value through profit or loss					
Related unlisted managed investment scheme	10,411,379		10,411,379	-	10,411,379
Mortgage loans	1,762,500	-	-	1,762,500	1,762,500
Total financial assets	12,173,879	-	10,411,379	1,762,500	12,173,879

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 (2017: $nil).

14 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
David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer
Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)
Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

(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% (2017: 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:

	2018 **$**	2017 $
Management fees for the year paid/payable by the Scheme to the Responsible Entity	**42,192**	-

14 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:

2018

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 $**
Australian Unity Health Limited	**4,560,695**	**2,243,394**	**2,168,914**	**27.41**	**-**	**(2,317,301)**	**148,151**
Lifeplan Australia Friendly Society Limited	**518,034**	**254,820**	**246,360**	**3.11**	**-**	**(263,214)**	**16,828**
Total	**5,078,729**	**2,498,214**	**2,415,274**	**30.52**	**-**	**(2,580,515)**	**164,979**

2017

Unitholders	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 $
Australian Unity Health Limited	6,619,777	4,560,695	4,409,280	37.34	-	(2,059,082)	234,000
Grand United Corporate Health*	1,654,944	1,140,174	1,102,320	9.33	-	(514,770)	58,552
Lifeplan Australia Friendly Society Limited	1,295,084	518,034	500,835	4.24	-	(777,050)	34,210
Total	9,569,805	6,218,903	6,012,435	50.91	-	(3,350,902)	326,762

*Ceased to be a related party unitholder from 31 October 2017.

14 Related party transactions (continued)

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

	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 received/ receivable
2018			**$**	**%**			**$**
Australian Unity Select Income Fund	**10,411,379**	**6,261,379**	**6,261,379**	**4.71**	**-**	**(4,150,000)**	**363,463**
Australian Unity Wholesale Cash Fund	**120,910**	**39,891**	**39,891**	**0.01**	**1,768,981**	**(1,850,000)**	**7,863**
	10,532,289	**6,301,270**	**6,301,270**		**1,768,981**	**(6,000,000)**	**371,326**

	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 received/ receivable
2017			$	%			$
Australian Unity Select Income Fund	12,942,794	10,411,379	10,411,379	8.90	2,700,000	(5,231,415)	455,422
Australian Unity Wholesale Cash Fund	20,160	120,910	120,910	0.02	3,300,778	(3,200,028)	5,920
	12,962,954	10,532,289	10,532,289		6,000,778	(8,431,443)	461,342

Distributions received/receivable includes an amount of $23,814 (2017: $8,270) which remains unpaid at the end of the year.

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

	2018	2017
	$	$
Profit for the year attributable to unitholders	**446,228**	-
Sale of financial instruments held at fair value through profit or loss	**4,150,000**	2,531,415
Issuance of mortgage loans	**(2,000,000)**	-
Proceeds from repayment of mortgage loans	**1,762,500**	3,361,000
(Increase)/decrease in accrued income and receivables	**(16,267)**	28,678
Distribution to unitholders	**-**	643,490
Increase/(decrease) in accounts payable/liabilities	**47,310**	(45,500)
Net cash inflow from operating activities	**4,389,771**	6,519,083

16 Events occurring after end of the financial year

The directors of the Responsible Entity are not aware of any matter or circumstance arising since 30 June 2018 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2018 or on the results and cash flows of the Scheme for the year ended on that date.

17 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018 and 30 June 2017.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) The financial statements and notes set out on pages 6 to 31 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 2018 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

20 September 2018

Independent auditor's report

To the unitholders of Australian Unity Pooled Mortgage Fund

Our opinion

In our opinion:

The accompanying financial report of Australian Unity Pooled Mortgage Fund (the Scheme) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Scheme's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The Directors of Australian Unity Funds Management Limited (the "Responsible Entity") are responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 30 June 2018, including the directors' report, but does not include the financial report and our auditor's report thereon.

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Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity of the Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Australian Unity Pooled Mortgage Fund for the year ended 30 June 2018 included on Australian Unity's web site. The directors of the Responsible Entity of the Scheme are responsible for the integrity of Australian Unity's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

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George Sagonas
Partner

Melbourne
20 September 2018