

Mercer Superannuation (Australia) Limited
ABN 79 004 717 533

FINANCIAL REPORT
for the financial year ended 31 December 2019

Mercer Superannuation (Australia) Limited

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Mercer Superannuation (Australia) Limited

Directors' report

The directors of Mercer Superannuation (Australia) Limited ("the Company") submit herewith the financial report of the Company for the financial year ended 31 December 2019. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Brian Benger
Sue O'Connor
Jan Swinhoe
Pauline Vamos
Benjamin Walsh (Resignation effective 30 April 2020)
Darren Wickham

The above named directors held office during and since the end of the financial year unless otherwise stated.

Principal activity

The Company's principal activities in the course of the financial year was to act as the trustee of a number of superannuation trusts. The Company is the trustee of a master trust, the Mercer Super Trust ('MST'), the Mercer Super Investment Trust ('MSIT') and the Mercer Portfolio Service Superannuation Plan ('MPSSP'). The Company holds an Australian Prudential Regulation Authority (APRA) RSE license and an Australian Financial Services License (AFSL) with limited authorisation.

Review of operations

During the financial year, the Company reported a profit of \$2,739,000 (2018: \$1,473,000), with revenue of \$240,156,000 (2018: \$236,652,000).

Changes in the state of affairs

There were no significant changes in the state of affairs of the Company that occurred during the financial year.

Subsequent events

The emergence of Coronavirus disease (COVID-19) during the first months of 2020 has had a significant impact on financial markets and assets globally, with broader economic and social disruption now evident and anticipated to continue in the near-term.

Management has business continuity plans in place to enable the Company to continue to carry out its core activities including meeting our obligations with creditors and customers. The impact of COVID-19 is yet to be fully determined and could have an impact on certain revenue and expenses. Management will continue to monitor the economic impact of this situation on the Company's financial performance and the business as a whole.

Other than the item noted above, in the interval between the end of the financial year and the date of this report, no transaction or event of a material and unusual nature has arisen to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Mercer Superannuation (Australia) Limited

Directors' report

Future developments

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Dividends

In respect of the financial year ended 31 December 2019, no dividends were declared (2018: nil).

Indemnification of officers and auditors

During the financial year, Mercer (Australia) Pty Ltd ("Mercer"), the parent company of the Company, paid a premium in respect of a contract insuring the directors of the Company (as named previously), the company secretaries and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. In addition, the directors and company secretaries have each received an indemnity for the Company in respect of their role as an officer of the Company.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 3 of the financial report.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Sue O'Connor

Director
23 March 2020

23 March 2020

The Board of Directors
Mercer Superannuation (Australia) Limited
727 Collins Street
Docklands, VIC 3008

Dear Board Members

Auditor's Independence Declaration to Mercer Superannuation (Australia) Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Mercer Superannuation (Australia) Limited.

As lead audit partner for the audit of the financial statements of Mercer Superannuation (Australia) Limited for the financial year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Fiona O'Keefe
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Mercer Superannuation (Australia) Limited

Opinion

We have audited the financial report of Mercer Superannuation (Australia) Limited (the "Entity") which comprises the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Entity is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Entity's financial position as at 31 December 2019 and of its financial performance for the year ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 are independent of the Entity 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

Directors' are responsible for the other information. The other information comprises the Directors' report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

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

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In connection with our audit of the financial report, our responsibility is to read the other information 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, 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 for the Financial Report

The directors of the Entity 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 control as the directors 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 are responsible for assessing the ability of the Entity 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 either intend to liquidate the Entity or to cease operations, or has 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



DELOITTE TOUCHE TOHMATSU



Fiona O'Keefe
Partner
Chartered Accountants

23 March 2020

Mercer Superannuation (Australia) Limited

Directors' declaration

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company; and
- (c) in the Directors' opinion, the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board as stated in note 2. to the financial statements.

Signed in accordance with a resolution of directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Sue O'Connor

Director
23 March 2020

Mercer Superannuation (Australia) Limited
Statement of Profit or Loss and Other Comprehensive
Income
for the financial year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Revenue from services	3	236,978	232,429
Other income	3	3,178	4,223
Total revenue		240,156	236,652
External custody administration and investment management fees		(11,087)	(11,124)
Administrative services provided by related entities	13	(217,854)	(216,866)
Administrative services provided by other entities		(3,514)	(3,628)
Management fees charged by parent entity	13	(798)	(816)
Other operating costs		(657)	(2)
Marketing expenses		(2,334)	(2,111)
Profit before income tax expense		3,912	2,105
Income tax expense	4(a)	(1,173)	(632)
Profit for the year		2,739	1,473
Other comprehensive income (net of tax)		-	-
Total comprehensive income for the year attributable to owner of the Company		2,739	1,473

Notes to the financial statements are included on pages 12 to 30.

Mercer Superannuation (Australia) Limited

Statement of Financial Position at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Current Assets			
Cash and cash equivalents	14	36,123	36,074
Trade and other receivables	7	13,764	14,547
Inter-company tax receivable	4(b)	12,351	5,825
Total Current Assets		62,238	56,446
Non-Current Assets			
Deferred tax assets	4(c)	60	33
Other assets	8	135	160
Total Non-Current Assets		195	193
Total Assets		62,433	56,639
Current Liabilities			
Trade and other payables	9	13,719	10,664
Total Current Liabilities		13,719	10,664
Total Liabilities		13,719	10,664
Net Assets		48,714	45,975
Equity			
Issued capital	10	18,504	18,504
Retained profits		30,210	27,471
Total Equity		48,714	45,975

Notes to the financial statements are included on pages 12 to 30.

Mercer Superannuation (Australia) Limited

Statement of Changes in Equity for the financial year ended 31 December 2019

	Note	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 January 2018		18,504	25,998	44,502
Profit for the year		-	1,473	1,473
Other comprehensive income		-	-	-
Total comprehensive income		-	1,473	1,473
Balance at 31 December 2018	10	18,504	27,471	45,975
Balance at 1 January 2019		18,504	27,471	45,975
Profit for the year		-	2,739	2,739
Other comprehensive income		-	-	-
Total comprehensive income		-	2,739	2,739
Balance at 31 December 2019	10	18,504	30,210	48,714

Notes to the financial statements are included on pages 12 to 30.

Mercer Superannuation (Australia) Limited

Statement of Cash Flows

for the financial year ended 31 December 2019

	2019	2018
Notes	\$'000	\$'000
<i>Cash Flows From Operating Activities</i>		
Receipts from customers	261,104	256,804
Payments to suppliers and employees	(13,907)	(13,489)
Payments to related parties	(242,600)	(250,752)
Tax refund/ (paid)	(7,726)	3,225
Interest received	3,178	4,223
Net cash generated from operating activities	14 49	11
<i>Net increase in cash and cash equivalents</i>	49	11
<i>Cash and cash equivalents at the beginning of the financial year</i>	36,074	36,063
<i>Cash and cash equivalents at the end of the financial year</i>	14(a) 36,123	36,074

Notes to the financial statements are included on pages 12 to 30.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

1. General information

Mercer Superannuation (Australia) Limited is a limited public company, incorporated and operating in Australia. The registered office and principal place of business of the Company is Level 15, 727 Collins Street, Melbourne, Victoria 3008.

2. Summary of accounting policies

Application of new and revised Accounting Standards

In the current year, the Company has adopted the following new standards issued by the Australian Accounting Standards Board ("AASB") that are effective for annual reporting periods commencing on or after 1 January 2019, and therefore relevant for the current year end.

- Annual Improvements to IFRS 2015-2017 Cycle

The Directors anticipate that the application of AASB 16 will have no material impact on the financial statements in the current financial year as there are no leases currently held.

Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standards/Interpretations	Application date of Standards/Interpretations	Application date for Company
2018-7 Amendments to Australian Accounting Standards – Definition of Material	1 January 2020	1 January 2020
2019-1 Amendments to Australian Accounting Standards - References to the Conceptual Framework	1 January 2020	1 January 2020

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company, but will change the disclosures presently made.

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

For the purpose of preparing the financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

2. Summary of accounting policies (cont)

Statement of compliance (cont)

The financial statements were authorised for issue by the Directors on 23 March 2020.

Basis of preparation

The financial statements have been prepared on the basis of historical cost. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Goods and service tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

2. Summary of accounting policies (cont)

(b) Revenue and other income

Revenue from contracts with customers

The core principle of AASB 15 that revenue is recognised on a basis that reflects the transfer of the promised goods and services to customers at an amount that reflects the consideration the Company expects to receive in exchange for those goods and services. Revenue is recognised by applying a five-step model as follows:

1. Identifying the contract with customer
2. Identifying the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation
5. Recognise revenue as and when control of the performance obligations is transferred

The Company's main sources of revenue arise through the provision of trustee services to a number of superannuation trusts. The services include superannuation administration services, communications services, education services, ancillary services and others.

Each of the above services delivered to customers is incorporated into the combined output which the company is contracted to provide. Hence, it is concluded that the series of activities are considered as a single performance obligation.

As clients simultaneously receive and consume the benefits of the series of activities provided, the revenue is recognised over time.

Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(c) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

2. Summary of accounting policies (cont)

(c) Income tax (cont)

are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when it relates to items credited or debited directly to equity or in other comprehensive income, in which case the current and deferred tax are also recognised directly to equity or in other comprehensive income. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation

The Company is part of a tax-consolidated group under Australian taxation law. Marsh Mercer Holdings (Australia) Pty Ltd ("MMHAPL") is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by MMHAPL (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 4. to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

2. Summary of accounting policies (cont)

(c) Income tax (cont)

tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(d) Cash and cash equivalents

Cash comprises cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(e) Financial assets

Financial assets are recognised initially on the date that the Company becomes party to the contractual provisions of the asset. On initial recognition, all financial assets are measured at fair value plus transaction costs (except for assets measured at fair value through profit or loss where transaction costs are expensed as incurred).

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

On initial recognition, the Company classifies its financial assets into those measured at amortised cost. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Company's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Impairment of financial assets

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:

- financial assets measured at amortised cost

When determining whether the credit risk of a financial asset has increased significantly since initial

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

2. Summary of accounting policies (cont)

(e) Financial assets (cont)

recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment and including forward looking information.

The Company's trustee fee receivables and sundry receivables are made up of trustee fees and trustee expense recovery fees which are paid directly from the member accounts. As the balances are fully recovered from the members, there has been no expected credit loss.

(f) Financial liabilities

The Company measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method. The financial liabilities of the Company comprise trade payables, bank and other loans.

(g) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described throughout note 2(a) to 2(f), the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

As outlined in note 3, revenue is recognised by reference to the services provided as set out in the contract. The directors will consider the period of the service contract and completed works to the client to determine whether the revenue to be recognised is appropriate in the current period. The Directors will consider the detailed criteria for the recognition of revenue as set out in Company policy and reference to AASB15 "Revenue from Contracts with Customers" .

Expected Credit Loss

An expected credit loss of trade receivables and intercompany balances are made to cover probable and reasonably estimable losses. Estimates of the expected credit loss accounts consider a number of factors, including collection experience, ageing of the trade receivables, credit risk of the client groups and other qualitative considerations.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

3. Revenue

An analysis of the Company's revenue for the year, from continuing perations, is as follows:

	2019 \$'000	2018 \$'000
Revenue from contracts with customers		
Trustee services	236,978	232,429
Other income		
Interest income under trust deed	399	562
Interest income - bank deposits	2,779	3,661
	<u>3,178</u>	<u>4,223</u>
Total Revenue	<u>240,156</u>	<u>236,652</u>

4. Income Tax

	2019 \$'000	2018 \$'000
<u>(a) Income tax recognised in profit or loss</u>		
Tax expense comprises:		
Local income tax - current period	1,201	572
Origination and reversal of temporary differences	(28)	60
	<u>1,173</u>	<u>632</u>
Total tax expense attributable to continuing operations	<u>1,173</u>	<u>632</u>

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Profit from continuing operations	3,912	2,105
Income tax expense calculated at 30%	1,173	632
Overprovision of tax in prior year	-	-
	<u>1,173</u>	<u>632</u>
Income tax expense attributable to ordinary activities	<u>1,173</u>	<u>632</u>

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

4. Income Tax (cont)

	2019 \$'000	2018 \$'000
(b) <u>Current income tax liabilities - payable to related party</u>		
Income tax receivable attributable to an entity within a tax-consolidation group	12,351	5,825
(c) <u>Deferred tax balances</u>		
Deferred tax assets comprise:		
Temporary differences	60	33

Taxable and deductible temporary differences arise from the following:

	Opening Balance \$'000	Charged to income \$'000	Closing Balance \$'000
2019			
Gross deferred tax assets:			
Provisions	33	27	60
Attributable to continuing operations	33	27	60
2018			
Gross deferred tax assets:			
Provisions	93	(60)	33
Attributable to continuing operations	93	(60)	33

The Company is part of a tax-consolidated group and accordingly, does not pay tax or have franking credits in its own right.

Relevance of tax consolidation to the Company

The Company is part of a tax-consolidated group with effect from 1 January 2003 and has been taxed as a single entity from that date. The head entity within the tax-consolidated group is MMHAPL.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

4. Income Tax (cont)

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group, with effect from 1 January 2003, have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, MMHAPL and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

5. Key Management Personnel Compensation

The directors of Mercer Superannuation (Australia) Limited during the financial year were:

Brian Benger
Sue O'Connor
Jan Swinhoe
Pauline Vamos
Benjamin Walsh (Resignation effective 30 April 2020)
Darren Wickham

The aggregate compensation made to key management personnel of the Company which is paid and expensed in the accounts of the parent entity, Mercer (Australia) Pty Ltd, is set out below:

	2019	2018
	\$	\$
Short term employee benefits	1,306,189	1,467,830
Long-term employee benefits	15,252	8,329
Mandatory superannuation guarantee payments	20,767	20,290
Share based payments*	421,502	254,031
	<u>1,763,710</u>	<u>1,750,480</u>

* Compensation includes the market value of options issued under the Marsh & McLennan Companies, Inc option plan in each year spread over a four year vesting period. The above compensation is paid and expensed in the accounts of the parent entity, Mercer (Australia) Pty Ltd, and full details of the option based compensation paid are included in the accounts of Mercer (Australia) Pty Ltd.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

6. Remuneration of Auditors

The audit expense for the Company for the financial year is \$64,010 (2018: \$56,340). It is paid by the parent entity, and is not recorded as an expense in the Statement of Profit or Loss and Other Comprehensive Income. The auditor of the Company is Deloitte Touche Tohmatsu.

7. Trade and Other Receivables

	2019 \$'000	2018 \$'000
<u>Current</u>		
Trustee fee receivables	4,848	5,673
Sundry receivable	2,722	2,325
Receivables from related parties*	6,194	6,549
	<u>13,764</u>	<u>14,547</u>

* There are no fixed terms of repayment, and all balances are interest free.

8. Other Non-Current Assets

	2019 \$'000	2018 \$'000
Other assets	135	160
	<u>135</u>	<u>160</u>

9. Trade and Other Payables

	2019 \$'000	2018 \$'000
<u>Current</u>		
Accrued investment manager fees*	263	117
Payables to related parties**	12,933	9,880
Goods and services tax (GST) payable	167	397
Other payables	356	270
	<u>13,719</u>	<u>10,664</u>

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

9. Trade and Other Payables (cont)

* Accrued investment manager fees operate on a variety of credit arrangements, the most common being settlement within 30 days from date of invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

** There are no fixed terms of repayment and all balances are interest free.

10. Issued Capital

	2019	2018
	\$'000	\$'000
18,503,823 fully paid ordinary shares (2018: 18,503,823)	18,504	18,504
	<u>18,504</u>	<u>18,504</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

There was no issuance of ordinary shares for the financial year presented.

11. Operational Risk Reserves

	2019	2018
	\$'000	\$'000
Operational Risk Reserve	31,834	32,027
	<u>31,834</u>	<u>32,027</u>

Operational Risk Reserve

The Operational Risk Reserve represents the financial resources required to meet the Company's Operational Risk Financial Requirement ("ORFR") to provide protection to members of the superannuation funds for which the Company is the Trustee. The Company may only use the reserve to rectify a loss to members, or the deprivation of a gain caused by an operational risk event. This does not include the costs associated with correcting the causes of an event.

The reserve amount is determined and approved by the Board in accordance with the ORFR Strategy document in November 2019. The reserve is held in a cash term deposit and is accessible immediately should an operational risk event occur. During the year, payments totalling \$656,531 were made from the reserve for operational risk events. (2018: \$221,418)

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

12. Contingent Liabilities

There may be outstanding Error and Omission claims and possible claims against the Company as at 31 December 2019, the aggregate amount of which cannot be readily quantified. Appropriate advice is obtained from management and, where applicable, legal advice may also be obtained. In light of such advice, a contingent liability may be made for any such claims as may be deemed necessary in accordance with applicable accounting standards. When considering what contingent liability is required, the Company's professional indemnity insurance is taken into account as the majority of claims are covered by this policy. Should there be any claims being presented against the Company, these claims will be managed by the parent entity, Mercer (Australia) Pty Ltd on the Company's behalf.

As at 31 December 2019, the directors are unaware of any claims not covered by the Company's professional indemnity insurance (2018: nil).

13. Related Party Disclosures

(a) *Key Management Personnel Compensation and Retirement Benefits*

Details of key management personnel compensation and retirement benefits are disclosed in note 5. to the financial statements.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

(b) *Parent Entities*

The parent entity of the Company is Mercer (Australia) Pty Ltd.

The ultimate Australian parent entity is MMC Holdings (Australia) Pty Ltd.

The ultimate parent entity in the wholly-owned group is Marsh & McLennan Companies Inc. which is incorporated in Delaware, United States of America.

(c) *Transactions within the Wholly-Owned Group*

The wholly-owned group includes:

- the ultimate parent entity in the wholly-owned group;
- the parent entity;
- wholly-owned controlled entities; and
- other entities in the wholly-owned group.

Amounts receivable from and payable to entities in the wholly-owned group are disclosed in notes 7. and 9. to the financial statements.

The parent entity, Mercer (Australia) Pty Ltd provided resources and performed certain administrative services for the Company under the Master Resource agreement, for which a fee of \$798,344 (2018: \$816,050) was charged, being an appropriate allocation of costs incurred by relevant administrative departments.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

13. Related Party Disclosures (cont)

(c) Transactions within the Wholly-Owned Group (cont)

Mercer Outsourcing (Australia) Pty Ltd paid certain direct operating expenses on behalf of the Company since the implementation of the Single Procuring Entity model in August 2019, totalling \$832,660 (2018: nil).

Income tax refund and receivables from Mercer (Australia) Pty Ltd on behalf of the Company was a total of \$4,625,000 (2018: \$9,050,000).

The Company paid a fee of \$98,218,020 (2018: \$94,589,561) to Mercer Investments (Australia) Limited, a related party within the wholly-owned group for investment management services provided to the Mercer Super Trust.

The Company paid a fee of \$103,382,539 (2018: \$104,454,492) to Mercer Outsourcing (Australia) Pty Ltd and \$1,284,439 (2018: \$1,027,870) to Mercer Financial Advice (Australia) Pty Ltd, both of which are related parties within the wholly-owned group for administration services and financial advice provided to the Mercer Super Trust.

The Company paid a fee of \$16,253,089 (2018: \$16,793,925) to Mercer Financial Advice (Australia) Pty Ltd, a related party within the wholly-owned group for distribution fee for Mercer Portfolio Service Superannuation Plan.

During the year, the Company paid no dividends (2018: nil) to its parent entity, Mercer (Australia) Pty Ltd.

14. Notes to the Statement of Cash Flows

	2019	2018
	\$'000	\$'000
<i>Reconciliation of Profit for the Period to Net Cash Flows From Operating Activities</i>		
Profit from ordinary activities after related income tax	2,739	1,472
Increase/(decrease) in tax related balances	(6,553)	3,857
(Increase)/decrease in assets:		
Trade and other receivables	427	1,132
Other Assets	25	(160)
Related parties receivables	355	3,602
Increase/(decrease) in liabilities		
Trade and other payables	(83)	(69)
Related parties payables	3,053	(9,823)
Other payables	86	-
Net cash generated by operating activities	49	11

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

14. Notes to the Statement of Cash Flows (cont)

(a) Cash and cash equivalents

		2019	2018
	Notes	\$'000	\$'000
Cash at bank		4,289	4,047
Operational risk reserve cash account	11	31,834	32,027
		<u>36,123</u>	<u>36,074</u>

15. Trusts for which the Company is a Trustee

Trusts for which the Company is a Trustee

During the year ended 31 December 2019, the Company was the trustee for the following superannuation trusts:

- Mercer Super Trust;
- Mercer Portfolio Service Superannuation Plan; and
- Mercer Super Investment Trust.

In relation to the trusts for which the Board was responsible at year end:

- for the Mercer Portfolio Service Superannuation Plan and the Mercer Super Investment Trust, the directors are satisfied that there are sufficient assets in each of these trusts to cover their respective liabilities; and
- for the Mercer Super Trust, this trust comprises four divisions - the Corporate Superannuation Division, the Personal Superannuation Division, the Allocated Pension Division and the Retail Division. Further, the Corporate Superannuation Division comprises both Defined Benefit plans and Accumulation plans. With effect from 1 January 2020, all members of the Personal Superannuation Division transferred to the Corporate Superannuation Division.
- For the Corporate Superannuation Division Accumulation plans, the Personal Superannuation Division, the Allocated Pension Division and the Retail Division, the directors are satisfied that there are sufficient assets attributable to each of these divisions, or sub-divisions, to cover their respective liabilities.

In relation to the Corporate Superannuation Division Defined Benefits plans generally, the financial status of defined benefit funds can vary from year to year according to investment performance, membership movements, salary increases, changes in actuarial expectations and other factors. As a result of their specific experiences, the net assets of a number of Defined Benefit plans within the Corporate Superannuation Division of the Mercer Super Trust were less than the defined benefit liabilities at 30 June 2019. The Mercer Super Trust had 73 Defined Benefit plans as at 30 June 2019 (2018: 76), with coverage of defined benefit member liabilities by plan assets above 100% for approximately 96% (2018: 93%) of plans, and below 100% for the remainder. With the exception of one, defined benefit plans are closed to new entrants. The participating employers of each plan contribute at rates determined by the Trustee, after consulting the employer, on advice of the plan actuary.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

15. Trusts for which the Company is a Trustee (cont)

Trusts for which the Company is a Trustee (cont)

The financial position of plans in an unsatisfactory position (where vested benefits exceed the value of the assets) is monitored on a quarterly basis by plan actuaries, as required by the Trustee. Further, the Trustee requires that the relevant plan actuary review the current company contribution program and recommend a revised program if considered appropriate. Where appropriate on advice of the plan actuary, the Trustee will seek the employer sponsor's agreement to make additional contributions, which are intended to return the plan to a satisfactory financial position within a reasonable period of time. The Trustee continues to monitor the financial position of all Defined Benefit plans on a quarterly basis, including testing coverage against each plan's shortfall limits, in accordance with APRA's Prudential Standard SPS 160 Defined Benefit matters.

16. Financial Instruments

(a) Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the parent entity, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity. The Company's dividend levels are driven by the cash flow requirements of the ultimate parent, but take into account directors considerations regarding cash flow requirements of the Company at the time.

The Company's overall strategy remains unchanged from 2018.

Company	Notes	Weighted average effective rate %	Less than 1 month \$'000	1 - 3 months \$'000	3 -12 months \$'000	Total \$'000
Cash and cash equivalents	14(a)	-	36,123	-	-	36,123
Trade and other receivables	7	-	7,570	-	-	7,570
Related party receivables	7	-	6,194	-	-	6,194
			49,887	-	-	49,887
Trade and other payables	9	-	786	-	-	786
Related party payables	9	-	12,933	-	-	12,933
			13,719	-	-	13,719

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

16. Financial Instruments (cont)

(b) *Operational Risk Financial Requirement*

The Operational Risk Financial Requirement ("ORFR") is the target amount of financial resource that the Trustee has determined is necessary to respond to any losses arising from operational risks.

The purpose of the ORFR is to provide protection to members in the event of an operational risk event occurring.

The Company, as Trustees to the superannuation trusts listed in note 15., has determined that the ORFR (whether via capital or via an Operational Risk Reserve which is levied from member's funds) will be separately identifiable within an account and invested in a risk-free asset class, namely 100% in cash investments or local cash equivalents. The overall strategy is set out in the Company's Operational Risk Financial Requirement Strategy approved by the Board in November 2019.

(c) *Financial Risk Management Objectives*

The Corporate Treasury function of Mercer (Australia) Pty Ltd, the direct parent entity, provides services to the business, co-ordinates access to domestic financial markets, and manages the financial risks relating to the operations of the Company.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by Mercer's policies approved by its board of directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The Company's activities expose it to minor financial risks of changes in foreign currency exchange rates. The Company has elected not to manage its exposure to this foreign currency risk.

(d) *Significant Accounting Policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2. to the financial statements.

(e) *Fair value of financial instruments*

The fair value of financial assets and financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Cash, receivables, payables and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

(f) *Liquidity and Interest Risk Tables*

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been based on the undercounted cash flows of financial assets and liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

16. Financial Instruments (cont)

(f) Liquidity and Interest Risk Tables (cont)

	Notes	Weighted average effective rate %	Less than 1 month \$'000	1 - 3 months \$'000	Within 1 year \$'000	Total \$'000
2019						
Financial assets						
Cash and cash equivalents	14(a)	0.97	36,123	-	-	36,123
Trade and other receivables	7		7,570	-	-	7,570
Related party receivables	7		6,194	-	-	6,194
			<u>49,887</u>	<u>-</u>	<u>-</u>	<u>49,887</u>

2019

Financial liabilities

Accrued investment manager fees and other payables	9		786	-	-	786
Related party payables	9		12,933	-	-	12,933
			<u>13,719</u>	<u>-</u>	<u>-</u>	<u>13,719</u>

	Notes	Weighted average effective rate %	Less than 1 month \$'000	1 - 3 months \$'000	Within 1 year \$'000	Total \$'000
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2018

Financial assets

Cash and cash equivalents	14(a)	1.29	36,074	-	-	36,074
Trustee fee and sundry receivables	7		7,998	-	-	7,998
Related party receivables	7		6,549	-	-	6,549
			<u>50,621</u>	<u>-</u>	<u>-</u>	<u>50,621</u>

2018

Financial liabilities

Accrued investment manager fees and other payables	9		784	-	-	784
Related party payables	9		9,880	-	-	9,880
			<u>10,664</u>	<u>-</u>	<u>-</u>	<u>10,664</u>

All amounts are current assets/liabilities and relate to continuing operations.

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

16. Financial Instruments (cont)

(g) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterpart as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterpart are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterpart.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(h) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(i) Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the Company's cash assets at the end of the reporting period. If interest rates had been 50 basis points higher/lower and all other variables held constant, the impact on interest income would be:

	2019	2018
	\$'000	\$'000
Profit	±181	±180

Mercer Superannuation (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2019

17. Events after the Reporting Period

The emergence of Coronavirus disease (COVID-19) during the first months of 2020 has had a significant impact on financial markets and assets globally, with broader economic and social disruption now evident and anticipated to continue in the near-term.

Management has business continuity plans in place to enable the Company to continue to carry out its core activities including meeting our obligations with creditors and customers. The impact of COVID-19 is yet to be fully determined and could have an impact on certain revenue and expenses. Management will continue to monitor the economic impact of this situation on the Company's financial performance and the business as a whole.

Other than the item noted above, in the interval between the end of the financial year and the date of this report, no transaction or event of a material and unusual nature has arisen to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.