ASX Announcement
Appendix 4E and 2020 Annual Report

Release date: 24 February 2021

In accordance with the ASX Listing Rules, Smartgroup Corporation Limited **(ASX: SIQ)** encloses for release to the market:

- Appendix 4E, and
- 2020 Annual Report.

For further information, contact:

Tim Looi
Managing Director and Chief Executive Officer
1300 665 855

Sophie MacIntosh
Chief Legal Officer and Company Secretary
1300 665 855

This announcement was authorised for release by the Board of Directors of Smartgroup.

Appendix 4E

Preliminary Final Report

1. Company details

Name of entity: Smartgroup Corporation Ltd

ABN: 48 126 266 831

Reporting period: For the year ended 31 December 2020

Previous period: For the year ended 31 December 2019

2. Results for announcement to the market

		$'000		$'000
Revenues from ordinary activities	down	33,503	13.4% to	216,332
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	down	20,124	32.7% to	41,325
Profit for the year attributable to the owners of Smartgroup Corporation Ltd	down	20,124	32.7% to	41,325

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2019 (paid 16 March 2020)	21.5	21.5
Interim dividend for the year ended 31 December 2020 (paid on 16 September 2020)	17.0	17.0

On 24 February 2021, the Directors declared a fully franked final ordinary dividend of 17.5 cents per ordinary share. The final dividend will be paid on 23 March 2021 to shareholders registered on 9 March 2021 with an expected total distribution of $23,240,000. On 24 February 2021, the Directors also declared a total fully franked special dividend of 14.5 cents per ordinary share, comprised of a final special dividend of 9.0 cents per share in respect of the year ended 31 December 2020, and an interim special dividend of 5.5 cents per share in respect of the current year. The special dividend will be paid on 23 March 2021 to shareholders registered on 9 March 2021 with an expected total distribution of $19,259,000. There is no dividend reinvestment plan.

Comments

The profit for the Group after providing for income tax amounted to $41,325,000 (31 December 2019: $61,449,000).

Refer to the 'Chairman's report' and 'Managing Director and CEO's report' for detailed commentary of the results.

Appendix 4E (continued)

Preliminary Final Report

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(30.76)	(41.85)

Net tangible assets per ordinary security is total net assets, excluding intangible assets, deferred tax assets, and right-of-use lease assets, divided by the number of ordinary shares on issue.

4. Control gained over entities

There were no changes to control over entities in the period.

	Reporting entity's percentage holding		Contribution to profit after tax	
Detail of joint ventures	31 Dec 2020 %	31 Dec 2019 %	31 Dec 2020 $'000	31 Dec 2019 $'000
Health-e Workforce Solutions Pty Ltd [1]	50%	50%	45	8

[1] Excludes impairment of investment of $5,118,000 (note 25).

5. Independent auditor's review

The financial report for the year ended 31 December 2020 has been audited by PricewaterhouseCoopers and an unqualified opinion has been issued.

6. Attachments

Additional Appendix 4E requirements can be found in the attached Directors' Report and the Financial Report.

Smartgroup
Annual Report
2020

ACCOUNTABILITY.
CARE.
TEAM.

smart
group
corporation

VALUING ALL OUR RELATIONSHIPS

DOING RIGHT BY THOSE WE SERVE

COVID-19 has generated a lot of questions for businesses across many sectors. Ways of working, supply chains, financial models and so much more have all come under scrutiny. It’s been a time of deep instability for many.

Our key concerns this year have been the health and wellbeing of team members and the strength and stability of our client relationships. We’ve long recognised that our ability to service our customers rests with having a workforce that is thorough, disciplined and highly committed to helping them understand and realise the benefits of salary packaging.

Our ability to do good for others starts with ensuring we are doing everything we can to support our own team members.

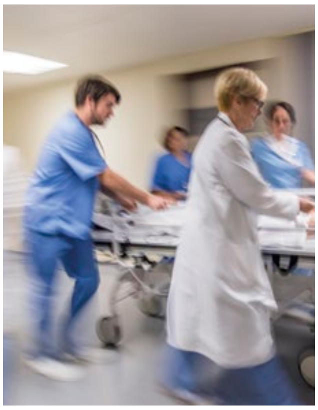
For more than 20 years, we've worked with organisations with extensive workforces to take the complication out of their compensation. We've helped teachers, community workers, nurses, public servants and many others to easily and quickly save money through salary packaging. In the process, we have helped our clients retain, engage and reward the talented individuals they depend on.

This year, we did everything we could to be there for those who continue to trust us. Our results speak to the strength of those relationships, the stability they bring and the reputation we've built in supporting the communities we serve.

20+ YEARS OF TAKING COMPLICATION OUT OF COMPENSATION

We have a proven track record in working with organisations and their employees to ensure salary packaging is as straightforward as possible.

At Smartgroup, we simplify salary packaging, fleet management and a range of other employee management services for organisations across Australia.



Azubuike (Zubby) Okwanma from Mosaic Community Care. Read Zubby's story on page 11 – one of several valued relationships we feature in this report

For more information on our annual results, please visit **smartgroup.com.au**

OUR CUSTOMERS ARE AT THE CENTRE OF EVERYTHING WE DO

We are in a unique position to support our employer clients and employee customers with industry-specific expertise and experience. This year, as everyone grappled with the challenges and complexities of COVID-19, our team members worked tirelessly to help our customers.

Salary packaging enables employees to increase their income at no cost to their employer. The makeup of each salary packaging benefit has different rules and requirements under the relevant tax legislation. Part of our role is helping employees and employers to navigate through these benefits and ensure they are administered in a compliant and simple way for each organisation we serve.

A rewarding salary packaging program is crucial for many organisations across Australia. Every year, we partner with thousands of employer clients to deliver benefits to over 360,000 employee customers across a full range of sectors.

Salary packaging represents a cost-effective way to attract and remunerate employees. This year, we continued to offer our client organisations access to services that include salary packaging and novated leasing, fleet management, payroll, share plan administration and workforce optimisation services.

Not-for-profit sector

We are one of the leading providers of outsourced salary packaging to the not-for-profit sector in Australia, having helped hundreds of thousands of employees, such as community and charity workers, to utilise the salary packaging benefits specific to their industry. We provide services to over 1,600 not-for-profit organisations in every state and territory of Australia. Many of our relationships are long-standing, with over 100 not-for-profit clients having partnered with us for over 10 years.

Our tailored fleet management solutions are delivered via Smartfleet and include fully outsourced or inhouse fleet management programs. Our payroll business, Smartsalary Payroll Solutions, also provides organisations with payroll administration services.

The outbreak of COVID-19 meant many not-for-profit organisations had to change the way they worked without compromising on providing high-quality services to the most vulnerable people in our society. We responded by quickly moving our full client-facing workforce to remote working arrangements and rolling out webinars, phone appointments and enhanced online information so that our not-for-profit employee customers could easily access and fully utilise their benefits throughout this time.

Healthcare

Healthcare has been in the spotlight this year of course, with all parts of the sector under pressure to help keep Australians safe from COVID-19 at the same time as they deal with their already high workloads.

Healthcare is a challenging sector at the best of times with complex staffing recruitment and rostering arrangements, unpredictable demand and the need to access highly specific skill sets.

We are trusted by some of Australia's largest healthcare providers (public and not-for-profit) to deliver industry-specific salary packaging benefits for nurses, clinicians and auxiliary staff. We also help hospitals with innovative workforce modelling and workforce optimisation and provide a fully flexible and cost-effective fleet management solution for healthcare providers. Those fleet management solutions include Pool Vehicle Booking, a fleet car-sharing system that can save time and money and reduce the environmental impact of the cars in our clients' fleets.

A UNITED APPROACH TO FLEET EFFICIENCY

Smartgroup & UnitingCare Procurement Group

The UnitingCare Procurement Group represents agencies of the Uniting Churches across Australia and is one of the largest providers of human-related services in Australia, apart from government, so when it released a tender for Uniting's national fleet management, our Smartfleet team were excited to get involved.

Since winning the business, our Smartfleet team have implemented a Pool Vehicle Booking platform and electronic keybox into Uniting Communities' new head office premises.

Lee Sauerwald, Executive Manager Corporate Services, Uniting Communities.

"It's had an immediate impact on how we see, manage and control our fleet movements," says Lee Sauerwald, Executive Manager Corporate Services, Uniting Communities "Pooling our company vehicles during the day is enabling us to maximise their use. A sophisticated online booking system enables us to allocate cars specifically and to integrate each journey with an auto key box.

"Increasing our visibility around utilisation has helped with car sharing/pooling and with co-ordinating shared journeys as well as keeping down costs by allowing us to run fewer vehicles.

"We have been a carbon certified company since 2015 – the first Australian Registered Charity and the first SA organisation to do so. Our fleet does 2 million kilometres and another 1 million in grey fleet (journeys using privately owned cars), so saving on journeys also saves us having to procure offsets. 98% of our company vehicles are hybrid petrol/electric vehicles, which reduce emissions and fuel by one-third compared to a full petrol vehicle."

Changing suppliers is always a worry, says Lee, and this year, the complications of COVID-19 and moving into new headquarters at the same time as Smartfleet came on board only increased that. "We didn't need to be concerned at all," says Lee. "Smartfleet made the changeover straightforward and implementation of the online pool booking and integrated key box has progressed well, with Smartfleet being highly responsive throughout."

Outside of his role at Uniting Communities, Lee is also the President of the Australasian Fleet Management Association (AfMA) – a member based, not-for-profit peak industry body throughout Australia, New Zealand and South East Asia.

This year, we worked with the administrators and staff of over 930 primary and secondary care facilities across Australia. Traditionally, our people have worked largely on site, engaging with people face-to-face, but with COVID-19, we were forced to move to virtual interactions. Just as we did for our not-for-profit sector customers, we shifted to telephone and video appointments and running information webinars. We combined these initiatives with extended operating hours to better support our healthcare workers.

The COVID-19 pandemic has reminded us all of the importance of taking care of our healthcare workers, who play such an important role in caring for our community. We are pleased to report that we have been able to do this while maintaining high service levels, with our client organisations telling us that they were thankful we implemented alternative methods to engage and educate their employees.

Corporate

We work with almost two thousand corporate organisations to manage their employee salary packaging and novated leasing programs, fleet requirements, employee payroll arrangements and employee share plans. Few businesses have our industry knowledge or resources to manage the complexities of effective salary packaging and a comprehensive novated leasing program. We manage both for a wide range of small, medium and large corporates, along with employee share plan administration for private, public and start-up companies.

This year was far from easy for our teams, with lockdowns and restrictions preventing people from having face-to-face meetings and large numbers of people continuing to work from home. People now want the flexibility of mixed office-based working and working from home. We've adapted to these changes by working virtually with our clients and managing effective remote working capabilities for team members.

Government

We have long-standing relationships with local, state and federal government departments and agencies and work closely with them to meet their salary packaging needs.

Some of Australia's largest government agencies, including the Department of Defence and the Australian Taxation Office, trust us to ensure they comply with their complex administrative requirements.

We are deeply proud of these relationships. Working closely with those who want to do best by others lies at the heart of who we are and what we value.

This year has been a particularly challenging one for government departments as they have looked to implement government measures across a range of fronts. Our clients have been at the frontline of the state and federal governments' health and economic responses to the pandemic. For their people, that has meant both a change to the way they work and, in some instances, the duties they perform. That has required us to increase our channels for customer communication to make them aware of how salary packaging can assist in the transition from office-based working to working from home.

Education

In the fast-moving education sector, we work with a full range of public, private and faith-based educational institutions. We manage a wide range of benefits for teachers, administrators and support personnel in individual schools, universities, state education departments and dioceses who trust us to organise their salary packaging needs. We're proud to have helped tens of thousands of teachers, education administrators and other school staff over the years with their salary packaging requirements.

The outbreak of COVID-19 has affected educational institutions in a range of ways, most notably the move from face-to-face learning to online learning and needing to quickly respond to health and government advice and requirements. We've responded by finding alternative communication channels including webinars, phone appointments and virtual meetings. Overall, our business activity in the education sector was down. However, we expect this will change as restrictions are reduced and access to school and education facilities resumes.

Recognised again for our service

In the light of all these changes, it was particularly pleasing that we have maintained the highest-ever audit score from the Customer Service Institute of Australia for the fifth consecutive year – a testament to the skills and motivation of our people who have worked through so many challenges this year to continue to do their best for our clients and customers.

Smartgroup & Mosaic Community Care

SUPPORTING THOSE WHO MAKE A DIFFERENCE

Azubuike (Zubby) Okwanma has been a disability support worker for 15 years. Structuring his pay to include salary packaging benefits has made a significant difference to his take-home pay – a difference he's been happy to share with his friends and colleagues.

Zubby arrived in Australia with a passion for helping people with disabilities to live independently. "I've always wanted to support people who struggle so that they can do more things for themselves. It excites me to see people making the most of their lives and being as independent as they can."

Azubuike (Zubby) Okwanma

Zubby has worked at Mosaic Community Care for three years. Before that, he was a support worker in the northern part of Western Australia. He and his wife Juliet have four young children, so when he found out about the option of salary packaging in his current job, he called AccessPay.

"They've been really helpful," says Zubby. "I gave them my details and they took care of everything. My take-home pay went up, and was able to save money that I would never have saved otherwise." Zubby says he has recommended AccessPay to many people, especially those doing casual work and living pay to pay.

Salary packaging has meant that Zubby has been able to pursue his dream of becoming a qualified social worker in the future. This year, he has been studying Social Work at Curtin University. The way his salary is structured means that he has been able to do this part-time and still support his family. "It's been great," he says. "I really, really recommend it."

GOOD RETURNS IN A UNIQUE YEAR

The following highlights represent the financial performance of Smartgroup for the year ended 31 December 2020.

NPATA[1]

2019
$81.0m

$65.2m
↓ 20%

STATUTORY NPAT

2019
$61.4m

$41.3m
↓ 33%

REVENUE

2019
$249.8m

$216.3m
↓ 13%

EBITDA[2]

2019
$118.2m

$95.4m
↓ 19%

OPERATING CASH FLOW[3]

AS A PERCENTAGE OF NPATA

2019
110%

115%

↑ +5pts

DIVIDENDS DECLARED[4]

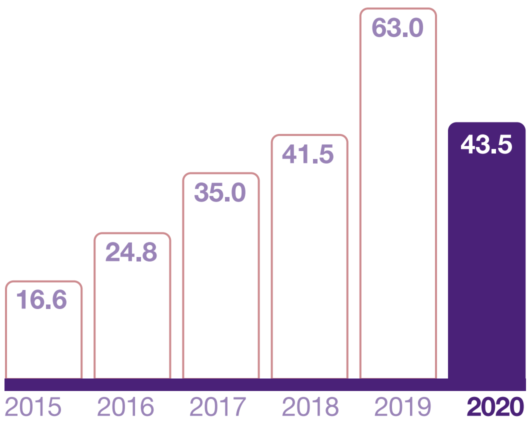
2019
63.0cps

43.5cps

NET CASH (DEBT)[5]

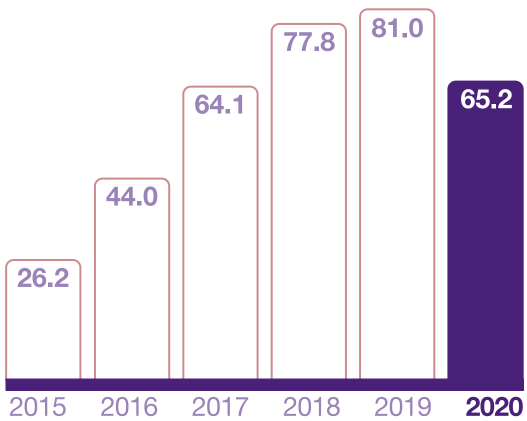
2019
($21.0m)

$2.5m



cents per share

DIVIDENDS PER SHARE DECLARED (FULLY FRANKED)



$ million

AFTER-TAX PROFITS (NPATA)

The 2020 financials are presented on an adjusted basis and have been reconciled to the statutory 2020 financial report.

1. NPATA is Net Profit After Tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items.
2. EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items.
3. Operating cash flow excludes receipts and payments from customers' salary packaging accounts and significant non-operating items.
4. 2019 includes a special dividend of 20.0cps paid in May 2019. 2020 includes a 9.0cps special dividend declared on 24 February 2021. In addition, a special interim dividend of 5.5cps was declared on 24 February 2021 in respect of the 2021 year.
5. Net Debt is cash and cash equivalents less corporate borrowings adjusted to exclude capitalised borrowing costs and vehicle borrowings.

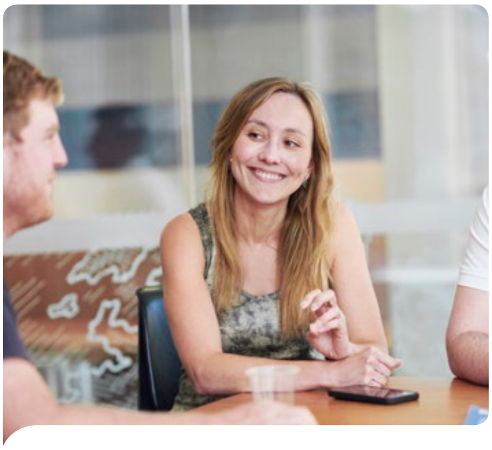
HOLDING TRUE IN A CHALLENGING YEAR

The Board is proud of the business resilience that our company has shown and the individual **resilience of our people, our clients and their employees**, many of whom have been at the front line of the challenges throughout this difficult year.

WORKING FOR OUR CUSTOMERS & OUR PEOPLE

WGEA Employer of Choice for Gender Equality

Recognised as an Inclusive Employer by Diversity Council Australia for 2019–2020



Smartgroup 2020 – Chairman's report

Smartgroup remains a strong and customer-focused organisation. This year, we have managed our way through the business and community challenges brought on by the global COVID-19 pandemic.

The Board is proud of the business resilience that our company has shown and the individual resilience of our people who have continued to support our clients and their employees, many of whom have been at the front line of the challenges throughout this difficult year.

In a year when many businesses had to rely on government assistance and/or raise further equity, Smartgroup has been able to stand strong. However, we could not fully escape the impacts of the deterioration in economic conditions nor the pandemic-related restrictions on normal business activities.

Revenue of $216.3 million represents a reduction of 13% on our CY2019 results. Operating Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) also reduced 19% to $95.4 million. Net Profit After Tax and Amortisation (NPATA) reduced 20% to $65.2 million, and Statutory Net Profit After Tax was down 33% to $41.3 million.

Notwithstanding the reduced levels of financial performance, the Board is pleased to announce a fully franked final dividend of 17.5 cents per share. The Board has also declared a fully franked special dividend of 14.5 cents per share, comprised of a final special dividend of 9.0 cents per share in respect of the year ended 31 December 2020 and an interim special dividend of 5.5 cents per share in respect of the current year.

Like so many other businesses, we have had to incorporate flexibility into how we work. Our ability to do that, while maintaining good customer service, is a testament to our culture of innovation and our inclusive workplace.

Our efforts in these areas have seen us awarded a WGEA Employer of Choice for Gender Equality as well as being one of a select group of companies as an Inclusive Employer by Diversity Council Australia for 2019–2020.

At the start of this year, Tim Looi was appointed Managing Director and CEO, having worked alongside Deven Billimoria, Smartgroup's previous Managing Director and CEO, who retired in February 2020 after 19 years with the organisation. Tim has developed a detailed knowledge of the business in his role as Chief Financial Officer over the previous 10 years. He has shown the drive and insight to manage this business through an unprecedented year while laying the foundations for us to continue to build business success through ongoing focus on our customers, improving our digital capabilities and simplifying Smartgroup's activities.

On behalf of the Board, I'd like to thank our many clients and shareholders for their ongoing support and the management team and all of our employees for their focus and commitment in a year that has tested all of us. I would also like to thank Deven for his entrepreneurship and dedication to Smartgroup and express my gratitude to my fellow Non-Executive Directors who have provided invaluable support and wise counsel during these unprecedented times.

Looking forward to 2021 and beyond, we know that we will continue to face challenges and not just from the pandemic. However, we are confident that, with our flexible and inclusive working environment and high-quality products supported by outstanding service, we will continue to deliver financial returns for our shareholders while playing a key role in the support of Australian workers and communities.

Michael Carapiet
Chairman

Not surprisingly, given the trading environment, we saw a reduction in our financial results. However, the Board is pleased that we have been able to deliver investors a strong fully franked final dividend as well as an additional fully franked special dividend. Delivery of this dividend reinforces the confidence that the Board has in the core business and our commitment to continue to support all those who have invested in Smartgroup and what we do.

MOVING FORWARD TOGETHER

We finished 2020 with a good set of results within the context of the challenges that the COVID-19 pandemic has presented to our business, our team members, our clients and customers.

We are all well aware of the broad impact the pandemic had on the Australian economy and indeed Australian society. Like most businesses in the country, we have had to deal with the operational challenges and financial impacts of this crisis. So it is with great pride that Smartgroup has been able to deliver a good set of results for the year without having to apply for the JobKeeper Payment. We have a business and a business model that has proven its ability to withstand the challenging economic conditions presented in 2020.

The pandemic meant that our business operations had to quickly pivot to accommodate our workforce moving to remote working while also adjusting to changes for our clients and our customers. As different states moved in and out of lockdown at different times, face-to-face visits with our clients and customers were no longer possible and our teams shifted their interactions to phone, video, webinars and email. Across Smartgroup, we worked closely with our clients to communicate changes, adapting our way of doing business and helping remove uncertainty during unpredictable times.

Financial results

In spite of these challenges, the number of salary packaging customers remained steady at 360,500 (2019: 358,500), and we saw 4% growth in our fleet vehicles under management to 24,900, while the number of novated leases under management reduced by 3% to 66,700.

A fall in novated lease volumes of 14% was the key driver of revenue reduction this year. April saw a sharp fall in volumes, and lease activity continued to be lower than historical levels throughout the rest of 2020.

Tim Looi
Managing Director and CEO

Novated lease yields were 6% lower than 2019, resulting from both the previously announced insurance price reductions that came into effect on 1 July 2020 and an increase in customers choosing to refinance their existing leases, rather than starting a lease on a new vehicle. While the proportion of lower-yielding refinanced leases spiked in April and remained higher than historical levels, we saw a shift back towards new vehicle leases in the later months of the year.

As the pandemic-induced business downturn hit, Smartgroup responded with a cost containment program. The value attributed to one-off savings measures in 2020 is around $4 million.

In May 2020, Smartgroup also completed an operational restructure. The ongoing annual savings associated with this restructure are expected to be around $4 million.

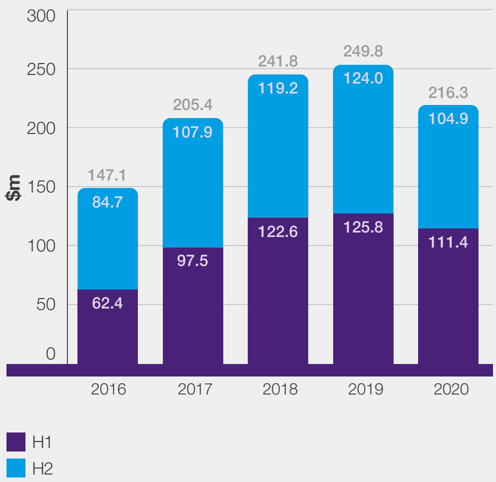
2020 NPATA includes several individually significant items, including (all stated pre-tax):

- $1.0 million provision for short-term fleet products where counterparty fulfilment is uncertain;
- $1.5 million redundancy costs from the operational restructure.

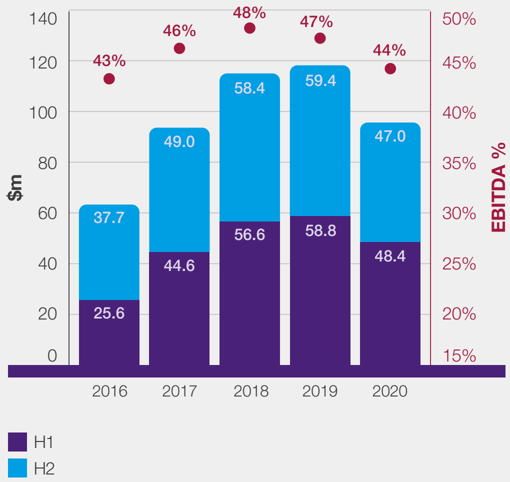
Our business model again enabled us to generate high operating cash flows, at 115% of NPATA (2019: 110%), which saw us achieve a net cash position by the end of 2020.

COVID-19 has tested us all, but we are very happy with how the Smartgroup team has come together and worked tirelessly to continue looking after our clients and customers.

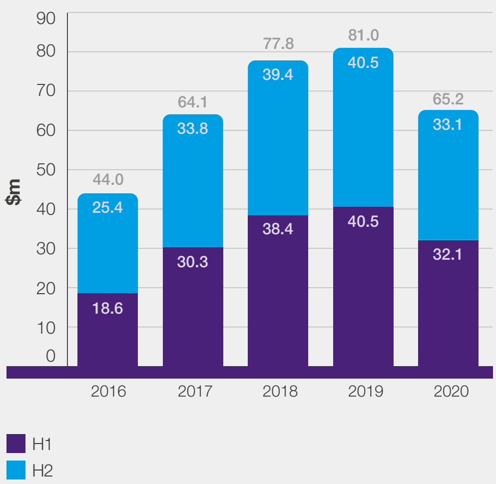
Revenue



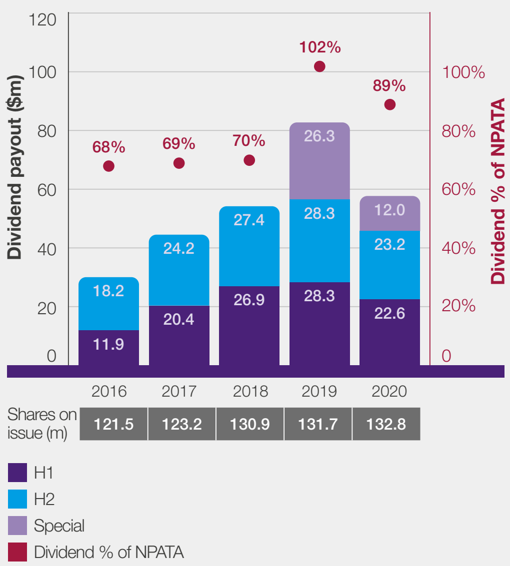
EBITDA[1]



NPATA[1]

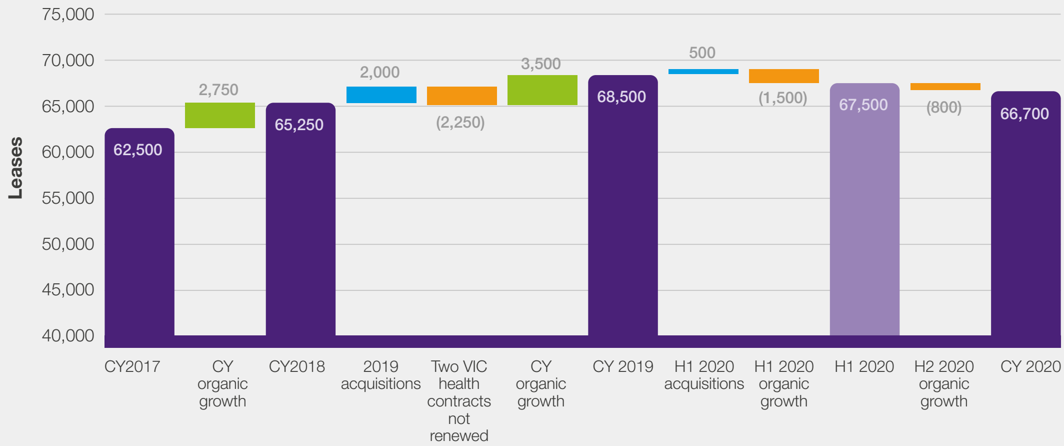


Dividend (fully franked)

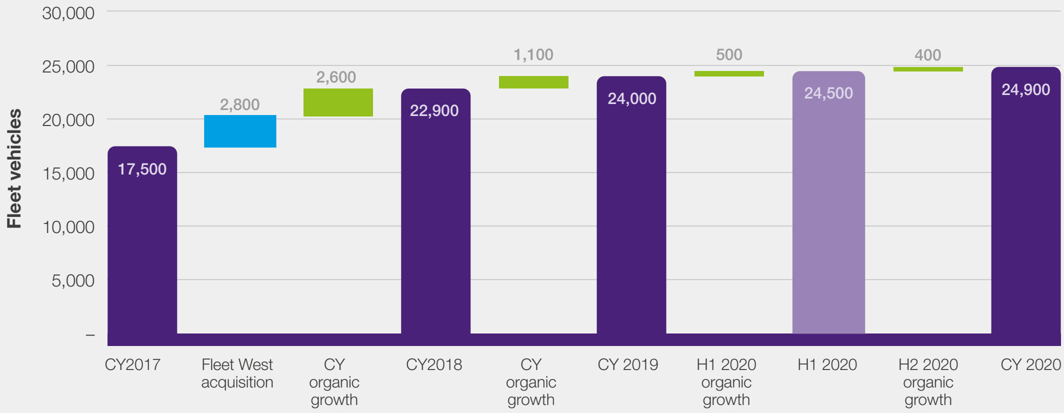


1. Adjusted to reflect one-off impact on adoption of AASB 16 Leases from January 2018. Impact is to increase 2018 EBITDA by $1.6m in each of H1 and H2 and reduce 2018 NPATA by $0.1m in each of H1 and H2.

Novated leases under management

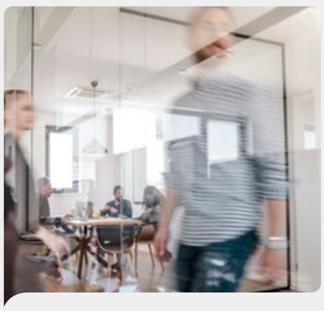


Fleet vehicles under management



WORKING WITH AND FOR OUR CUSTOMERS

Within the business, we have continued to focus on ensuring strong governance as the increased expectations on the Australian financial services industry continue to flow from the Banking Royal Commission.



A focus on good governance

Within the business, we have continued to focus on ensuring strong governance as the increased expectations on the Australian financial services industry continue to flow from the Banking Royal Commission, including the roll out of enhancements to our sales and disclosure practices and preparing for compliance with the deferred sales model for the sale of add on insurance products introduced by the government into legislation in December 2020.

As a member of the National Automotive Leasing and Salary Packaging Association (NALSPA), we continue to support initiatives to communicate the macro-economic benefits arising from the existing Fringe Benefits Tax (FBT) policy settings.

Customer experience and simplification

Despite the challenges of remote working, our team continued to make good progress in improving our customer experience, enhancing our digital capabilities and simplifying our operations. One example of this is our online leasing quote tools, which enable the whole process to be managed easily and securely online. Continued enhancements to our websites and systems included the use of 'Sam', our automated chatbot, to deliver a better customer experience.

We completed the transition of Selectus clients in July 2020, six months ahead of schedule. Clients and customers are now benefiting from more automation and higher levels of service within the core platforms. This transition is a continuation of the workstream embarked upon 24 months ago. As a result of our simplification program, we are now supporting fewer processes and platforms, lowering our costs and enabling us to deliver a better customer experience.

In 2020, we also refreshed our Company wide values to reflect our One Company, One Team culture. The new values – Accountability, Care, Team – will help us to build our culture, foster working relationships and give clear direction on what we stand for, across all the geographies in which we operate.

Our customers and clients

Our client base represents a high proportion of organisations that support the communities and people of Australia, including hospitals, nursing homes and not-for-profit organisations through to numerous state and federal government departments. The salary packaging services we provide deliver benefits on a daily basis to all these important Australian workers.

Customer service remains at the core of the Smartgroup DNA, and we take great pride in Smartsalary once again receiving the highest-ever audit score from the Customer Service Institute of Australia – a ranking we have maintained for five years. At the same time, we remain mindful that customer needs and expectations continue to evolve, particularly in the digital arena, and we remain committed to adapting and evolving to meet these changes.

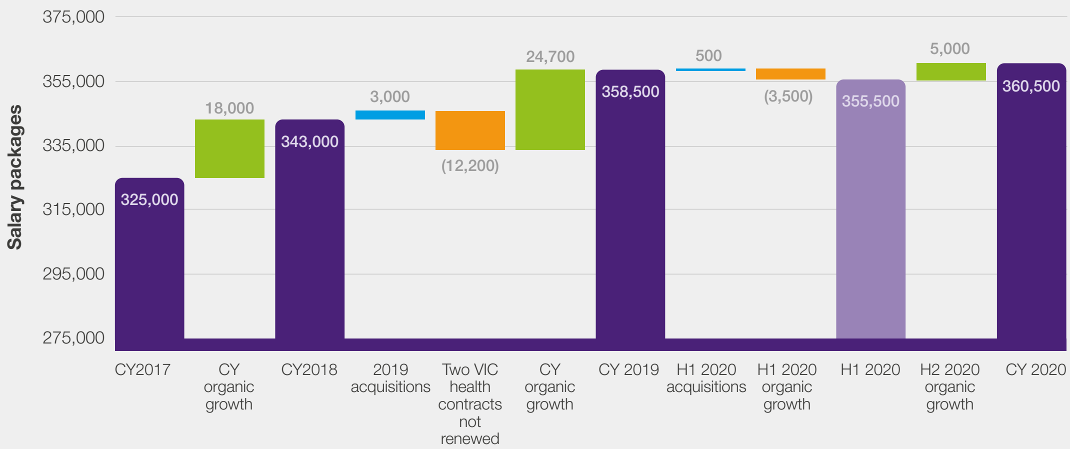
Customer Net Promoter Score (NPS) was introduced within the Smartsalary brand almost a decade ago, and we extended this to the bulk of our acquired businesses in late 2019. NPS scores can range from -100 to +100 and are designed to measure the net percentage of customers who are promotors of a brand. Since late 2019, we have seen NPS in the acquired businesses rise from around 15 at inception to more recently reaching a level of 44, a healthy result given the short timeframe for implementation and improvements. NPS across Smartsalary and Smartleasing has continued to be strong, maintaining an average monthly score of 44 throughout 2020.

Our people

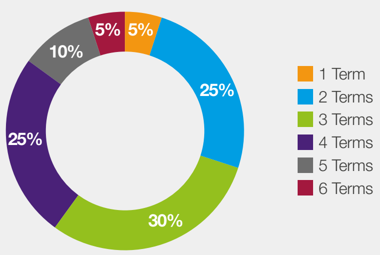
Our strength as a business comes from the diversity, experience and skills of our employees. In 2020, Smartgroup joined a select group of Australian companies recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency (WGEA). This accreditation reflects an elite standard of equality across seven key focus areas including leadership, accountability and gender pay equity – all issues we consider incredibly important.

The strength of our workplace diversity is also reflected in our rating as an Inclusive Employer by the Diversity Council Australia for 2019–2020.

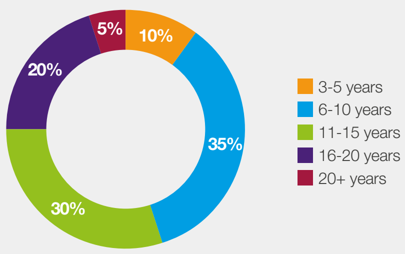
Salary packaging customers



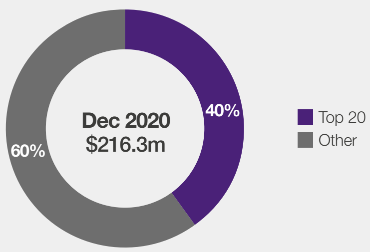
Top 20 clients by number of contract renewals



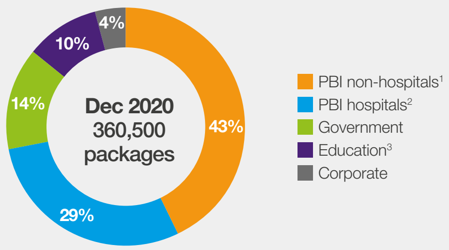
Relationship length of Top 20 clients



Top 20 client revenue profile



Salary packaging client and customer profile



1. 'PBI non-hospitals' includes charities and other not-for-profit organisations registered as a public benevolent institution (PBI) and recognised by the ATO as eligible for FBT exemption, excluding PBI hospitals with hospital employees having a different tax status to employees of all other PBI organisations.
2. 'PBI hospitals' includes public and private not-for-profit hospitals.
3. 'Education' includes public and private not-for-profit educational institutions.

Supporting our communities

We also play an important part in the broader community. In 2020, we expanded our Carbon Offset Program, growing it to three partners – Greenfleet, Carbon Positive Australia and The Nature Conservancy. Since our Carbon Offset Program began, it has contributed to the removal of 699,408 tonnes of carbon from our environment.

The Smartgroup Foundation plays a further role in connecting our organisation and team members to the community we serve. In 2020, the Foundation continued into its second year, and supported 11 organisations with grants totalling over $179,000. These funds go to charities all across Australia, supporting grassroots projects in our communities.

2020 began with the Black Summer of bushfires all across Australia. Smartgroup was proud to support the relief recovery efforts of the Red Cross, the Foundation for National Parks & Wildlife, RSPCA South Australia, Anglicare NSW and Anglicare Victoria.

Customer service remains at the core of the Smartgroup DNA, and we take great pride in Smartsalary once again receiving the **highest-ever audit score from the Customer Service Institute of Australia** – a ranking we have maintained for five years.

WORKING FOR OUR CUSTOMERS & OUR PEOPLE

Expanding our customer Net Promoter scoring and feedback across Smartgroup

As a result of our simplification program, we are now supporting fewer processes and platforms, lowering our costs and enabling us to deliver a better customer experience

The continued success of our business relies on customer focus, flexibility and hard work by our people and teams. Never has that been more tested than by what 2020 has thrown at them. It would have been impossible to foresee the kind of challenges that the business would face in my first year as CEO, and yet we can say with confidence that the company is in a position of strength to move forward from here.

What we have achieved this year would not have been possible without our dedicated and committed team members continuing to provide strong levels of service to our loyal customers. I want to thank our team members, our Board of Directors, our loyal customers and, of course, our shareholders for their continued support this year. We look forward to the opportunities and the challenges that the coming year presents.

Tim Looi
Managing Director and CEO

FURTHER FOCUS ON STRENGTHENING OUR CULTURE

High performance and strong engagement stem from continuing investment in the capabilities of our people and how we work and win together. This year, we supported our team to navigate the difficulties of COVID-19 and successfully found new ways to deliver our services. We ended the year with 666 full-time equivalent permanent and temporary team members across Australia, nearly 70% of whom are utilising flexible remote working arrangements.

Our teams

Our strong culture and courageous leadership have helped us navigate the uncertainty and changes generated by COVID-19. Our priority this year has been to support our team members to stay safe and thrive.

Like many organisations, the outbreak of COVID-19 affected our people in different ways. Teams navigated working apart from one another and adjusted to the realities of working from home for an extended period. To support this transition, we implemented new collaborative ways of working supported by technological tools and agile people practices to help everyone work effectively and be their best. What we particularly noticed during this time was our team continued to exhibit incredible levels of service and care for customers, many of whom were impacted by circumstances resulting from COVID-19.

Conducting mental health refresher training for people leaders and introducing a new Mental Health Policy has enabled us to demonstrate our commitment to wellbeing for our team members. Other supportive initiatives this year have included a resilience training pilot for people leaders, wellbeing initiatives like R U OK Day and the introduction of an annual wellness allowance for each team member.

We have continued to communicate through every channel and means possible to keep our team members informed about COVID-19 issues and how Smartgroup is responding to safeguard our customers and business. We conducted wellbeing pulse surveys to ensure we identified and addressed issues that mattered to our team members across Australia. Care packs were sent to Melbourne team members (twice) and Adelaide colleagues. These were sourced, packed and sent by Smartgroupers for interstate colleagues in need.

666
Full-time equivalent team members across Australia

70%
Of Smartgroup team members are utilising flexible remote working arrangements

40%
A gender balance of 40% female and male at all levels of the organisation below Board level

Engagement remains a key focus for us. In particular, we pride ourselves on being an inclusive and diverse employer.

Highlights

Some 2020 achievements:

- Recognised as an Employer of Choice for Gender Equality by WGEA
- Recognised as an Inclusive Employer by Diversity Council Australia
- Launched new values
- Mental health refresher training for people leaders
- New Mental Health Policy
- Significant people policies introduced

Challenges

- COVID-19 saw teams needing to work apart from one another
- We recognised the need to actively protect the mental wellbeing of our employees
- Our leaders needed to adjust to new ways of leading and running their teams
- We looked to find new ways to support parents and carers

The feedback we received was overwhelmingly enthusiastic:

"I had been having the worst day, when my care pack arrived. I was so surprised and grateful, I started to cry! The tea bags, the masks, the puzzle, everything was just so great, Thank you so much for caring."

"Thank you for thinking of us in Melbourne! It brightened my day so much and it was so nice to know I work for such a caring organisation. My husband was really jealous!"

Significant people policies introduced this year have included our updated Parental Leave Policy to award paid parental leave to team members from day one of employment with Smartgroup. Our Diversity Policy was also revised to give additional support to team members with caring responsibilities for elders and disabled family members.

Leadership and learning

Our leaders faced particular challenges this year. To help address these, we introduced people leader monthly webinars led by the CEO to answer questions and share information and inspiration.

Capability building at every level of Smartgroup remains our primary people focus. We want our people to thrive in our environment and to have opportunities to achieve their fullest potential within our group. Our strong history of identifying talent and promoting internally has continued in 2020.

Encouraging our people to acquire skills, particularly in the area of customer obsession, and change agility has helped us create talent pipelines, ensuring we have a future-ready team to deliver on our strategic imperatives. This year, we have conducted Real Talk Leadership training to further invest in leadership effectiveness and role modelling our values. We specifically chose the Real Talk Leadership program because of its focus on teamwork, transparency and individual accountability.

We also introduced fortnightly Lunch and Learn webinars, chaired by our CEO, to effectively share and build our collective knowledge and functional expertise. These came about from our 2019 Beyond Further working groups that saw Smartgroupers from different geographies and teams contribute ideas and initiatives to bring new ideas to life. This demonstration of learning and capability aligns with our employee value proposition of increasing each team member's personal equity. Fostering a love of learning and sharing of knowledge and ideas between teams has demonstrated our culture of care and connection.

We also launched customer excellence training for our vehicle sales team to further enhance our service culture and continuously improve our customer experience. This program will continue to be rolled out and embedded across customer-facing teams in 2021.

Diversity and inclusion

Belonging and valuing each team member for the unique contribution they make to our business remains a cornerstone of Smartgroup culture. In particular, we pride ourselves on being recognised as an inclusive and diverse employer. In recent years, we have proudly championed flexible work and raised awareness about difference and diversity to ensure everyone can contribute to their full potential within our organisation. As well as improving the working experiences of our people, this has helped us build a stronger culture with empathy, respect and care as its foundation.

Our diverse workforce includes gender-balanced teams, over 70 cultures and strong representation of women in senior leadership positions. We continue to pioneer in the field of gender equality and are passionate about recognising and appreciating diversity in all forms. In 2020, we were one of the select group of 119 Australian companies recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency (WGEA). This accreditation reflects an elite standard of equality across seven key focus areas including leadership, accountability and gender pay equity – all issues we consider incredibly important.

As a diverse employer, we are **committed to playing an active and ongoing role in providing equal employment opportunity** to all people. Our Reconciliation Action Plan includes practical actions that will drive Smartgroup's contribution to reconciliation ...

WORKING FOR OUR CUSTOMERS & OUR PEOPLE

Over 70 cultures are represented in our diverse workforce

Recognised as an Inclusive Employer by Diversity Council Australia for 2019–2020

We were also recognised as a 2019–2020 Inclusive Employer by Diversity Council Australia. In awarding us this recognition, we achieved a number of benchmarks pertaining to recognising and celebrating culture and faith and gender diversity as well as embracing the LGBTQI+ community and challenges associated with mental health in our teams.

In addition to this, we were proud to develop a Reconciliation Action Plan, providing Smartgroup with a framework to support the national reconciliation movement. As a diverse employer, we are committed to playing an active and ongoing role in providing equal employment opportunity to all people. Our Reconciliation Action Plan includes practical actions that will drive Smartgroup's contribution to reconciliation, both internally and in the communities in which we operate. It is designed to contribute to advancing the five dimensions of reconciliation by supporting Smartgroup to develop respectful relationships and create meaningful opportunities with Aboriginal and Torres Strait Islander peoples.

Parents and carers represent almost half of our workforce. We want all people who work here to feel supported and valued through every stage of life. For parents and carers, we recognise the ongoing and changing challenges of being a carer and believe information, empathy, flexibility and support are equally valued by Smartgroup and our team members. In 2020, we were proud to launch Circle In – our Smartgroup parents and carers portal to help support Smartgroup team members who have caring responsibilities with a range of tools, information, easy access to relevant policies and stories shared by other team members. As a result of doing this, parents and carers have told us some myths have been busted through the sharing of stories of other Smartgroup carers, and sensitive topics have been addressed.

We first introduced our Diversity Speaks programme in 2019 to inspire and celebrate diversity and difference. Every year, we choose a number of speakers to share their experiences with us – the goal being to help raise awareness and care. Whilst our usual array of Smartgroup events was constrained this year due to the impacts of the pandemic, we were proud to host two significant events during the year with remarkable guest speakers who shared their inspirational stories with us.

Australian Olympic and World Champion hurdler Sally Pearson presented to us on International Women's Day, and Australian Paralympic and Commonwealth Games champion Kurt Fearnley presented to us on International Day of People with Disability. We chose Sally and Kurt because their stories of overcoming obstacles and adversity to achieve world-class excellence whilst remaining humble, kind and quintessentially Australian-speaking to the very values that Smartgroup is proud to embody. Their experiences resonate as we seek to navigate change and continuously improve our practices for the betterment of our customers and clients.

WORKING FOR OUR CUSTOMERS & OUR PEOPLE

Relationships are at the heart of our business

The Diversity Speaks programme inspires and celebrates diversity and difference

Smartgroup & relationships

EVERYTHING STEMS FROM STRONG RELATIONSHIPS

Born in the north-east of England, with a background in nursing, Danielle was working for a not-for-profit as a development manager when she was approached by the owner of AccessPay because he liked the way she related to people.

She joined the company 10 years ago as State Manager for Western Australia, looking after the employees of not-for-profits based in Western Australia. The drawcard, she says, was working with people who did so much good for others and making sure that they received what amounted to a pay rise through packaging their salaries. In time, Danielle became General Manager Client Services.

Danielle Crawford, General Manager Client Services enjoys the relationship focus we maintain at Smartgroup.

Three years ago, when the business was acquired by Smartgroup, Danielle was initially concerned that they could lose the personal feel that made the work so valuable and rewarding. Instead, she says, she found that Smartgroup brought the same ethos to the work but on a larger scale. Not only did Smartgroup believe in partnership, but the size of the business meant she was now working with a large section of the not-for-profit sector across Australia in her role as General Manager Client Services.

"People who work in not-for-profits are entitled to specific benefits, and our job is to make sure they are able to make informed decisions about those arrangements," says Danielle. "Relationships drive everything we do. When that's right, everything else happens. For example, where we have healthy relationships with companies, we can work together to lift participation. That becomes a win-win for everyone. It helps the organisation keep its workforce, it rewards people for their work and we earn returns for our investors.

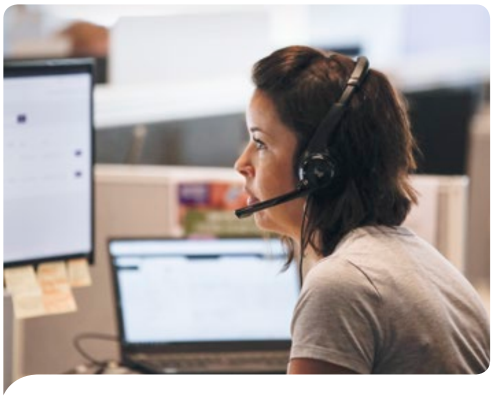
"Success is about partnership, not just sales. We want every single person in each client organisation to understand salary packaging and to be aware of their eligibility, regardless of what they choose to do with that information. That way, they know their options and they can do what feels comfortable for them. They can then get in touch when they are ready to make the most of what they are entitled to."

Our purpose is to break through – to discover different and better ways to help service our customers.

New values launched as part of our Beyond Further initiative

Our purpose is to break through – to discover different and better ways to help service our customers. We've always said that the roles of our people are not defined by policies or job descriptions but rather by our actions and our behaviours in dealing with colleagues and customers and our broader community, day in and day out. We encourage everyone who works here, individually and as a team, to do what it takes to make a real difference at work.

This year, we refreshed our values to reflect our one company, one team culture and as an outcome and reflection of our brand harmonisation strategy. We chose to do that this year with the appointment of our new CEO, Tim Looi. These new values will ensure that, across all geographies, our team will demonstrate and celebrate behaviours that enable us to go Beyond Further.



Our new values are:

We own it: **Accountability**

We care: **Care**

We think of we not me: **Team**

In arriving at these new values, we wanted to put much more emphasis on how we work together and act and to signal to our staff and to our customers the standards, service and sentiment you can expect from Smartgroup going forward.

Beyond Further expresses our commitment to going the extra mile in everything we do. It forms the frame of our culture and values and describes the essence and DNA of Smartgroup. Each week, we celebrate Beyond Further behaviours and story telling throughout our business. Doing this enables us to share, celebrate and inspire as we embrace our #onecompany #oneteam vision.

We also took the opportunity, through team member feedback from engagement surveys and benchmarking, to ensure we are continuing to nurture and keep our talented team members and attract new ones. To that end, we refreshed our perks to include Making a Difference Days, Summer Days leave, service awards and paid parental and carers leave. We chose these because they align with our focus on wellbeing and life/work balance as well as community support. The great response and take-up of these initiatives have been pleasing. Already, we've seen great feedback and uptake of our new perks.

We continue to evolve our structure

Our successful acquisition of businesses across our different service areas in recent years has resulted in a complex operating model that was product focused and in need of a refresh. We've recognised that we need to simplify our business to capture opportunities by shifting to a more customer-centric model – one that provides us with a single view of the customer, service offerings that cater to different customer journeys and platforms that provide seamless customer engagement and enable us to deliver our customers the outcomes they are looking for.

To bring this alive, we have realigned our organisation to focus on our customers even more, using a front-to-back approach that seeks to better understand our customers and then embed those insights into our operational model and structure.

Profile

666

Full-time equivalent team members across Australia.

70

Over 70 cultures represented by our workforce.

70%

Of Smartgroup team members are utilising flexible remote working arrangements.

2019-20

Recognised as an Inclusive Employer by Diversity Council Australia.

119

In 2020, one of the select group of 119 Australian companies recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency (WGEA).

As an Employer of Choice for Gender Equality, we actively work to meet our targets:

A gender balance of at least 40% female and 40% male at all levels of the organisation below Board level.

All Smartgroup team members have access to the same training, development, promotions and career-enhancing opportunities regardless of gender.

Gender pay equity across the group.

Recruitment activity is always proactively seeking to address gender balance in Smartgroup's workforce.

We continue to make progress towards our targets.

Achieve gender balance (40M/40F) in **Group Executives** by 2022	Achieve gender balance (40M/40F) in **senior managers** by 2022	Maintain gender balance (40M/40F) at **front line manager** and Team Member level
Achieved	Achieved	Achieved

FINDING SMART WAYS TO SUPPORT OTHERS

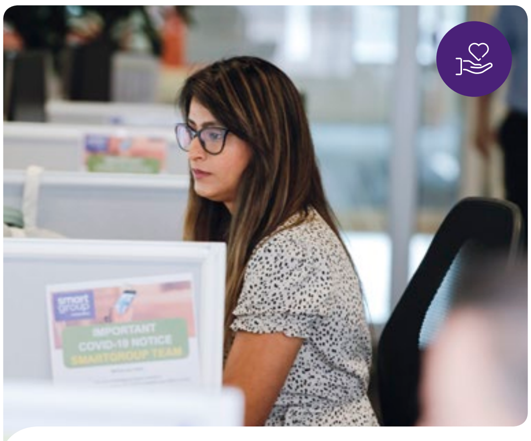
We pride ourselves on being good corporate citizens and therefore we have always had a philosophy of supporting clients and the community. Many of our clients operate in the public benevolent institutions sector, so it makes sense for us to align ourselves with their interests and objectives. This year, we continued to support community and charity organisations through direct sponsorships and also through the Smartgroup Foundation.

Smartgroup's community sponsorship initiatives this year spanned four areas: sport, the arts, indigenous programs and advocacy for women. We've chosen to support these four areas because we see each of them individually as being important to the successful functioning and improvement of our society.

Sadly, COVID-19 affected a number of our partnerships this year. Our fourth year of partnership with the Queensland Reds was interrupted, although the team were able to play in a domestic competition in which they were the runners up. Equally, the second year of our partnership with Opera Australia came to a halt when all three tiers – major performances, regional tour and schools tour – were shut down. Nevertheless, we are very proud to be supporting the arts community during this very difficult time and pleased that our partnership will continue in 2021.

Things went a little more smoothly for our third year of partnership with women's rugby in Australia through the Wallaroos and Super W competitions. These partnerships advance the professionalism of women's rugby, allowing these talented women to pursue their athletic ambitions. While the Wallaroos season was also cancelled for 2020, the Super W season was all but complete before the COVID-19 pandemic struck.

The third year of our partnership to support PCYC Indigenous programs was also one of mixed fortunes. COVID-19 saw the cancellation of the Bunburra Corroboree Education Workshop and Touch Football Tournament on the Gold Coast, but PCYC QLD was able to restart the Catch Me If You Can program in Hervey Bay in term 4. This will be expanded in term 1 2021 with new programs in Cherbourg, Yarrabah and Napranum. We are very proud to support such positive programs for both the Indigenous young people of these communities and the QLD Police officers delivering the program.



Our support of the UN Women National Committee Australia went ahead without interruption, with Smartgroup hosting tables at UN Women's International Women's Day Breakfasts in Sydney, Melbourne, Brisbane, Perth and Canberra.

11

We've supported 11 deserving projects run by community organisations over two rounds of grants in 2020.

5

Charities supported with donations in 2020 to assist with the bushfire recovery efforts across Australia.

2021

COVID-19 caused significant disruption to many activities planned for 2020, and we're optimistically looking forward to 2021.

Smartgroup is committed to giving back to the community in which we live and operate. In 2020, we were proud to continue our community sponsorships and work by the Smartgroup Foundation, notwithstanding the challenges of COVID-19.

Highlights

Some 2020 achievements:

- We continued to fund important community sponsorship activities notwithstanding the challenges of COVID-19
- In its second year, our Smartgroup Foundation provided funding for deserving community projects run by 11 not-for-profit organisations
- We enjoyed our third year of partnership with women's rugby through the Super W competition
- We supported the restart of the PCYC Queensland Catch Me If You Can programs in the second half of the year
- All the UN Women National Committee Australia events went ahead without interruption

Challenges

- The impacts of COVID-19 saw many planned events by our sponsorship partners needing to be delayed or cancelled for the year

The Smartgroup Foundation

Established in 2019, the Smartgroup Foundation was created to give back to grassroots charities in areas selected by Smartgroup employees.

We surveyed our team members to ask them the areas that they would like the Foundation to support, and they nominated the following six areas:

- Animal welfare
- Children and families at risk
- Children's illnesses and disabilities
- Cancer
- Mental illness
- The environment

This year, we provided funding for deserving projects run by 11 organisations through two rounds of grants. The projects were chosen because they were grassroots initiatives to improve our community working across the areas nominated by our team members, and in each case, they met the selection criteria required for approval.

The work done by the Smartgroup Foundation this year reinforces our commitment to supporting the not-for-profit sector and the communities that we work with and service.

Organisation	The project we supported
Child Abuse Protection Services (NSW)	A Safe Arrival program for refugee and migrant mothers in two NSW communities.
MacKillop Family Services	PawPals program – a canine assisted learning program to help re-engage young people and get them back into the classroom and back to school.
Chris O'Brien Lifehouse	The purchase of two pieces of equipment to enable training in specialised radiation therapy techniques.
United Way South Australia	Imagination Library – an early literacy program that gifts a monthly book pack to children aged 0 to 5 years living in disadvantaged communities in South Australia.
Zoe Support Australia	Zoe Support Centre for Growing and Learning project – funding the lease of one centre in Mildura in North West Victoria, a region with significant entrenched poverty, for 12 months so that young mothers (age 13–25) can continue their education pathways.
The Banksia Project	Rural Growth Rooms expansion – funding the opening of two new Growth Rooms in Gippsland and rural Victoria to support rural men. The Growth Rooms are free, peer-to-peer sessions that provide an opportunity for men to come together, connect and support one another.
Berry Street	Participating in funding for a Multisystemic Therapy program for 50 families and 270 young people entering care over three years.
Sir David Martin Foundation – Triple Care Farm	Aftercare program – funding four young people to participate in the six-month aftercare program after completing their substance addiction rehabilitation at the Triple Care Farm.
Eastern Health	The purchase of two Smileyscope Virtual Reality headsets and the upgrade of an existing headset for use in paediatric emergency rooms in hospitals.
Seabin Foundation	Funding two Seabins at a Sydney-based marina. Seabins act as a floating garbage bin in the ocean skimming the surface of the water and collecting marine debris.
One Eighty	Funding for Lifeline Accidental Counsellor training and Mental Health First Aid training for a number of young people.

CONTRIBUTING TO BRIGHTER FUTURES

Smartgroup sponsors two PCYC Queensland programs that are helping young indigenous girls and boys gain new perspectives and experiences.

Phil Schultz, CEO, PCYC Queensland

PCYC Queensland first got involved with Smartgroup when we organised salary packaging for their staff. Later, we did a fleet review when the organisation decided to shift from owning to leasing their fleet. But through that relationship has come a deeper association that has seen us take on sponsorship for two major PCYC programs: Bunburra touch rugby league and Catch Me If You Can. Catch Me If You Can is a program for young Aboriginal girls and boys. The program pairs young adults with local mentors from business, Police and sports teams in group and one-on-one mentoring sessions. The goal is to help them find their way forward and form a relationship with people in authority.

Smartgroup & PCYC Queensland

"It's a very effective program," says Phil Schultz, CEO, PCYC Queensland. "The kids leave the program with a newfound respect for Police and authority. It's been very successful."

Each year, around 100 boys and girls take part – many of them from remote communities in Northern Queensland – with each program catering for 12–15 young adults. Smartgroup funds several of the programs.

This year, lockdowns in Queensland meant programs in the first half of 2020 were affected because no-one could come in or out of communities. But Catch Me If You Can resumed in the second half of the year, and Phil Schultz is confident it will continue running in 2021.

We also contribute to Bunburra, an annual touch rugby event for indigenous boys and girls held at Surfers Paradise. 200 young people from all over Queensland come to the event and play in the competition which is held on the beach.

"To get to the event, kids need to have attended school and worked very hard," says Phil Schultz. "The reward for all that hard work is that they get to have exciting new experiences – from travelling to and staying in Surfers Paradise to the opening and closing ceremonies, the games themselves and the celebrations and fireworks afterwards. They then take that positivity back to their communities, acting as strong role models for those around them."

The event, which has been running for five years now, was cancelled this year because of COVID-19 but is expected to return next year.

"Smartgroup are an important member of our sponsorship family for this event," says Phil Schultz. "Events like this couldn't happen without sponsorship, and Smartgroup's involvement contributes both to the success of the event and to the further development of indigenous youth in Queensland. We are very appreciative of the funding – it makes a big difference for these kids and their futures."

LIFE-CHANGING OPPORTUNITIES FOR THOSE WHO CHANGE LIVES

Smartgroup & Anglicare WA

Anglicare WA is one of the largest social service providers in Western Australia. With 55 locations across the state, 620 staff, hundreds of volunteers and 88 services, the organisation works relentlessly to address a full range of social needs.

We've been working with Anglicare WA for more than 18 years. Today, we assist them with salary packaging and novated leasing for more than 60% of their people and help them manage their vehicle fleet. It's a strong relationship and one where our people are deeply involved on a day-to-day basis.

Scholarship winner and domestic violence worker, Montana, based in Kununurra in the East Kimberley.

Recognising that their frontline teams are critical to the success of their services, last year, we introduced a scholarship to help regional and remote Anglicare WA staff access educational opportunities that would not normally be available to them. This scholarship was so well received that this year we added two more regionally based scholarships to make a true difference for these people who do such amazing work.

The first scholarship this year was awarded to Montana, an inspiring Aboriginal woman who is a domestic violence worker in the North West. Montana is based in Kununurra in the East Kimberley and provides a critical response service to people in her community. Her training and development scholarship greatly enhanced her professional knowledge, and as a direct consequence it now benefits the clients she connects with each day.

"Nearly everyone I know has experienced some type of domestic violence … I personally experienced it at the age of 14 and know how difficult it can be to report the abuse and access the various support services available," says Montana. "What inspires me the most is that I am in a role where I am able to support victims and educate the community on family violence … I am honoured to have been given this opportunity. I'm excited about furthering my education and developing my skills in my field of work as it will teach and help me improve the way I communicate and educate others about domestic violence."

Our two inaugural Regional South Training Scholarships were awarded to two invaluable Anglicare WA staff members in the South West of Western Australia. Deborah Fitzgerald of Albany will be undertaking training in treating PTSD and complex trauma, and the skills and knowledge she receives will support her appointment in her role of Child and Adolescent Counsellor. Libby Coatsworth from Bunbury has also been given a scholarship and will be undertaking a certificate of play therapy to support her current diploma studies and her passion for working with children.

Congratulations to all three winners this year. It is a pleasure to continue to work alongside Anglicare WA, as they do so much good in the community, and for these scholarships to make it possible for Montana, Deborah and Libby to further extend their skills.

ACTIVELY MANAGING OUR IMPACTS

As an ASX200 listed organisation and a good corporate citizen, we are committed to playing our part in improving communities and our environment. This year, we expanded our Carbon Offset Program and continued to enhance our other conservation activities by working with our clients to increase their fleet efficiencies and by further streamlining our own operations.

Our direct carbon impact is relatively low

Our novated leasing and fleet management services provide clients and customers with convenient and cost-effective ways to own and operate vehicles. However, whilst our business is connected to cars, our direct environmental impact is low because we do not own the vehicles, or direct or influence the purchase decision around the choice of vehicle by our customers.

Title to the vehicles is almost always held by the financier or by the customer, so we generally have very few vehicle assets on our balance sheet. That said, we recognise that we have a unique ability to help contribute to lowering Australia's carbon load, particularly in our novated lease management offering, and we continue to do this through our innovative Carbon Offset Program and other measures.

Exciting expansion of our Carbon Offset Program

Smartgroup has partnered with Greenfleet since 2008 to provide a Carbon Offset Program to novated leasing customers.

This year, we expanded our program into South Australia and Western Australia with the introduction of two new partners – The Nature Conservancy and Carbon Positive Australia. These new environmental partners increase our presence nationally and diversify the environmental projects we are involved with. To date, our Carbon Offset Program, Purple Meets Green has contributed to 699,408 tonnes of carbon being removed from the environment.

Contributed to

699,408
tonnes of carbon being removed from the environment since inception of the Purple Meets Green Carbon Offset Program

86.4%
Reduction in carbon emissions from air travel per FTE from 2019 to 2020

2
New environmental partners added in 2020 to the Purple Meets Green Carbon Offset Program

We continue to look for ways to do right by the environment through our partnership programs and sponsorships and monitoring and adjusting our own operations to minimise our impact.

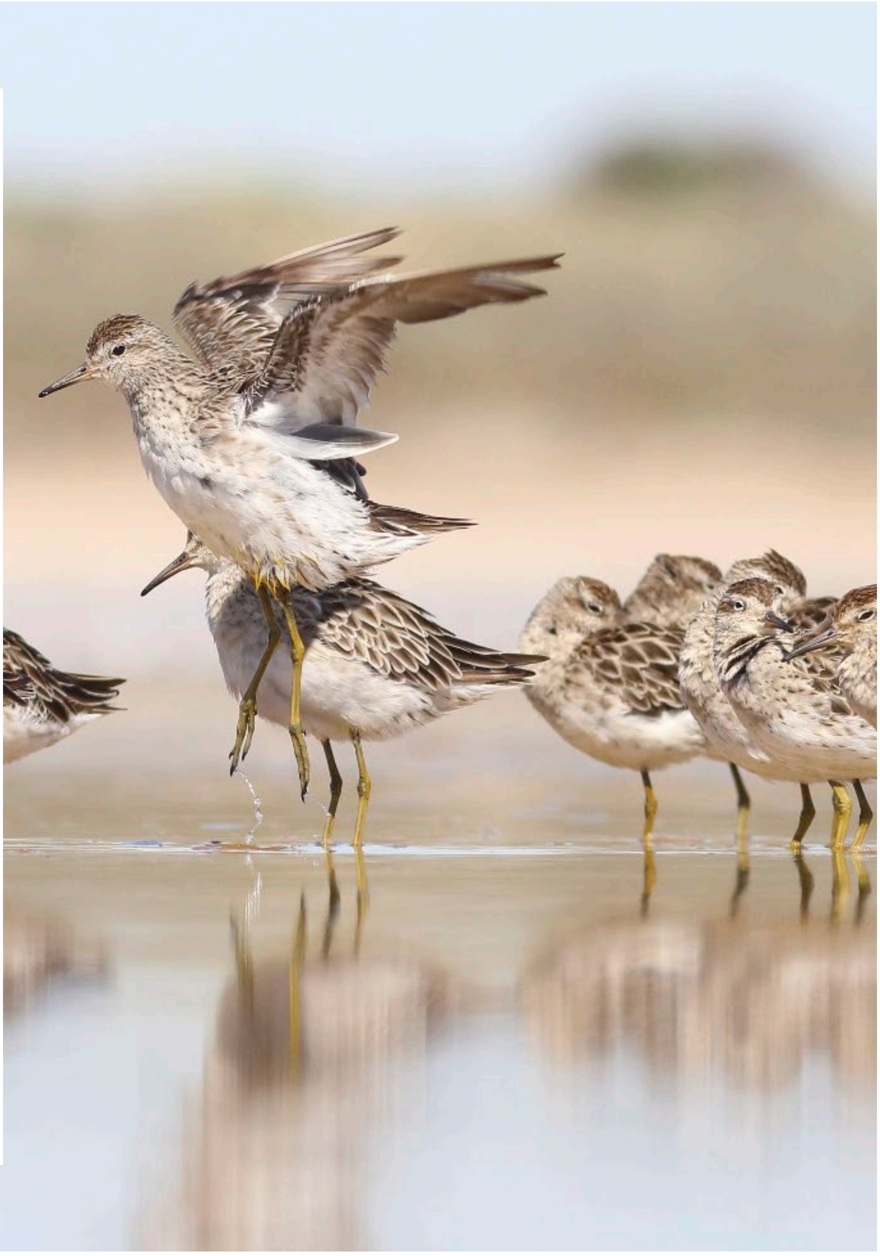
Highlights

Some 2020 achievements:

- We expanded our Carbon Offset Program into South Australia and Western Australia with the introduction of two new Purple Meets Green partners – The Nature Conservancy and Carbon Positive Australia
- We continued to improve our fleet efficiencies via smart vehicle allocation, car sharing and telematics by Smartfleet
- Our air travel was significantly reduced this year, and all carbon from air travel was offset
- We continued to increase our use of video technology for our office-based and remote staff
- We continued to reduce our energy consumption
- We continued to reduce the waste created by paper forms and documents

Challenges

- Our ability to influence the vehicle choices of our novated leasing and fleet management customers is limited, but we continue to look for ways in which we can assist customers to manage their carbon impact
- We continue to look for ways to more effectively manage our electronic waste



Our partnership with the Adelaide Coastal Wetlands Restoration Project through The Nature Conservancy will enable Smartgroup customers to **offset the carbon emissions** of their leased vehicles and contribute to the restoration of the coastal wetland.

WORKING FOR OUR CUSTOMERS & OUR ENVIRONMENT

Working closely with The Nature Conservancy

Saltmarsh, mangrove and seagrass beds capture and store carbon at a rate 30 to 50 times higher than vegetated habitat

The Nature Conservancy is a global conservation organisation dedicated to conserving the lands and waters on which all life depends. This highly trusted organisation works in 79 countries on innovative solutions to our world's toughest challenges so that nature and people can thrive together.

The Nature Conservancy has been working with the Government of South Australia and coastal ecologists on the Adelaide Coastal Wetlands Restoration Project – a project that will have a significant impact for the local environment as well as delivering carbon capture and storage.

The site adjoins the Adelaide International Bird Sanctuary, a critically important habitat for many Australian and migratory birds. Around 15,000 shorebirds gather here for up to six months each year before migrating to breeding grounds in China, Siberia and elsewhere in East Asia. Expanding the habitat available to these birds will strengthen global conservation efforts along one of the world's three great migratory bird flight paths. Over the next two years, the team will restore natural tidal flow to a stranded wetland, which will expand the area where mangroves and saltmarsh can grow.

Our partnership with the Adelaide Coastal Wetlands Restoration Project* through The Nature Conservancy will enable Smartgroup customers to offset the carbon emissions of their leased vehicles and contribute to the restoration of the coastal wetland.

Normally, carbon capture projects involve planting trees, but The Nature Conservancy is demonstrating that coastal ocean ecosystems also capture carbon dioxide from the atmosphere – putting it at the forefront of "blue carbon" in Australia. That is significant because saltmarsh, mangrove and seagrass beds capture and store carbon at a rate up to 40 times higher than vegetated habitat.

We will also be supporting an important restoration project in the Eurardy Reserve in Western Australia through our partnership with Carbon Positive Australia, where 1,350ha of previously cleared bushland is being restored to its former natural glory.

* No tradable or third-party certified carbon credit will be produced from the Project, and the Project will not result in any carbon rights or carbon ownership for either voluntary or compliance offset purposes.

Carbon Positive Australia has worked on some of the largest native tree planting projects in Australia including the Yarra Yarra Biodiversity Corridor Project and the Gondwana Link. Since 2006, it has planted almost 6 million native trees across 5,000 hectares.

Eurardy Reserve is owned by Bush Heritage and forms a crucial ecological linkage between the Kalbarri National Park to the west and the Toolonga Nature Reserve to the northeast. This area contains at least 12.6% of the world's rare flora and fauna and is of great cultural and biological significance.

Eurardy is also located within what is known as the South Western Botanical Province. The Reserve protects more than 700 plant species, including five nationally endangered or vulnerable species. Provincial plants are special because they only grow in specific ecosystems determined by climate and vegetation type. Eurardy's yellow soils, for example, are home to kwongan heathland, which is recognised globally as a significant threatened ecosystem.

Smartgroup customers who choose to offset the carbon emissions of their novated leased vehicles are now contributing to planting native trees at Eurardy Reserve. On average, offsetting the carbon emissions of a small car will equate to 27 trees being planted each year. For a medium-sized car, it's 32 trees, and for a larger car, 36 trees a year will be planted.

Projects like this not only provide carbon sinks but also provide much-needed protection to threatened species and ecosystems. After last year's fire season and the colossal loss of natural habitat, flora and fauna, expanding our environmental programs to include nature-based solutions such as tree planting is a positive and practical way for our Smartgroup community to help contribute to vital local restoration projects.

Helping to recycle tyres

Every year in Australia, owners of motor vehicles dispose of 56 million used tyres. We recognise that our customers are contributing to this significant landfill issue and the adverse environmental impact it creates. From late 2018, we've partnered with Tyre Stewardship, an Australia Competition and Consumer Commission-accredited recycling program working with major tyre retailers throughout Australia to recycle tyres for uses that include road resurfacing and children's playground 'safe' surfaces.

Promoting sustainable and ethical supply chain management

A majority of our annual supplier spend is in relation to our contracted providers of facilities, IT, facilities, contractors and temporary staff, consulting and specialist advice, business development and marketing. These make up our largest supply agreements and are overseen by the relevant Executive and by our Procurement Manager and Finance team. The remaining supplier spend is in relation to smaller, regular products and services or one-off requirements. In 2019, we implemented a Group Procurement Policy, overseen by Finance to govern our procurement decisions for third party supplied products and services at a group level. The key objectives of the policy are to achieve value for money; encourage sustainable competition; demonstrate probity, ethical behaviour and accountability; make efficient and effective use of resources and mitigate supplier risk.

Smartgroup does not tolerate or support the use of forced or compulsory labour, and we extend this approach through all areas of our supply chain. Smartgroup has a structured approach to Modern Slavery, as follows, that ensures both Smartgroup as well as our suppliers, operate a sustainable and ethical supply chain and to help protect against Modern Slavery. We are working with our employees and our suppliers to extend our Modern Slavery obligations and impact in the following areas:

1. **Policy** – incorporation of Modern Slavery obligations into our policies and work practices.
2. **Education** – Working with our staff and our suppliers to educate them on the impacts of modern slavery.
3. **Assurance** – defining the risk profile in our supply chain, prioritising risk areas and proactively engaging with our suppliers to confirm their compliance.

To date, Smartgroup has incorporated Modern Slavery into our Group Procurement Policy, conducted a detailed risk assessment across our supplier network, rolled out Modern Slavery training across all senior team members and has defined standard compliance terms and conditions that are incorporated into all our new supplier contracts and existing supplier contracts upon renewal. We are required by the Modern Slavery Act in Australia to issue a Modern Slavery Statement and our first report will be issued in June 2021 and will cover the 2020 financial year.

Fleet efficiency initiatives

The vehicles that we allocate through our fleet business travel many millions of kilometres collectively every year. Our Smartfleet business is committed to facilitating the efficient use of vehicles in workplaces. The following example shows the impact that Smartfleet made for one of our government clients after taking over their fleet management services:

SINCE COMMENCEMENT:

Number of vehicles dropped from:

1,180 To **916**

18.6% Reduction in number of vehicles

WITHIN THE FIRST TWO YEARS:

Fuel usage dropped

16.01%

Combined CO_2 emissions reduced by

15.42%

Distance travelled by all vehicles down

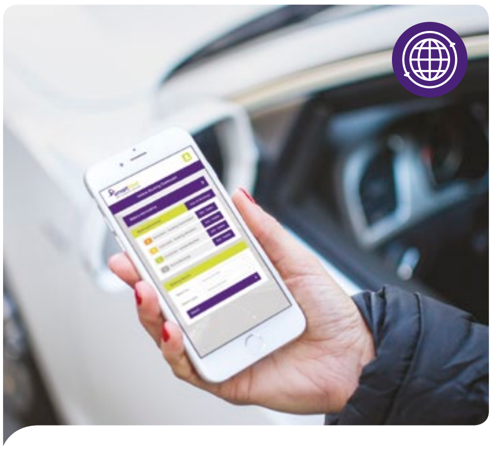
10.41%

Access to rental cars tightened with total vehicle rental days falling from.

6,000 to **2,100**

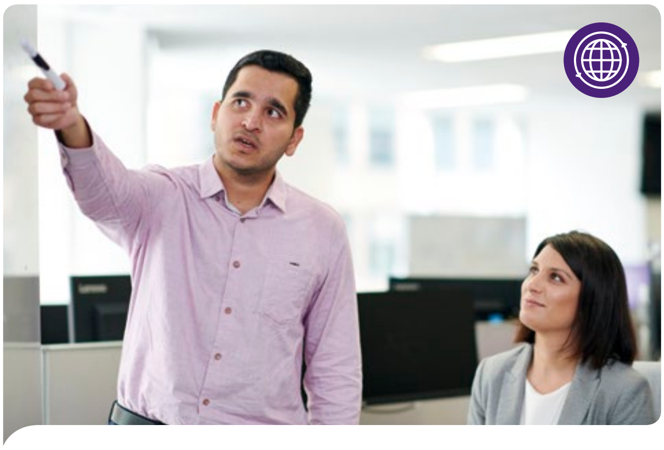
delivering savings the equivalent to six full-time vehicles.

Three initiatives are reducing unnecessary vehicle utilisation and contributing to a reduction in our clients' environmental footprints:



- Smart vehicle allocation – Pool Vehicle Booking is a powerful online module that maximises the usage and availability of vehicles, reducing trip duplication and identifying excess vehicles, saving time and money and, ultimately, reducing the environmental impact of the fleet.
- Car sharing – Smartfleet has partnered with DriveMyCar to provide a simple on-demand car-sharing service to help organisations meet short-term vehicle requirements, reducing both the cost and carbon footprint associated with running a fleet.
- Telematics by Smartfleet – We have partnered with FleetComplete to offer telematics to clients. Telematics helps ensure driver safety and helps reduce inefficiencies in driver behaviour and vehicle use, which can otherwise increase both the costs to maintain vehicles and fuel consumption (and therefore emissions).

We have reduced our operational offices from seven to six, which **reduced our electricity usage and carbon emissions**. This year, we continued to invest in rolling out enhanced video conferencing technology and reduced our carbon emissions from air travel by 396 tonnes.



Low Glow project – Barolin Nature Reserve, Bundaberg QLD

Of course, carbon is not the only form of pollution that is adversely affecting environments. The Low Glow project is a long-term project aimed at protecting endangered turtles in an environmentally sensitive area impacted by artificial light from a nearby city and involves forming a green curtain to shield the sea turtle hatchery.

We've supported Greenfleet's Low Glow project since it began in 2016. To extend the project, Bundaberg Regional Council received a Smart Cities grant, which they are managing to build a "light map" and find more ways for the community to reduce light pollution to protect the local sea turtle population.

Air and land travel

Our air travel was significantly lower this year. Flights generated 57.95 tonnes of carbon dioxide, which is 396 tonnes less than in 2019. Once again, we offset 100% of the annual carbon emissions from work-related air travel.

We had already increased our use of video conferencing technology to connect our office-based and remote staff in 2019, giving us greater flexibility and workplace efficiency. This was further rolled out throughout 2020. In April, we moved swiftly from onsite activities with customers to virtual working, delivering over 30,000 one-on-one phone and webinar sessions to clients and customers throughout the year. Greater virtual connectivity across all our sites will have a positive and permanent impact on our travel-related spend and carbon footprint.

Reducing our energy consumption

Last year we also reduced our operational offices from seven to six, which reduced our electricity usage and carbon emissions. This year, we again engaged BidEnergy to measure our electricity usage and emissions for all offices around Australia. Our electricity emissions are reported in the corporate sustainability scorecard on page 42.

Responsible environmental management in our day-to-day operations

We continue to optimise processes by improving our online offering and making it easier for our customers to interact with us digitally, reducing the waste created by paper forms and documents.

We also facilitate waste separation and recycling in each of our offices nationally. Last year, we continued the implementation of initiatives to reduce the amount of paper and by-products used to print, with all paper used for printing in our offices made from recycled paper or from sustainably sourced forests.

Opportunities to improve the environments we all share are many and varied. Our approach continues to be one of doing what we can to set the right example internally, while leveraging our relationships and forging sponsorships that enable us to have the most positive effect we can.

Corporate sustainability scorecard

	2020	2019	2018
People			
Headcount	697	762	752
Full-time equivalents (FTEs) (excluding temps)	630	689	695
Number of permanent employees	605	661	670
Permanent employees who are female (%)	54%	51%	50%
Number of full-time permanent employees	547	594	605
Full-time employees who are female (%)	50%	47%	46%
Number of part-time permanent employees	58	67	65
Part-time employees who are female (%)	88%	90%	83%
Number of fixed-term/temp/casual employees	92	100	82
Fixed-term/temp/casual employees who are female (%)	52%	55%	60%
Employee engagement score (%)	54%	52%	55%
Employee participation in the engagement survey	69%	79%	76%
Eligible employees receiving annual performance reviews (%)	100%	100%	100%
Team members eligible to participate in training and development (%)	100%	100%	100%
Safety incidents per FTE (total)	<0.01 (2)	0.07 (45)	0.08 (59)
Lost-time injury frequency rate (injuries/million hours worked)	3.35	3.24	2.83
Absenteeism (%)	2%	2%	2%
Risk culture score (risk awareness, values and behaviours) (%)	80%	74%	66%
Parental leave			
Number of employees who took parental leave	F 18 M 18	F 31 M 20	F 40 M 11
Number of employees who returned to work after leave	F 13 M 17	F 21 M 19	F 28 M 5
Employee share ownership			
Employee share plan participation rate (% of eligible employees)	49%	54%	63%
Number of employee shareholders (via share plan)	325	422	422
Employee gender diversity			
Board	F 25% M 75%	F 25% M 75%	F 14% M 86%
Executive	F 50% M 50%	F 43% M 57%	F 38% M 62%
Senior management	F 46% M 54%	F 47% M 53%	F 46% M 54%
All employees	F 53% M 47%	F 51% M 49%	F 51% M 49%
Environment			
Electricity – total consumption (kWh)	402,922	557,707	690,207
Electricity (tonnes CO_2-e per FTE)	0.50	0.65	0.78
Air travel (tonnes CO_2 per FTE)	0.09	0.66	1.00
Land travel (tonnes CO_2-e per FTE)	0.13	0.25	0.31
Printed material (tonnes CO_2-e total)	0.79	2.44	2.07
Customers			
Net Promoter Score (average monthly score) – Smartsalary and Smartleasing only	44	46	47
Net Promoter Score (average monthly score) – Smartgroup*	38	–	–
Customer complaints (as a percentage of total customers)	0.32%	0.74%	1.02%

* Average monthly NPS for Smartsalary, Smartleasing, AccessPay and Advantage.

SNAPSHOT:

Gender diversity targets of

40/40/20*

achieved at Executive, Senior Management and All Employee levels.

Gender targets of

40/40/20*

set for our Board to achieve by the end of 2023.

56,738

tonnes of carbon offset through our Carbon Offset Program, Purple Meets Green, throughout 2020.

$179,000

Donated to 11 worthwhile projects through the Smartgroup Foundation in 2020.

2

new partners introduced to Purple Meets Green in 2020.

100%

of carbon from air travel by Smartgroup team members was offset in 2020.

* 40/40/20 targets describe a target gender representation of at least 40% female, 40% male and 20% either gender.

Governance and risk management

Smartgroup believes that good corporate governance is key to maximising company performance and delivering high returns to shareholders. Smartgroup has a strong corporate governance framework in place, which is reported in the Corporate Governance Statement (available at http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance).

Smartgroup operates in a dynamic environment and is exposed to risks associated with operating in the salary packaging and novated leasing industry. Smartgroup recognises risk management as an integral part of good corporate governance and as fundamental in achieving its strategic and operational objectives.

The Board is responsible for:

- reviewing, ratifying and monitoring management's framework and systems of risk management, internal controls and compliance;
- approving policies relating to and overseeing the management of financial and non-financial risks, including economic, environmental and social sustainability risks; and
- setting the risk appetite within which the Board expects management to operate.

A Risk Management Policy (available at http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance) and a Risk Management Framework are in place to identify, assess, manage and report risks on a consistent and reliable basis in accordance with the risk appetite and tolerances set by the Board. Accountability for risk management is structured as:

- management is responsible for managing all risks, where possible;
- a dedicated risk function (under the Chief Risk Officer) provides risk management expertise and oversight for business risk management activities; and
- an internal audit function provides independent assurance regarding the adequacy and effectiveness of Smartgroup's system of internal controls and risk management procedures.

The Board regularly discusses the economic, environmental and social sustainability risks (including risks relating to the COVID-19 pandemic) that it considers are likely to have a material effect on Smartgroup's financial performance or enterprise value. Relevant risks are reported on Smartgroup's risk register and are closely analysed by the Board and the Audit and Risk Committee.

Additional information in relation to risk management can be found throughout the Annual Report and in the Corporate Governance Statement that is available on the Smartgroup website.

Material risks

The material risks that could adversely affect Smartgroup's future business, operations and financial performance are outlined below.

Risks and opportunities	How we respond
Australian private new car market The success of Smartgroup's novated leasing business is driven by a buoyant Australian private new car market. New car sales have been in steady decline in recent years. There remains uncertainty around the impact of COVID-19 on consumer spending and the supply of new cars and, consequently, the new car sales market.	• Continue to promote the advantages of novated leasing to customers who wish to acquire a car. • Where an existing customer does not wish to acquire another car, Smartgroup is focusing on maximising customer retention through refinancing of existing cars. • Smartgroup has a large dealer panel across the country that supports our ability to source new cars. • We continue to explore new product and service offerings whilst developing new distribution channels to drive business growth.
Regulatory environment The salary packaging and novated leasing industry has been subject to regulatory scrutiny following the Hayne Royal Commission. There are regulatory proposals to address a perception of customer detriment from the sale of certain add-on insurance products. These changes are likely to impact Smartgroup's operations and the demand for some of our products and services.	• We monitor and proactively engage with regulatory and industry bodies on proposed changes to prevent unintended consequences and improve customer outcomes. • We evaluate the requirements of new regulations, legislation and industry practices and implement the control environment required to comply with them.
Fringe benefits tax The provision of products and services within salary packaging administration and novated leasing is underpinned by the associated benefits permitted under fringe benefits tax (FBT) legislation. Changes to these laws may adversely impact the salary packaging benefits administered by Smartgroup and could render any of Smartgroup's product offerings less profitable or obsolete.	• Through our membership of NALSPA, we support initiatives to communicate the macro-economic benefits arising from the existing FBT policy settings, including the significant role salary packaging plays in the financial wellbeing of many everyday Australians. • We continue to explore growth opportunities aligned to our core business but outside the scope of FBT legislation.

Risks and opportunities	How we respond
Cyber security/data privacy Cyber attacks may compromise technology platforms used by Smartgroup to store confidential information of clients and customers. It is possible that measures taken by Smartgroup do not prevent or detect unauthorised access to or disclosure of confidential information. Any successful cyber attack could result in the loss of information or assets, breaches of data privacy laws and/or client agreements and extended outages of technology platforms and potentially, client losses.	• A dedicated IT security team monitors, assesses and continues to enhance our resilience to cyber threats. • A number of policies govern the management of information security across Smartgroup. • The Privacy Policy governs how we collect, use, disclose and hold personal information. • A training program continually raises team members' awareness on privacy and cyber security threats.
Business interruptions Similar to other companies, Smartgroup is exposed to the risk of business disruption caused by loss of key team members, failure of IT systems and cyber attacks. Any systemic failure or sustained interruption could impair Smartgroup's operations and customer service levels and client retention. Furthermore, disaster recovery plans may prove to be ineffective and insurance policies may fail to cover all damages and losses suffered.	• The Business Resilience Policy and Framework guide Smartgroup's response to major incidents and our recovery plans. • We periodically test our ability to respond effectively to interruptions. • We continually monitor and refresh our investment in our IT infrastructure and systems to support the continuity of our operations.
Business transformation The execution of Smartgroup's strategy and focus on continuous improvement may introduce changes to our business operations (including processes, systems, team members, capability and capacity). Change and transformation projects that are not well executed have the potential to cause significant disruptions, resulting in client losses, customer dissatisfaction and team member disengagement.	• A dedicated Project Management Office (PMO) resourced with senior project managers governs and manages change and transformation activities. • Project management methodologies and prioritisation guide the initiation, approval, prioritisation and management of projects. • Post-implementation reviews are conducted to ensure lessons learned are incorporated into future projects.
People/Team members A stable and experienced management team is key to the success of Smartgroup. The management team has deep knowledge of the business and the industry and strong relationships with key clients. The loss of key personnel may adversely affect Smartgroup.	• A talent development program and capability assessments of key people leaders are in place to support ongoing succession planning. • Short-term and long-term incentive plans support the retention of key personnel and the successful execution of our strategy.
Suppliers Smartgroup is dependent on a number of key suppliers to provide services and products, such as technology, insurance and salary packaging cards. The availability, performance and reliability of their services and products are critical to the continuity of Smartgroup operations.	• We negotiate contracts with strong terms and contingencies to facilitate the continuity of services and products from key suppliers. • We work to diversify our exposure to key suppliers where appropriate to reduce the risk of single-supplier dependency.
Funding Smartgroup depends on financial institutions to provide funding for our novated leasing customers. Any loss of access to funding or material changes to the terms of funding for our customers could adversely affect Smartgroup's ability to attract or retain novated leasing customers.	• We have formal contractual agreements to govern our funding arrangements with financial institutions. Multi-year contractual agreements ensure continued access to funding at competitive terms. • Smartgroup has relationships and established funding arrangements with multiple financial institutions.
Workplace health and safety Smartgroup is committed to providing a safe and healthy environment for our team members. The current COVID-19 pandemic has also required us to embrace new ways of working that carry heightened risks relating to safety, health and wellbeing.	• The Work Health and Safety (WHS) Policy sets out our commitment to providing a work environment that ensures the health and safety of team members. • Mental health awareness training, tools and support are delivered to managers and team members. • Processes are in place for team members to report safety hazards and incidents. • Our priority has been to protect the health, safety and wellbeing of our team members during COVID-19. We have regular communication with team members to promote awareness of physical and mental wellbeing and actively monitor relevant indicators to identify areas to address. We have implemented COVID-19 safety protocols in our offices.
Key client contracts Most of Smartgroup's contracts with clients are for fixed terms and are subject to renewal or tender processes. In addition, some contracts can be terminated by the client without cause, prior to the end of the contract term. The loss of multiple key clients through termination or failure to renew is likely to affect Smartgroup's financial performance.	• Business growth continues to reduce the revenue concentration with key clients. The 10 largest contracts now represent a smaller percentage of total revenues compared to prior years. • We monitor client and customer satisfaction through Net Promoter Scores (NPS) and customer feedback. • Refer also to the "Competition" section.

Risks and opportunities	How we respond
Competition The salary packaging and novated leasing industry is subject to increasing competition in respect of pricing, products and services and delivery platforms. Competition may also increase from mergers between existing competitors or the entry of new competitors. Smartgroup's competitive position in the market may deteriorate as a result of these factors or by failure of Smartgroup to respond to changes in market conditions, customer demands or technology advancement, with possible consequences for client retention and profitability.	• We continue to transform our business operations to be more customer-centric and digitally enabled. Anticipated improvements to our cost to serve and maintaining our recognised position as an industry leader in customer care and innovation provide us with a competitive advantage. • We are focused on how we engage with our customers and improve our understanding of their needs and expectations so that products and services can be tailored and delivered accordingly. • We continue to focus on creating exceptional experiences for our customers and using innovation to drive process efficiency.
Sustainability Smartgroup recognises that our long-term success relies upon the governance and sustainability of our business. Whilst Smartgroup has a relatively small environmental footprint (team member travel, energy usage and office material consumption), our actions could deliver negative environmental outcomes.	• Refer to the sustainability report (p. 36).
Climate change Smartgroup is exposed to climate change risks associated with the ownership of vehicles. Any climate change legislation or changes in customer preferences that affect private car ownership or vehicle types (e.g. increased adoption of electric/hybrid) could in turn have an impact on Smartgroup's future financial performance.	• We monitor and assess developments relating to the impact of climate change on our strategy and operations. • Refer to the sustainability report (p. 36).
Modern slavery Smartgroup does not tolerate or support the use of forced or compulsory labour, and we extend this approach through all areas of our supply chain. Our main supply chain activities relate to engaging with providers of IT, facilities, contractors and temporary staff, consulting and specialist advice, business development and marketing. We recognise the risk of not meeting our modern slavery obligations should our suppliers operate in a manner that is contrary to these obligations.	• Smartgroup has incorporated modern slavery provisions into our Group Procurement Policy and has defined standard compliance terms and conditions that will be incorporated into all our new supplier contracts and existing supplier contracts upon renewal. • Our first Modern Slavery Statement report will be issued in June 2021 and will cover the 2020 financial year. • Refer to the sustainability report (p. 36).

Directors' report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the Group) consisting of Smartgroup Corporation Ltd (referred to hereafter as the Company or parent entity) and the entities it controlled at the end of or during the financial year ended 31 December 2020.

Directors

The following people were Directors of the Company during the financial year and up to the date of this report. Each Director held that position from the start of the financial year until the date of this report, unless otherwise stated:

- Michael Carapiet
- Deven Billimoria (retired 28 February 2020)
- Gavin Bell
- Andrew Bolam
- Carolyn Colley
- Deborah Homewood
- Timothy Looi (appointed 29 February 2020)
- John Prendiville
- Ian Watt

Principal activities

During the financial year, the principal activities of the Group consisted of outsourced employee benefits and administration services, being primarily salary packaging, novated leasing, fleet management, share plan administration, payroll administration and workforce optimisation services.

Dividends

Dividends paid during the financial year were as follows:

Consolidated	2020 $000	2019 $000
Final dividend for the year ended 31 December 2019 of 21.5 cents (2018: 21.0 cents) per ordinary share	28,272	27,446
Interim dividend for the year ended 31 December 2020 of 17.0 cents (2019: 21.5 cents) per ordinary share	22,579	28,305
No special dividends were paid during the financial year (2019: 20.0 cents per ordinary share)	–	26,300
Total	**50,851**	**82,051**

On 24 February 2021, the Directors declared a fully franked final dividend for the year ending 31 December 2020 of 17.5 cents per share. The final dividend will be paid on 23 March 2021 to shareholders registered on 9 March 2021 resulting in a total distribution of $23,240,000. On 24 February 2021, the Directors also declared a total special dividend of 14.5 cents per share, comprised of a final special dividend of 9.0 cents per share in respect of the year ended 31 December 2020, and an interim special dividend of 5.5 cents per share in respect of the current year. The special dividend will be paid on 23 March 2021 to shareholders registered on 9 March 2021 with an expected total distribution of $19,259,000. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2020 financial statements and will be recognised in subsequent financial reports.

Review of operations

The Group's profit after income tax expense for the year amounted to $41,325,000 (2019: $61,449,000). Refer to the Chairman's report and the Managing Director and CEO's report for further commentary.

Business objectives and cash use

The Company has used cash and cash equivalents to fund its day-to-day operations and to pay down debt.

Significant changes in the state of affairs of the Group

As announced on 18 October 2019, Timothy Looi commenced as Smartgroup's new Managing Director and CEO with effect from 29 February 2020 following Deven Billimoria's retirement on 28 February 2020.

The deterioration in economic conditions, as a result of the COVID-19 pandemic, resulted in a significant reduction in revenue in 2020. In response to the disruption, short and long term savings measures were put in place in order to ensure that earnings margins were maintained at acceptable levels.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2020 that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the Group and the expected results of those operations are contained in the Managing Director and CEO Report on page 16.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Board of Directors

The following people were directors of Smartgroup Corporation Ltd during the financial year and up to the date of this report, unless otherwise stated. Former directorships (last three years) quoted below are directorships held in the last three years for listed entities and exclude directorships of all other types of entities unless otherwise stated.

Michael Carapiet
Chairman and
Non-Executive Director

Qualifications: Michael holds a Master of Business Administration from Macquarie University.

Experience and expertise: Michael has more than 30 years' experience in the financial sector. Michael is the Chairman of Link Group (ASX: LNK), a global provider of share registry, corporate market data analytics and asset management services and the largest provider of administration services to the Australian superannuation sector. He is also Chair of Adexum Capital Ltd, a private equity fund manager. Michael was previously Chair of SAS Trustee Corporation and a Director of Southern Cross Media Group Ltd, and has also served on several Commonwealth Government boards including Infrastructure Australia, Clean Energy Finance Corporation and Export Finance Insurance Corporation.

Former directorships (last three years): Michael was formerly Chair of Insurance and Care NSW (iCare NSW), a role that he held from August 2015 until September 2020

Special responsibilities: Member of ARC, HRRC and ITIC

Interests in shares: 2,381,412

Interests in options: None

Timothy Looi
Managing Director
and CEO – appointed
29 February 2020

Qualifications: Tim holds a Bachelor of Economics from Sydney University and is a Member of Chartered Accountants, Australia and New Zealand.

Experience and expertise: Tim has worked for Smartgroup since 2009 and throughout that time has held responsibilities as the Chief Financial Officer in addition to the management of group operations, client relationships and sales and marketing. Prior to Smartgroup, Tim held senior positions at Aristocrat Leisure in strategy and finance. He commenced his career with PricewaterhouseCoopers in 1994.

Former directorships (last three years): None

Special responsibilities: None

Interests in shares: 73,242

Interests in options: 965,790

Andrew Bolam
Non-Executive Director

Qualifications: Andrew holds a Bachelor of Commerce from the University of Tasmania and is a Certified Practising Accountant (CPA).

Experience and expertise: Andrew has more than 20 years of experience in financial and general management. He is currently an Executive Director and the Chief Financial Officer of Media Innovations Holdings Pty Ltd, the operator of the Fetch TV business in Australia. Andrew previously held several senior roles in the Usaha Tegas Group of Companies including Benaris International Pty Ltd (oil & gas), Usaha Tegas Sdn Bhd (diversified investment), Bumi Armada Berhad (offshore oil & gas services) and Astro All Asia Networks plc (pay TV). Andrew's earlier career included senior roles with the Shell Group of Companies in Australia and Malaysia.

Former directorships (last three years): None

Special responsibilities: Member of ARC and ITIC

Interests in shares: 257,760

Interests in options: None

Deborah Homewood
Non-Executive Director

Qualifications: Deborah completed her registered nurse training at St Andrews Hospital (QLD) and also holds a Master of Management from Macquarie Graduate School of Management.

Experience and expertise: Deborah has many years of management experience in various sectors, including retail, the medical industry and communications. She is currently Managing Director of MAX Solutions and was formerly CEO of Pacnet, Australia and New Zealand, an Asian-headquartered telecommunications carrier. Deborah was with Pacnet for 10 years and held various other senior roles including Vice President Sales, South Asia. Deborah is a current member of Chief Executive Women and chaired the Membership Committee of that organisation from 2010 to 2012.

Former directorships (last three years): None

Special responsibilities: Member of HRRC and ITIC

Interests in shares: 6,618

Interests in options: None

Ian Watt AC
Non-Executive Director

Qualifications: Ian holds a Bachelor of Commerce from the University of Melbourne and a Master of Economics and PhD in Economics from La Trobe University and has completed the Advanced Management Program at Harvard Business School.

Experience and expertise: Ian worked for nearly 20 years at very senior levels of the Australian public service. His most recent appointment was as Secretary of the Department of the Prime Minister and Cabinet and head of the Australian Public Service, a position he held from 2011 to 2014. Before that, he was Secretary of the Departments of Defence, Finance, and Communications, Information Technology and the Arts between 2001 and 2011 and Deputy Secretary of the Department of the Prime Minister and Cabinet. Ian is currently the Chair of the International Centre for Democratic Partnerships and the ADC Advisory Council, is on the Boards of Citibank Pty Ltd, the Grattan Institute and the Committee for Economic Development Australia (CEDA) and is a member of the Council of the Australian National Maritime Museum. Ian is a Senior Advisor to Flagstaff Partners.

Former directorships (last three years): Non-Executive Chairman of BAE Systems Australia Pty Ltd from July 2016 to February 2019

Special responsibilities: Chairman of ITIC and member of ARC

Interests in shares: 106,522

Interests in options: None

Gavin Bell
Non-Executive Director

Qualifications: Gavin holds a Bachelor of Laws from the University of Sydney and Master of Business Administration (Executive) from the Australian Graduate School of Management.

Experience and expertise: Gavin is an experienced director, CEO and lawyer. He is a Non-Executive Director of IVE Group Ltd (ASX: IGL). Before becoming a Director, Gavin was Managing Partner and Chief Executive Officer of law firm Herbert Smith Freehills (formerly Freehills). He was also a partner in the firm for 25 years.

Former directorships (last three years): Gavin was formerly a Board member of Insurance and Care NSW (iCare NSW), a role that he held from October 2015 until September 2020

Special responsibilities: Chairman of HRRC and member of ARC

Interests in shares: 77,650

Interests in options: None

John Prendiville
Non-Executive Director

Qualifications: John holds a Bachelor of Science (Hons) in Astrophysics from the Royal Military College, Duntroon, and Master of Business Administration from the University of Western Australia and the Institute for International Finance in Japan.

Experience and expertise: John has 30 years' experience in the financial sector. He is currently a Director and a member of the Audit and Risk Committee of the University of Notre Dame Australia. John is also a shareholder and director of GetCapital Pty Ltd, a rapidly growing provider of finance to the SME space in Australia, and a range of other private companies with interests in the technology, property, industrial and fintech space. Previously, John held numerous senior roles at Macquarie Group, where he worked for 20 years until his departure in 2011.

Former directorships (last three years): None

Special responsibilities: Chairman of ARC and Member of HRRC

Interests in shares: 675,000

Interests in options: None

Carolyn Colley
Non-Executive Director

Qualifications: Carolyn holds a Bachelor of Economics from Macquarie University and a Diploma of Applied Finance and Investment. She is a Fellow of Chartered Accountants Australia and New Zealand and a Graduate of the Australian Institute of Company Directors.

Experience and expertise: Carolyn has more than 30 years' experience spanning financial services, product development and innovation. Carolyn was most recently Chief Operating Officer and co-founder of Faethm, a global analytics SaaS platform. Previously, she was CEO of Decimal Software Ltd, and before that, she held senior executive roles at Macquarie Bank, St George Bank and BT Financial Group. Carolyn is a Non-Executive Director of CountPlus Ltd (ASX:CUP) and is an Independent Non-Executive Director of OnePath Custodians Ltd and Oasis Fund Management Ltd (IOOF's superannuation businesses) and of ASX's Clearing and Settlement Boards.

Former directorships (last three years): None

Special responsibilities: Member of HRRC and ITIC

Interests in shares: 7,000

Interests in options: None

Deven Billimoria
Managing Director and CEO – retired 28 February 2020

Former Managing Director and CEO, Deven Billimoria, also held office as a director during the period from 1 January 2020 to 28 February 2020. Deven worked with Smartgroup for approximately 20 years and held the roles of Managing Director and CEO of Smartgroup Corporation from 2014 and Managing Director and CEO of Smartsalary Pty Ltd from 2001. Deven held no other directorships in listed entities in the 3 years before his retirement. As at 28 February 2020, the date on which Deven retired as a director, he held interests in 2,581,053 shares, and 697,784 options.

Company secretaries

Sophie MacIntosh was appointed Chief Legal Officer on 7 November 2016 and was appointed Joint Company Secretary on 13 December 2016. Sophie is an experienced legal and governance professional with over 20 years' experience gained working in global law firms specialising in all aspects of corporate and commercial law. Sophie holds a Master of Laws from the University of Sydney and a Bachelor of Business and a Bachelor of Law from the University of Technology Sydney and is a member of the Australian Institute of Company Directors.

Jonathan Swain was appointed as an additional Company Secretary effective 19 August 2019. Jonathan is a Senior Company Secretary with Company Matters Pty Ltd. He has previously worked in a range of legal, company secretarial and management roles. Jonathan is admitted as a solicitor in New South Wales and is a Fellow Member of the Governance Institute of Australia and a Graduate of the Australian Institute of Company Directors.

Meetings of Directors

The number of meetings of the Company's Board of Directors and each Board committee held during the year ended 31 December 2020 and the number of meetings attended by each Director were as follows:

Director	Board		Audit and Risk Committee		Human Resources and Remuneration Committee		IT and Innovation Committee	
	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]
Michael Carapiet	15	15	4	4	3	3	3	3
Gavin Bell	15	15	4	4	3	3	–	–
Andrew Bolam	15	15	4	4	–	–	3	3
Carolyn Colley	14	15	–	–	3	3	3	3
Deborah Homewood	15	15	–	–	3	3	3	3
Timothy Looi[2]	13	13	–	–	–	–	–	–
John Prendiville	14	15	4	4	3	3	–	–
Ian Watt	15	15	4	4	–	–	3	3
Deven Billimoria[3]	2	2	–	–	–	–	–	–

1. The number of meetings held during the time the Director held office or was a member of the relevant committee.
2. Appointed as a Director on 29 February 2020.
3. Retired as a Director on 28 February 2020.

Remuneration report

The remuneration report describes the remuneration arrangements for the Key Management Personnel of the Group (KMP) for the year ended 31 December 2020. The remuneration report has been prepared in accordance with the requirements of section 300A of the Corporations Act 2001 and has been audited.

Introduction from the Chair of the Human Resources and Remuneration Committee

Dear shareholder

On behalf of the Board, I am pleased to present Smartgroup's remuneration report for the year ended 31 December 2020.

The 2020 year was significantly affected by the broad challenges presented by the COVID-19 pandemic, and remuneration decisions made during 2020 needed to reflect those challenges as they evolved during the year.

At the start of 2020, the Board proposed to set a remuneration framework largely similar to that described in the 2019 remuneration report, which received strong support from shareholders at the AGM held in June 2020, with more than 99% of votes in favour of the resolution to adopt it. Under that framework, up to 50% of Executive KMP short-term incentives were payable on the achievement of financial KPIs based on the NPATA achieved by the Group, with the remaining 50% based on the achievement of other non-financial KPIs. After the impacts of COVID-19 on the Company's business became apparent during the first half of 2020, the Board approved a modified short-term incentive arrangement for 2020 under which the maximum short-term incentive opportunity for Executive KMP was reduced to 75% of the maximum and adjusted KPIs were set. Further details about these changes are described in more detail later in this remuneration report.

The Board considered that these changes were appropriate having regard to the need to deliver during 2020 a series of initiatives to address the effects of COVID-19 and to ensure the longer-term sustainability of Smartgroup's business performance and shareholder value creation.

The aggregate amount of short-term incentive payments paid to Executive KMP in respect of 2020, based on the extent to which the approved KPIs were achieved, was $348,312. The Board considers that these payments are appropriate having regard to the Company's good overall performance in the context of the COVID-19 pandemic, and the fact that the Company did not claim JobKeeper.

Further details of the specific KPIs approved by the Board for 2020 and the extent to which they were achieved, are set out later in the remuneration report.

Other key remuneration decisions and outcomes for 2020 affecting KMP were as follows:

- In January 2020, two Executive KMP received an increase in their fixed remuneration, with one receiving a $20,000 increase and one receiving a $60,000 increase.
- As part of the Company's cost containment plan implemented in response to COVID-19, the Chairman and the Managing Director and CEO each accepted a 50% reduction in fees/fixed remuneration for a period of three months from April 2020, and all other Directors and Executive KMP accepted a 20% reduction in fees/fixed remuneration for the same period.
- A one-off cash bonus of $75,000 was approved to one Executive KMP to reflect additional duties undertaken during the year, to be paid in January 2021.
- No Executive KMP 2018 long term incentive shares vested in 2020, as earnings per share and relative total shareholder return thresholds were not achieved.
- Tony Forward, the Chief Information Officer, is included as a member of KMP with effect from 1 February 2020, the date of his appointment to that role on a permanent basis, and Nigel Underwood, who held the role of Chief Financial Officer from 6 April 2020 to 4 December 2020 was included in Executive KMP for that part of the year.
- A new executive service contract with Timothy Looi took effect from 29 February 2020 to reflect his appointment as Managing Director and CEO.

Further details of these decisions and outcomes are set out later in the remuneration report. The Board believes that the 2020 remuneration outcomes fairly reflect the performance of the Company and Executive KMP in the context of the year's events.

We thank you for your support and welcome your feedback on our remuneration report.

Yours sincerely

Gavin Bell
Chair of the Human Resources and Remuneration Committee

Who is covered by the report

The names and titles of the KMP during the year ended 31 December 2020 are set out below.

Name	Title	KMP for full year or part year
Non-Executive Directors		
Michael Carapiet	Chairman and Non-Executive Director	Full year
Gavin Bell	Non-Executive Director	Full year
Andrew Bolam	Non-Executive Director	Full year
Carolyn Colley	Non-Executive Director	Full year
Deborah Homewood	Non-Executive Director	Full year
John Prendiville	Non-Executive Director	Full year
Ian Watt	Non-Executive Director	Full year
Continuing Executive KMP		
Timothy Looi	Managing Director and CEO[1]	Full year
Tony Forward	Chief Information Officer (CIO)	Part year – started 1 February 2020
Sarah Haas	Chief Operating Officer (COO)	Full year
Sophie MacIntosh	Chief Legal Officer (CLO)	Full year
Executives who ceased to be KMP during the year		
Deven Billimoria	Managing Director and CEO	Part year – ceased 28 February 2020
Nigel Underwood	Chief Financial Officer (CFO)	Part year – started 6 April 2020, ceased 4 December 2020

1. Timothy Looi became an Executive Director on assuming the role of Managing Director and CEO on 29 February 2020. Mr Looi was a member of the KMP for the period from the start of the financial year until 28 February 2020 in his previous role as Chief Financial Officer. He was therefore a member of the KMP for the full year.

Executive KMP remuneration strategy

Smartgroup's remuneration strategy focuses Executive KMP on:

- sustained growth in earnings before interest, tax, depreciation and amortisation of intangibles, adjusted to exclude significant non-operating items (EBITDA) and net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items (NPATA); and
- risk management and other key non-financial drivers of value.

The Board ensures that the remuneration of Executive KMP is:

- set in a way that is consistent with the strategy outlined above;
- transparent and clearly aligned to performance; and
- competitive but reasonable, and acceptable to shareholders.

The Board's Human Resources and Remuneration Committee (HRRC) assists the Board in fulfilling its corporate governance responsibilities, including reviewing and recommending remuneration arrangements for Directors and Executive KMP. The HRRC has structured an executive remuneration framework that is competitive with the market and consistent with the overall remuneration strategy of the Group.

The executive remuneration framework:

- is intended to attract, motivate and retain high-calibre executives who are critical to the organisation's growth and success;
- rewards team and individual performance, capability and experience;
- reflects competitive rewards for contributing to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

During 2020, aspects of the remuneration framework were adjusted from those in place in 2019 to focus Executive KMP on delivering a series of initiatives to address the effects of COVID-19 and to ensure the longer-term sustainability of Smartgroup's business performance and shareholder value creation. Further details of these adjustments are set out below.

Components of Executive KMP remuneration

The Group aims to reward Executive KMP with a level and mix of remuneration based on their position, responsibility and performance. This remuneration has both fixed and variable components.

The executive remuneration and reward framework consists of four components:

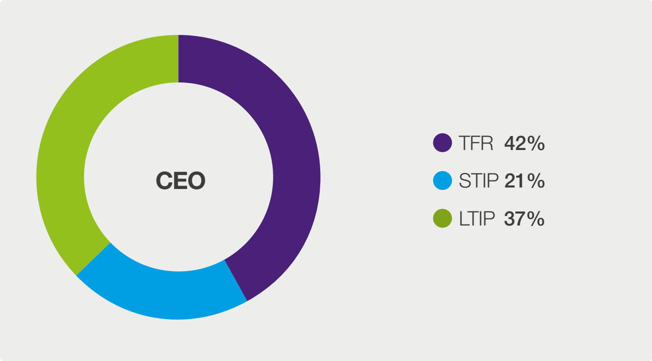
- Total fixed remuneration (TFR) comprising base salary, superannuation and non-monetary benefits;
- Short-term performance incentives (STI);
- Long-term performance incentives (LTI), and
- Other statutory entitlements such as long service leave.

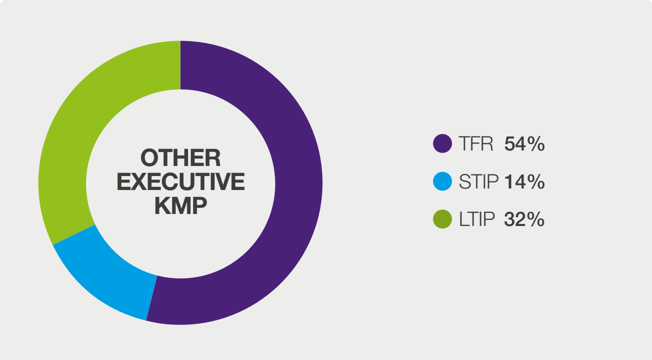
In alignment with its remuneration strategy, the Board's policy is to structure remuneration for Executive KMP so that it includes both a fixed component and an at-risk or performance-based component (comprising a combination of STI and LTI), such that a significant part of the Executive KMP's total remuneration is at risk.

The charts below show the relative proportions of TFR, STI and LTI for:

- Tim Looi, as Managing Director and CEO for the period from 29 February 2020 to 31 December 2020; and
- the other Executive KMP for the year ended 31 December 2020[2].

2. This excludes remuneration paid to Deven Billimoria and Nigel Underwood who ceased to be KMP during the year





The amounts shown above are the amounts that would have been payable to the CEO and to Other Executive KMP if they had each achieved their maximum STI and LTI entitlement for the year (excluding any accelerated vesting and end of service benefits).

Further details on the components of Executive KMP remuneration are set out below.

Total fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the HRRC, based on individual and business unit performance, the overall performance of the Group and comparable market remuneration.

Short-term incentives

Executive KMP are eligible to participate in the Company's Short Term Incentive Plan (STIP) in a manner determined by the Board. The STIP puts a proportion of each Executive KMP's remuneration at risk subject to meeting specific predetermined performance measures linked to the Company's objectives set annually. This aligns employee interests with the Group's financial performance and the Group's organisational values. As with fixed remuneration, the Board and the HRRC rely on comparative data from companies of a similar size. Data from competitors is also considered to ensure that the STIP remains competitive and attractive and to incentivise the executive team to stay and to strive for exceptional performance.

Participants in the STIP have a target cash payment set every year as a percentage of their total fixed annual remuneration. Payments under the STIP depend on the achievement of a range of financial and non-financial key performance indicators and objectives (KPIs), as approved by the Board. The KPIs set in relation to the STIP are designed to compensate and reward Executive KMP for achieving the Company's short-term business strategy and are tested annually after the end of the relevant year.

Any amount that may be paid to the participants under the STIP is subject to the absolute discretion of the Board, after taking into account performance against KPIs and any other matters determined by the Board to be relevant to its discretion including, without limitation, the conduct of the relevant Executive KMP.

Long-term incentives

In early 2015, the Board established a Long-Term Incentive Plan (LTIP) for the Managing Director and CEO and other Executive KMP, which was approved for adoption by shareholders at the 2015 AGM. At the Company AGM in May 2018, shareholders approved the issue of shares under the plan for a further three years, in accordance with the ASX Listing Rules.

The LTIP aligns reward with shareholder value by tying this component of executive remuneration to the achievement of performance measures that underpin sustainable long-term growth. LTIP grants are usually made once a year. Any grant of LTIP shares to the Managing Director and CEO is required to be approved by shareholders under the ASX Listing Rules. This approval is usually sought at the Company's AGM.

The LTIP is a loan-funded share plan. Shares are purchased by the participant and funded by a loan provided by the Company. The shares are held by the participant until they vest or are forfeited and are eligible for dividends. All dividends paid or distributions made by the Company to the participant are applied to repay the loan and to meet the tax liability on those dividends or distributions.

The loan is for five years from issue, is subject to limited recourse and is interest free, as required by ASIC Class Order CO14/1000 and consistent with ASIC's policy published in Regulatory Guide 49. The loan is repayable in full on the earlier of the termination date of the loan and the date on which the shares are sold. If the vesting/performance conditions are not met and the shares do not vest for any other reason, the shares are acquired by the Company for the value of the outstanding loan.

Shares issued under the LTIP are forfeited if the performance hurdles are not met or the participant ceases employment before vesting (subject to the Board's discretion to permit vesting of shares depending on the circumstances in which employment ceases). Where there is a change of control event, the Board may, at its discretion, determine that some or all of a participant's unvested shares may vest.

From time to time, the Board may consider amending the vesting terms and the performance hurdles to ensure they are aligned to market practice and to safeguard the best outcomes for the Company. Further, the Board has the absolute discretion to replace the LTIP in any one or more years with an equivalent STIP or any other program.

2020 Executive KMP remuneration structure

Total fixed remuneration

With effect from January 2020, two KMP received increases to their fixed remuneration, with the Chief Operating Officer increasing from $340,000 to $400,000 and the Chief Legal Officer increasing from $340,000 to $360,000.

As part of the Company's cost containment plan implemented in response to COVID-19, the Managing Director and CEO accepted a 50% reduction in fixed remuneration and all other Executive KMP accepted a 20% reduction in fixed remuneration, for a period of three months from April 2020. The total amount of fixed remuneration foregone by Executive KMP over this period was $154,462.

Short-term incentives

Target cash payments

Participants in the STIP have a target cash payment set every year as a percentage of their total fixed annual remuneration. In 2020, this target was 51% of total fixed annual remuneration for Tim Looi, as Managing Director and CEO (2019: 60%), and 26% for each other Executive KMP (2019: 28%).

KPIs

In 2019, up to 50% of Executive KMP STI payments were conditional on the achievement of financial KPIs based on the NPATA achieved by the Group, with achievement of that NPATA target also acting as a gateway for further STI payments based on the achievement of other non-financial KPIs.

After the potential impacts of COVID-19 on the Company's business became apparent during the first half of 2020, the Board approved a modified STI arrangement for 2020 under which:

- the maximum short-term incentive opportunity for Executive KMP was reduced to 75% of the maximum opportunity originally proposed;
- the original 2020 KPIs were replaced with new KPIs focused on delivery of organisational change, cost management, risk management and capability improvement initiatives, including several initiatives put in place specifically to address the effects of COVID-19; and
- payment of all short-term incentives were made subject to the Board being satisfied that the Company's overall financial performance was satisfactory in the context of the COVID-19 pandemic and subject to risk management and internal audit remedial actions being closed out on a timely basis.

The Board considered that these changes were appropriate having regard to the need to deliver in the balance of 2020 a series of initiatives to address the effects of COVID-19 and to ensure the longer-term sustainability of Smartgroup's business performance and shareholder value creation.

Details of the specific KPIs approved by the Board for 2020, and the extent to which they were achieved, are set out in Table 3 on page 56.

Board discretion

All payments under the STIP are subject to Board discretion. In 2020, the Board determined that all payments would be conditional on the Board being satisfied that the Company's overall financial performance was satisfactory in the context of the COVID-19 pandemic. STI payments to individual Executive KMP are also subject to a specific discretion to reduce or withhold payment where risk management and internal audit remedial actions are not closed out on a timely basis.

Long-term incentives

Number and price of shares issued

Participants in the LTIP are granted a number of shares based on a proportion of the relevant executive's TFR. For 2020, the LTIP grant to the Managing Director and CEO was 88% of TFR, and the LTIP grants to other Executive KMP was 60% of TFR, as measured by the fair value of the shares on the grant allocation date, that is, when the number of shares to be issued was determined.

Under the 2020 LTIP grant:

- 670,392 shares were issued to the Managing Director and CEO at an issue price of $6.20 per share, being the 20-day volume weighted average price (VWAP) of shares up to and including the trading day immediately before the date of the 2020 AGM; and
- a total of 1,245,905 shares were issued to other continuing Executive KMP at an issue price of $6.67 per share, being the 20-day VWAP of shares up to and including the trading day immediately before the date of issue, with VWAP for the period prior to the cumulative dividend date being reduced by the amount of the declared dividend.

A further 164,851 shares were issued to Nigel Underwood, as an incoming member of Executive KMP, at an issue price of $6.20 per share, being the 20-day VWAP of shares up to and including the trading day immediately before the date of the 2020 AGM. Following Mr Underwood's resignation effective 4 December 2020, these shares will be bought back by the Company in accordance with the terms of the LTIP.

Vesting of shares

Vesting of 75% of the shares issued under the 2020 LTIP grant is subject to an earnings per share (EPS) performance hurdle. Vesting of the other 25% of the shares issued under the 2020 LTIP grant is subject to a total shareholder return (TSR) hurdle. The performance hurdles are described in more detail below. Shares issued under the 2020 LTIP grant will vest on 31 December 2022 if the performance hurdles are met.

The shares awarded under the LTIP are economically equivalent to options. The principal value of the LTIP grant to the Managing Director and CEO and other Executive KMP therefore comes through the increase in market value of the shares over the issue price. This provides further alignment with shareholder interests and further links remuneration with Company performance.

EPS performance hurdle

The EPS performance hurdle applies to 75% of the total number of shares issued to each Executive KMP under the 2020 LTIP grant.

The EPS performance hurdle is based on achievement of a compound annual growth rate (CAGR) in the Company's NPATA per share from the 2019 NPATA per share of $0.615 (calculated on the basis of reported 2019 NPATA of $81.0 million and 131.7 million shares on issue) to the NPATA per share for the financial year ending on 31 December 2022, as set out in the table below.

Table 1: EPS performance hurdle

EPS performance hurdle – applies to a maximum of 75% of the total number of shares issued under the 2020 LTIP grant				
Measure	**Vesting period**	**EPS CAGR**	**EPS target**	**Shares subject to vesting**
EPS CAGR	The period of three years ending 31 December 2022*	Below 5.0%		Nil
		5.0%	$0.712	50%
		Between 5.0% and 10.0%		Straight line between 50% and 100%
		10.0% or greater	$0.819	100% (capped)

* Or such other date on which the Board makes a determination as to whether the vesting condition has been met.

While COVID-19 has had a significant impact on 2020 earnings, the Board considers that the 2020 EPS performance hurdle is a challenging but achievable target.

TSR performance hurdle

The TSR performance hurdle applies to 25% of the total number of shares issued to each Executive KMP under the 2020 LTIP grant.

TSR measures the growth in the price of the shares plus cash distributions notionally reinvested in shares. Each of the companies in the S&P/ASX 200 Index is ranked from highest to lowest based on their TSR over the performance measurement period, being the three-year period starting on 1 January 2020 and ending on 31 December 2022. For the purpose of calculating the TSR measurement, the relevant share prices are determined by reference to the VWAP over the 20 trading days up to and including 1 January 2020 (the performance measurement period start date) and the 20 trading days up to and including 31 December 2022 (the performance measurement period end date).

The TSR hurdle is based on the TSR performance of the Company over the performance measurement period compared to the TSR of other companies in the S&P/ASX 200 Index, as set out in the table below.

Table 2: Relative TSR performance hurdle

TSR performance hurdle – applies to a maximum of 25% of the total number of shares issued under the 2020 LTIP grant			
Measure	**Vesting period**	**Smartgroup TSR performance compared to Index**	**Shares subject to vesting**
Relative TSR (ranking)	The period of three years ending 31 December 2022*	0 to 49th percentile	Nil
		50th percentile	50%
		51st to 74th percentile	Straight line between 50% and 100%
		75th to 100th percentile	100%

* Or such other date on which the Board makes a determination as to whether the vesting condition has been met.

The Board believes it is appropriate to have a proportion of the shares awarded under the LTIP to be subject to a TSR performance hurdle to provide a market-based hurdle.

Fair value

The fair value used for grant allocation purposes was calculated using the black scholes model.

2020 Executive KMP remuneration outcomes

STI – achievement of KPIs and financial outcomes

The table below shows the KPIs approved by the Board under the STIP for 2020 for Executive KMP and the Board's assessment of the extent to which those KPIs were achieved. In addition to this assessment, the Board determined that risk management and internal audit remedial actions were closed out on a timely basis and that the Company's overall financial performance was satisfactory in the context of the COVID-19 pandemic.

Table 3: 2020 KPIs and achievement

KPI	Relevant Executive	How it is measured	Actual achievement
1. Manage growth and profitability	CEO, CFO, COO, CIO, CLO	Delivery of cost savings, operational improvements and contribution of new revenue sources	63%
2. Engage workforce	All	Team engagement, remote working/back to office transition and operational restructure delivery	61%
3. Improve core operations	CFO, COO, CLO, CIO	Platform consolidated and renegotiation of all key supplier agreements	63%
4. Customer and digital	CFO, COO, CIO	Transition to new salary packaging card product platform, data analytics and unit economics development and improvement in system scalability	67%
5. Manage risk and engage with regulatory reform	All	Delivery of Internal Audit plan and actions, engagement with regulatory bodies and project delivery	79%

Under the STIP for the year ended 31 December 2020, a total of $178,664 will be paid to the Managing Director and CEO, and a total of $169,648 to other Executive KMP.

The table below shows the actual STIP outcome for each Executive KMP for the year ended 31 December 2020 in absolute terms and as a percentage of their revised maximum STIP opportunity, under the modified STI arrangement approved by the Board.

Table 4: 2020 STIP outcomes

Name of executive	STI amount	Percentage of revised target STI
Timothy Looi	$178,664	51%
Tony Forward	$46,148	51%
Sarah Haas	$71,750	72%
Sophie MacIntosh	$51,750	52%

Neither of the executives who ceased to be members of the KMP during the year received any STI payment.

LTI – vesting of shares subject of 2018 grant under the LTIP

Shares issued under the 2018 LTIP grant had a vesting period ending on 31 December 2020. The vesting of these shares was subject to the achievement of an EPS hurdle and a TSR hurdle.

Shares subject to EPS hurdle

The EPS hurdle applied to 75% of the shares issued under the 2018 LTIP grant. It was based on the CAGR in the Company's NPATA per share from the pro-forma 2017 NPATA per share of $0.52. As at 31 December 2020, the NPATA per share was $0.50, which represents a CAGR of -1% from the pro-forma 2017 NPATA per share. This result means that none of the shares issued under the 2018 LTIP grant that are subject to the EPS hurdle have vested.

Shares subject to TSR hurdle

The TSR hurdle applied to 25% of the LTIP shares issued under the 2018 LTIP grant. The Company's TSR performance was measured to be in the 0 to 49th percentile of the S&P/ASX 200 Index. This result means that none of the shares issued under the 2018 LTIP grant that are subject to the TSR hurdle have vested.

The Company engaged Minter Ellison to provide external verification of the above calculations.

Other Executive KMP remuneration outcomes for 2020

A one-off cash bonus of $75,000 was approved to one Executive KMP to reflect additional duties undertaken during the year.

As disclosed in the 2019 Annual Report, upon departure of the previous CEO Deven Billimoria, in February 2020, the Company paid a cash termination benefit of $586,261. Following Mr Billimoria's departure, all unvested LTIP shares held by Mr Billimoria were bought back and cancelled by the Company in accordance with the terms of the LTIP.

Link between 2020 Executive KMP remuneration outcomes and 2020 financial performance

In considering the Group's performance, the benefit to shareholders and appropriate remuneration for the executives, the Board, through the HRRC, has regard to financial and non-financial indices, including the indices shown in the below table in respect of the current financial year and the previous four financial years.

Table 5: Indices relevant to the Board's assessment of the Group's performance and the benefit to shareholders

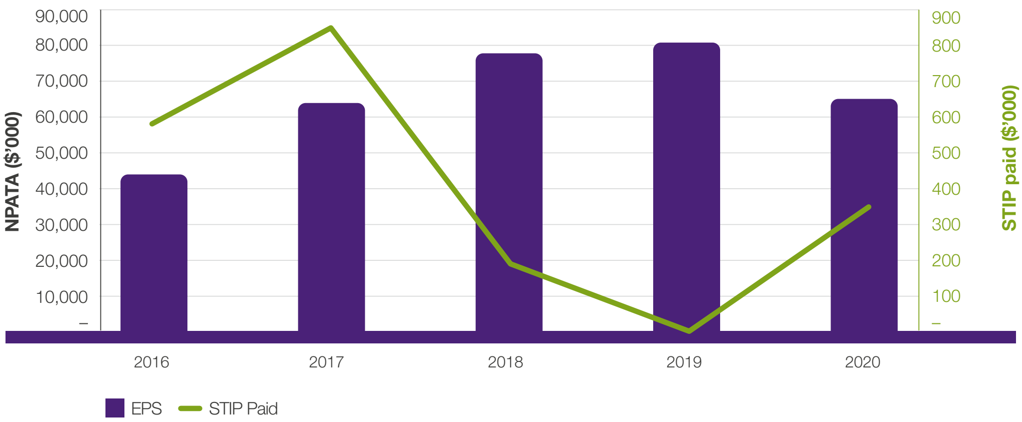
Index	2016	2017	2018	2019	2020
NPATA ($m)	44.0	64.1	77.8[2]	81.0	65.2
EPS (cents)	36.2	52.0	59.4[2]	61.5	50.3
Ordinary dividends declared in respect of the financial year – per share (cents)	24.8	35.0	41.5	43.0	34.5
Special dividends declared in respect of the financial year – per share (cents)	–	–	–	20.0	9.0
Share price – year end ($)	6.28	10.85	8.88	6.94	6.89
Three-year TSR performance compared to index[1] (percentile) (%)	N/A	100%	87%	71%	33%

1. The relevant comparator index for 2017 and 2018 was the S&P/ASX Small Ordinaries Index. The relevant comparator index for 2019 and 2020 was the S&P/ASX 200.
2. Adjusted to reflect one-off impact of adoption of AASB 16 Leases from January 2018.

As shown above, the Company's three-year TSR to 31 December 2020 was in the 3rd quartile of all companies in the S&P/ASX 200.

The graph below illustrates the relationship between the Group's performance and STIP awards in respect of the financial year ended 31 December 2020 and the preceding four financial years.

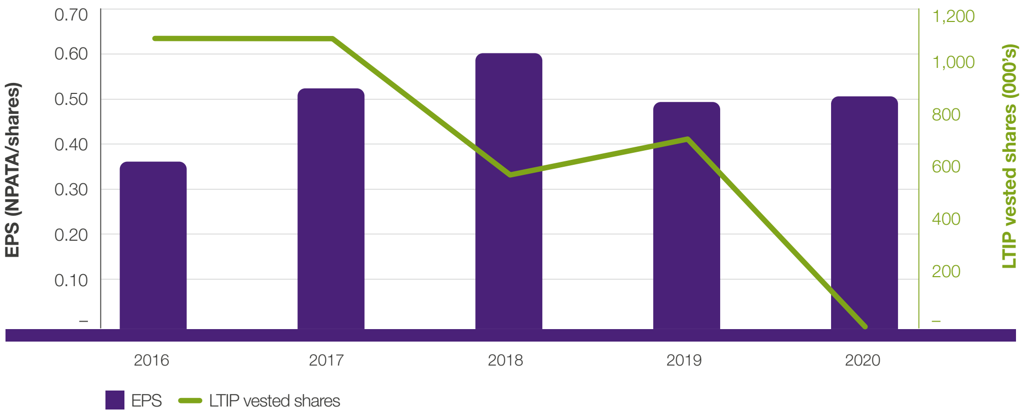
Table 6: Relationship between the Group's performance and STIP outcomes



The graph below illustrates the relationship between the Group's performance and LTIP awards in respect of the financial year ended 31 December 2020 and the preceding four financial years. As explained above, the LTIP has two hurdles, the most significant being the growth in NPATA per share.

For the year ended 31 December 2020, the three-year CAGR in NPATA per share was less than 15%, and none of the shares issued under the 2018 LTIP grant vested. For the year ended 31 December 2019, the three-year CAGR in NPATA per share was 14%, and 83% of the shares issued under the 2017 LTIP grant were vested. For each of the three previous financial years, the growth in NPATA per share exceeded the relevant hurdles, and 100% of relevant LTIP shares were vested.

Table 7: Relationship between the Group's performance and LTIP outcomes



Non-Executive Directors' remuneration

Fees and payments to Non-Executive Directors reflect the time committed by and the responsibilities of these Directors. The Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director. The total amount of fees paid to all Directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed the amount fixed by the Company in general meeting. The aggregate sum includes any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board.

The limit on the aggregate remuneration for Non-Executive Directors was increased from $1,150,000 to $1,300,000 by a resolution passed at the AGM in May 2019. Any further increase to the aggregate annual sum referred to above would require further approval by shareholders.

The fees (exclusive of superannuation) paid to the current Non-Executive Directors are:

- $230,000 per annum for the Chairman; and
- $100,000 per annum for each Non-Executive Director.

In addition to the above:

- the Chair of the Audit and Risk Committee is paid $25,000 per annum;
- each other member of the Audit and Risk Committee (other than the Chairman of the Board) is paid $12,500 per annum;
- the Chair of the Human Resources and Remuneration Committee and the Chair of the IT and Innovation Committee are paid $20,000 per annum; and
- each other member of those committees (other than the Chairman of the Board) is paid $10,000 per annum per committee.

The Chairman does not receive a separate fee for acting as a member of the Board committees on which he serves.

In addition to the fees, superannuation contributions and GST, if applicable, are paid in each case. There are no retirement benefit schemes for Non-Executive Directors other than statutory superannuation contributions.

As part of the Company's cost containment plan implemented in respond to COVID-19, the Chairman accepted a 50% reduction in fees, and all other Non-Executive Directors accepted a 20% reduction in fees for a period of three months from April 2020. The total amount of fees foregone by Non-Executive Directors over this period was $66,083.

Detailed remuneration disclosures

Statutory remuneration details for 2020 and 2019

Details of the remuneration of the KMP of the Group are set out in the following tables in accordance with the Corporations Act and the Accounting Standards. The KMP are set out on page 52 above. The amounts disclosed as cash salary and fees in the 2020 remuneration table are net of the three-month reductions in Executive KMP fixed remuneration and Non-Executive Director fees referred to above.

Table 8: 2020 remuneration

	Short-term benefits		Post-employment benefits	Long-term benefits		
	Cash salary and fees $	**Bonus $**	**Superannuation $**	**Annual and long-service leave[1] $**	**LTIP expense (net)[2] $**	**Total $**
Non-Executive Directors						
Michael Carapiet	201,250	–	19,119	–	–	220,369
Gavin Bell	126,146	–	11,984	–	–	138,130
Andrew Bolam	116,562	–	11,073	–	–	127,635
Carolyn Colley	114,167	–	10,846	–	–	125,013
Deborah Homewood	114,167	–	10,846	–	–	125,013
John Prendiville	128,250	–	12,184	–	–	140,434
Ian Watt	125,875	–	11,958	–	–	137,833
Executive Directors						
Deven Billimoria[3]	687,222	–	3,508	8,587	(96,765)	602,552
Timothy Looi[4]	576,261	178,664	21,370	61,611	75,291	913,197
Other Executive KMP						
Tony Forward[5]	328,119	46,148	19,598	32,310	75,168	501,343
Sarah Haas	359,702	71,750	21,370	35,406	45,215	533,443
Sophie MacIntosh	321,702	51,750	21,370	31,662	(7,496)	418,988
Nigel Underwood[6]	254,940	–	16,098	23,410	–	294,448
Total	**3,454,363**	**348,312**	**191,324**	**192,986**	**91,413**	**4,278,398**

1. The amounts disclosed in this column represent the accrued leave expense for the period.
2. LTIP expense (net) can be negative where there are forfeitures resulting from termination of employment and/or the reversal of LTIP expense in relation to EPS hurdles that are not met.
3. Deven Billimoria retired as an Executive Director on 28 February 2020. The amounts in this table reflect remuneration paid to Mr Billimoria up until his retirement on 28 February 2020, and includes the cash termination benefit of $586,261 paid as disclosed in the 2019 Annual Report, as well as the payment of $13,261 in accrued employee entitlements. The LTIP expense attributable to Mr. Billimoria in 2020 relates to loan funded shares that did not vest, but for which accelerated LTIP expense was recognised.
4. Timothy Looi became an Executive Director on assuming the role of Managing Director and CEO on 29 February 2020. Mr Looi was a member of the KMP for the period from 1 January 2020 to 28 February 2020 in his previous role as Chief Financial Officer. Therefore, he was a member of the KMP for the full year. The amounts in this table include all remuneration paid to Mr Looi from 1 January 2020 to 31 December 2020 in both roles.
5. Tony Forward was designated as a member of the KMP on 1 February 2020. The amounts in this table comprise all remuneration paid to Mr Forward from 1 February 2020 to 31 December 2020.
6. Nigel Underwood became a member of the KMP on 6 April 2020 and ceased to be a member of the KMP on 4 December 2020. The amounts in this table comprise all remuneration paid to Mr Underwood from 6 April 2020 to 31 December 2020 and includes an end of service payment of $19,476.

Table 9: 2019 Remuneration

	Short-term benefits		Post-employment benefits	Long-term benefits		
	Cash salary and fees $	Bonus $	Superannuation $	Annual and long-service leave[1] $	LTIP expense (net) $	Total $
Non-Executive Directors						
Michael Carapiet	230,000	–	21,850	–	–	251,850
Gavin Bell	132,500	–	12,588	–	–	145,088
Andrew Bolam	122,500	–	11,637	–	–	134,137
Carolyn Colley[2]	88,968	–	8,021	–	–	96,989
Deborah Homewood	120,000	–	11,400	–	–	131,400
John Prendiville	135,000	–	12,825	–	–	147,825
Ian Watt	132,500	–	12,588	–	–	145,088
Executive Director						
Deven Billimoria[3]	579,272	–	20,746	54,188	879,617	1,533,823
Other Executive KMP						
Timothy Looi	398,808	–	20,746	37,463	260,107	717,124
Sarah Haas	319,272	39,000	20,746	29,855	97,825	506,698
Sophie MacIntosh	364,272	25,000	18,230	29,855	172,132	609,489
Dave Adler[4]	319,254	–	20,746	29,851	62,217	432,068
Clarence Yap[5]	151,029	–	1,711	2,453	–	155,193
Total	**3,093,375**	**64,000**	**193,834**	**183,665**	**1,471,898**	**5,006,772**

1. The amounts disclosed in this column represent the accrued leave expense for the period.
2. Carolyn Colley commenced as a Non-Executive Director on 15 March 2019.
3. As disclosed in the 2019 Remuneration Report, the reported LTIP expense and total remuneration for Deven Billimoria for 2019 was accelerated across a shorter vesting period resulting in an increase of $268,562 in connection with his retirement as Managing Director and CEO.
4. Dave Adler ceased to be a member of KMP on 1 August 2019. The amounts in this table include all remuneration paid to Mr Adler from 1 January 2019 to 31 December 2019.
5. Clarence Yap ceased to be a member of KMP on 31 January 2019. The amounts in this table include all remuneration paid to Mr Yap from 1 January 2019 to 31 December 2019 and include an end of service payment of $124,823.

Other transactions with key management personnel

$7,463 in cost reimbursements were paid to key management personnel in 2020 (2019: $10,085).

Reimbursements to key management personnel	2020	2019
Non-Executive Directors:		
Michael Carapiet	–	–
Gavin Bell	–	–
Andrew Bolam	–	–
Carolyn Colley	–	–
Deborah Homewood	–	–
John Prendiville	–	–
Ian Watt	1,186	9,647
Executive Directors:		
Deven Billimoria		
Timothy Looi	4,392	207
Other Key Management Personnel:		
Tony Forward	400	70
Sarah Haas	–	161
Sophie MacIntosh	–	–
Nigel Underwood	1,485	–
Total	**7,463**	**10,085**

Additionally, 4,000 shares were held by related parties of Timothy Looi, an executive director (2019: 4,000 shares).

There were no other transactions with key management personnel in the period.

Proportion of remuneration linked to performance

The proportion of remuneration paid to the KMP of the Group that is linked to performance is set out in the table below.

Table 10: Proportion of remuneration

	Fixed remuneration		At risk – STIP		At risk – LTIP	
	2020	2019	2020	2019	2020	2019
Non-Executive Directors						
Michael Carapiet	100%	100%	–	–	–	–
Gavin Bell	100%	100%	–	–	–	–
Andrew Bolam	100%	100%	–	–	–	–
Carolyn Colley	100%	100%	–	–	–	–
Deborah Homewood	100%	100%	–	–	–	–
John Prendiville	100%	100%	–	–	–	–
Ian Watt	100%	100%	–	–	–	–
Executive Directors						
Deven Billimoria[1]	116%	43%	0%	0%	(16%)	57%
Timothy Looi[2]	72%	64%	20%	0%	8%	36%
Other Executive KMP						
Tony Forward[3]	76%	–	9%	–	15%	–
Sarah Haas	79%	73%	13%	8%	8%	19%
Sophie MacIntosh	90%	68%	12%	4%	(2%)	28%
Nigel Underwood[4]	85%	–	0%	–	15%	–
Dave Adler[5]	–	86%	–	0%	–	14%
Clarence Yap[6]	–	100%	–	0%	–	0%

1. Deven Billimoria retired as an Executive Director on 28 February 2020. Figures for 2019 include $268,562 accelerated LTIP expense, as disclosed in the 2019 remuneration report.
2. Timothy Looi became an Executive Director on assuming the role of Managing Director and CEO on 29 February 2020. Mr Looi was a member of the KMP for the period from 1 January 2020 to 28 February 2020 in his previous role as Chief Financial Officer. He was therefore a member of the KMP for the full year. The amounts in the 2020 column of this table include all remuneration paid to Mr Looi from 1 January 2020 to 31 December 2020 in both roles.
3. Tony Forward was designated as a member of the KMP with effect from 1 February 2020. The amounts in this table comprise all remuneration paid to Mr Forward from 1 February 2020 to 31 December 2020.
4. Nigel Underwood became a member of the KMP on 6 April 2020 and ceased to be a member of the KMP on 4 December 2020. The amounts in this table comprise all remuneration paid to Mr Underwood from 6 April 2020 to 31 December 2020.
5. Dave Adler ceased to be a member of the KMP on 1 August 2019.
6. Clarence Yap ceased to be a member of the KMP on 31 January 2019.

Service agreements

Non-Executive Directors

Non-Executive Directors do not have fixed-term contracts with the Company. On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation.

Executive Directors

Remuneration and other terms of employment for Executive Directors are formalised in service agreements. Details of these service agreements in place during the financial year are as follows:

Name:	Timothy Looi
Role title:	Managing Director & Chief Executive Officer
Commencement date:	29 February 2020
Term of agreement:	No fixed term. Mr Looi's employment will continue until terminated by either party in accordance with the agreement.
Remuneration:	During his employment Mr Looi is entitled to: • receive fixed annual remuneration of $680,000 inclusive of superannuation contributions; and • participate in the STIP with target participation under the STIP capped at a maximum of $350,000 inclusive of superannuation and payments under the STIP in any given year dependent on the achievement of a range of financial and non-financial KPIs as approved by the Board on an annual basis. Mr Looi is also eligible to participate in the LTIP. The issue of shares under the LTIP and the terms on which they are issued is at the discretion of the Board.
Termination:	The employment contract may be terminated by either party giving 12 months' written notice or, in the case of termination by the Group, by payment in lieu of notice. The Group may terminate the employment contract immediately and without payment for notice or payment in lieu of notice in the event of serious misconduct or other specified circumstances. There is no contractual entitlement to termination payments in the event of termination.
Post-employment restrictions:	Mr Looi has agreed to certain post-employment restrictions that apply for up to 12 months from the date of termination of employment. The enforceability of these restrictions is subject to all usual legal requirements.

Name:	Deven Billimoria
Role title:	Managing Director & Chief Executive Officer
Commencement date:	1 June 2014
Termination date:	28 February 2020
Remuneration:	At the time when his employment ceased, Mr Billimoria was entitled to: • receive fixed annual remuneration of $605,000 inclusive of superannuation contributions; and • participate in the STIP with target participation under the STIP capped at a maximum of 60% of fixed annual remuneration and payments under the STIP in any given year dependent on the achievement of a range of financial and non-financial KPIs as approved by the Board on an annual basis. Mr Billimoria was also eligible to participate in the LTIP.
Post-employment restrictions:	Certain post-employment restrictions apply for up to 12 months from the date of termination of employment. The enforceability of these restrictions is subject to all usual legal requirements.

Other Executive KMP

Other Executive KMP have employment agreements setting out the terms and conditions of their employment. The agreements are not of a fixed duration. These agreements provide for:

- total compensation inclusive of a base salary and superannuation contribution;
- eligibility to participate in the STIP, with target participation in the STIP capped at a maximum of 30% of total fixed annual remuneration;
- termination by either party giving three months' written notice or, in the case of termination by the Group, payment in lieu of notice;
- immediate termination by the Group without payment in lieu of notice in the event of serious misconduct or other specific circumstances;
- no entitlement to termination payments in the event of termination; and
- certain post-employment restrictions that apply for up to six months from the date of termination of employment, and the enforceability of these restrictions is subject to all usual legal requirements.

Share-based compensation

Bonus shares and cash offers

No bonus shares were issued or cash offers made to Directors or other members of the KMP as part of compensation during the year ended 31 December 2020.

LTIP

As described above, the Company has established an LTIP for the Managing Director and CEO, other Executive KMP and other senior management. The LTIP is in the form of a loan funded share plan. The securities issued under the LTIP are ordinary shares that are held subject to escrow until vesting. The terms of the LTIP are therefore, such that the benefits to participants are similar to the benefits that would be received had the participant been granted options – that is, the participant benefits from the increase in the market price over the issue price of the share. Accordingly, for the purposes of compliance with the Corporations Act in relation to the disclosure of details of options, the Company provides a summary below of the terms of the shares issued under the LTIP during the year ended 31 December 2020, with the terms of the shares issued under the LTIP for 2019 reflected in the 2019 Annual Report.

The terms and conditions of each LTIP grant affecting remuneration in the current or a future reporting period are disclosed in Table 11 and Table 12 below.

Table 11: Terms and conditions of the shares granted under the LTIP in 2020

Grant date	Performance period	Earliest exercise date	Expiry date	Exercise price	Number of shares issued	Fair value price at grant date	Total fair value at grant date	Performance achieved
3 March 2020	Three years to 31 December 2022	1 January 2023	2 March 2025	$6.67	1,245,905	$1.25	$1,557,381	To be determined
10 June 2020	Three years to 31 December 2022	1 January 2023	11 June 2025	$6.20	835,243	$1.40	$1,171,428	To be determined

As noted above, shares issued under the LTIP are not options. However, for compliance with the Corporations Act, the Company provides a summary below of the vesting of shares issued under the LTIP in 2018 that have a vesting period ending on 31 December 2020.

Table 12: LTIP shares with a vesting period ending on 31 December 2020

Grant date	Performance period	Exercise date	Expiry date	Number of non-forfeited shares[1]	Exercise price	Fair value price at grant date	Performance achieved	Number of shares vested at 31 December 2020[2]	% vested at 31 December 2020[2]
28 March 2018	Three years to 31 December 2020	1 January 2021	27 March 2023	79,807	$10.89	$1.96	0%	Nil	0%
4 May 2018	Three years to 31 December 2020	1 January 2021	3 May 2023	17,212	$10.84	$1.67	0%	Nil	0%

1. Prior to performance determination by the Board.
2. As determined by the Board on 17 February 2021.

The following table sets out details of shares granted to Executive KMP under the LTIP in 2020 and the vesting profile of long-term incentives granted to Executive KMP as remuneration. There were no options over ordinary shares issued to Directors and other KMP as part of compensation as at 31 December 2020.

Table 13: 2020 LTIP grants and vesting profile of long term incentives granted as remuneration

Name	Balance at start of year – unvested	Granted as compensation	Vested in year	Forfeited	Balance at end of year – unvested	Balance at end of year – vested but unexercised	Balance at end of year – vested and unvested
Timothy Looi	348,892	670,392	–	(157,068)	862,216	103,574	965,790
Tony Forward	–	204,537	–	–	204,537	–	204,537
Sarah Haas	182,056	223,464	–	(68,848)	336,672	–	336,672
Sophie MacIntosh	204,831	201,118	–	(91,623)	314,326	–	314,326
Deven Billimoria[1]	697,784	–	–	(697,784)	–	–	–
Nigel Underwood[2]	–	164,851	–	(164,851)	–	–	–
Total KMP	**1,433,563**	**1,464,362**	**–**	**(1,180,174)**	**1,717,751**	**103,574**	**1,821,325**

1. Deven Billimoria ceased to be a member of the KMP on 28 February 2020.
2. Nigel Underwood ceased to be a member of the KMP on 4 December 2020.

Director and Executive KMP shareholdings

The number of shares in the Company held during the financial year by each Director and other members of the KMP, including their personally related parties, is set out in the table below.

These numbers exclude unvested shares issued under the LTIP and shares issued under the LTIP that are vested but unexercised as at 31 December 2020.

Table 14: Director and Executive KMP shareholdings

	Balance at start of year including vested LTIP	Received as part of remuneration	Additions	Disposals	Balance at end of year
Michael Carapiet	2,201,956	–	179,456	–	2,381,412
Gavin Bell	77,650	–	–	–	77,650
Andrew Bolam	257,760	–	–	–	257,760
Carolyn Colley	3,000	–	4,000	–	7,000
Deborah Homewood	6,618	–	–	–	6,618
John Prendiville	655,000	–	20,000	–	675,000
Ian Watt	83,522	–	23,000	–	106,522
Timothy Looi	574	–	72,668	–	73,242
Tony Forward	–	–	–	–	–
Sarah Haas	–	–	–	–	–
Sophie MacIntosh	347	88,376	168	(88,376)	515
Deven Billimoria[1]	2,300,000	281,053		See note 1	
Nigel Underwood[2]	–	–	10,000	See note 2	
Total	**5,586,427**	**369,429**	**309,292**	**(88,376)**	**3,585,719**

1. Deven Billimoria ceased to be a member of the KMP on 28 February 2020. As at that date, Mr Billimoria held a balance of 2,581,053 shares (excluding unvested shares issued under the LTIP). Acquisitions or disposals by Mr Billimoria since that date are not recorded by the Company.
2. Nigel Underwood ceased to be a member of the KMP on 4 December 2020. As at that date, Mr Underwood held no shares (excluding unvested shares issued under the LTIP). Acquisitions or disposals by Mr Underwood since that date are not recorded by the Company.

This concludes the remuneration report, which has been audited.

Other disclosures

Shares under option

As at 31 December 2020, there were 1,717,751 unvested shares held by employees under the LTIP (being shares issued under the 2019 and 2020 LTIP grants). The LTIP shares are legally held by the employees. However, they cannot deal in the shares until the vesting conditions are satisfied and the loan is fully repaid. These have been treated as options in accordance with AASB 2 Share-based Payment issued by the Australian Accounting Standards Board.

Shares issued on the exercise of options

There were no ordinary shares of Smartgroup Corporation Ltd issued on the exercise of options during the year ended 31 December 2020 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the Directors and executives of the Company for costs incurred in their capacity as a Director or executive for which they may be held personally liable except where there is a lack of good faith. During the financial year, the Group paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor. During the year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 39 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The Directors are of the opinion that the services as disclosed in note 39 to the financial statements do not compromise the external auditor's independence requirements under the Corporations Act for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of PricewaterhouseCoopers

There are no officers of the Company who are former partners of PricewaterhouseCoopers.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191 relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars or, in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on the following page.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act.

Resolution of Directors

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act.

On behalf of the Directors

Michael Carapiet
Chairman

24 February 2021
Sydney

Auditor's Independence Declaration

As lead auditor for the audit of Smartgroup Corporation Ltd for the year ended 31 December 2020, 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.

This declaration is in respect of Smartgroup Corporation Ltd and the entities it controlled during the period.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
24 February 2021

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Reconciliation of Statutory Results to Adjusted Results

For the year ended 31 December 2020

$ million	Statutory Financials: CY 2020	Reclassify: Equity share of investments	Add back: Acceleration of LTIP expense	Add back: Impairment of joint venture investment	Adjusted CY 2020
Revenue	216.3	–	–	–	216.3
Operating EBITDA	**95.0**	**–**	**0.4**	**–**	**95.4**
Joint venture contribution	–	0.3	–	–	0.3
EBITDA	**95.0**	**0.3**	**0.4**	**–**	**95.7**
Depreciation	(3.2)	–	–	–	(3.2)
Amortisation	(22.1)	(0.3)	–	–	(22.4)
Impairment of joint venture investment	(5.1)	–	–	5.1	–
Net finance costs	(3.1)	–	–	–	(3.1)
PBT	**61.5**	**–**	**0.4**	**5.1**	**67.0**
Income tax expense	(20.2)	–	–	–	(20.2)
NPAT	**41.3**	**–**	**0.4**	**5.1**	**46.8**
Add back: Amortisation of acquired intangibles (tax-effected)	14.8	0.2	–	–	15.0
Cash tax benefit	3.4	–	–	–	3.4
NPATA	**59.5**	**0.2**	**0.4**	**5.1**	**65.2**
Shares (# millions)					132.8
NPATA per share (cents)					**49.1**

Financial Report

FINANCIAL STATEMENTS

Financial Report 2020 Smartgroup Corporation Ltd 31 December 2020 ABN 48 126 266 831

For more information on our annual results, please visit **smartgroup.com.au**

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

Consolidated	Note	2020 $'000	2019 $'000
Revenue	8	216,332	249,835
Share of profits from joint venture accounted for using the equity method		45	8
Expenses			
Product costs		(5,970)	(8,059)
Employee benefits expense		(80,299)	(89,654)
Administration and corporate expenses		(29,009)	(27,865)
Occupancy expenses	9	(1,428)	(1,366)
Advertising and marketing expenses		(1,843)	(3,397)
Depreciation expense	9	(3,173)	(3,521)
Amortisation of acquired intangible assets	9	(21,089)	(21,221)
Amortisation of contract rights	9	(1,024)	(459)
Other expenses		(2,769)	(1,573)
Operating profit		**69,773**	**92,728**
Impairment of joint venture investment	25	(5,118)	–
Finance costs	9	(3,113)	(3,019)
Acquisition transaction costs		(11)	(561)
Onerous lease costs	9	(11)	(438)
Profit before income tax expense		**61,520**	**88,710**
Income tax expense	10	(20,195)	(27,261)
Profit after income tax expense		**41,325**	**61,449**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges taken to equity, net of tax		26	(160)
Other comprehensive income, net of tax		**26**	**(160)**
Total comprehensive income		**41,351**	**61,289**

		Cents	Cents
Basic earnings per share	17	31.9	47.7
Diluted earnings per share	17	31.9	47.6

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2020

Consolidated	Note	2020 $'000	2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	11	27,368	39,639
Restricted cash and cash equivalents	38	48,111	65,402
Trade and other receivables	19	15,881	25,649
Income tax receivable	10	851	–
Other current assets	21	1,869	2,621
Total current assets		**94,080**	**133,311**
Non-current assets			
Investments accounted for using the equity method	25	827	6,400
Deferred tax assets	10	12,247	8,333
Right-of-use assets	40	9,143	11,592
Property and equipment	34	1,742	1,369
Intangible assets	7	290,402	311,904
Total non-current assets		**314,361**	**339,598**
Total assets		**408,441**	**472,909**
LIABILITIES			
Current liabilities			
Trade and other payables	35	29,892	35,273
Customer salary packaging liability	38	48,111	65,402
Income tax payable	10	–	1,474
Provisions	36	13,989	11,056
Lease liabilities	40	3,738	3,629
Other current liabilities	23	5,782	5,733
Total current liabilities		**101,512**	**122,567**
Non-current liabilities			
Provisions	37	2,596	1,684
Derivative financial instruments	22	47	10
Lease liabilities	40	8,678	11,543
Borrowings	12	24,673	60,392
Total non-current liabilities		**35,994**	**73,629**
Total liabilities		**137,506**	**196,196**
Net assets		**270,935**	**276,713**
EQUITY			
Issued capital	13	262,522	259,115
Reserves	14	8,776	8,435
(Accumulated loss) / Retained earnings		(363)	9,163
Equity attributable to the owners of Smartgroup Corporation Ltd		**270,935**	**276,713**
Total equity		**270,935**	**276,713**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

Consolidated	Note	Share capital $'000	Reserves $'000	(Accumulated loss)/ Retained earnings $'000	Total equity $'000
Balance at 1 January 2019		**256,687**	**5,856**	**29,765**	**292,308**
Profit for the year		–	–	61,449	61,449
Other comprehensive income		–	(160)	–	(160)
Total comprehensive income for the year		**–**	**(160)**	**61,449**	**61,289**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	13	2,428	–	–	2,428
Share-based payments	14	–	2,739	–	2,739
Dividends provided for or paid	16	–	–	(82,051)	(82,051)
Balance at 31 December 2019		**259,115**	**8,435**	**9,163**	**276,713**

Consolidated	Note	Share capital $'000	Reserves $'000	(Accumulated loss)/ Retained earnings $'000	Total equity $'000
Balance at 1 January 2020		**259,115**	**8,435**	**9,163**	**276,713**
Profit for the year		–	–	41,325	41,325
Other comprehensive income		–	26	–	26
Total comprehensive income for the year		**–**	**26**	**41,325**	**41,351**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	13	3,407	–	–	3,407
Share-based payments	14	–	315	–	315
Dividends provided for or paid	16	–	–	(50,851)	(50,851)
Balance at 31 December 2020		**262,522**	**8,776**	**(363)**	**270,935**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

Consolidated	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		254,641	283,031
Payments to suppliers and employees		(151,438)	(161,355)
Transaction costs relating to business acquisitions		(19)	(457)
Interest received from cash held on behalf of customers		884	2,181
Interest and transaction costs paid on borrowings		(1,972)	(1,576)
Interest paid on lease liabilities	40	(1,006)	(986)
Income taxes paid		(26,557)	(31,853)
Net cash inflow from operating activities excluding salary packaging receipts and payments		**74,533**	**88,985**
Receipts in restricted cash		2,455,979	2,363,265
Payments of customer salary packaging liability		(2,473,270)	(2,349,537)
Net cash inflow from operating activities		**57,242**	**102,713**
Cash flows from investing activities			
Payments for business acquisitions (net of cash acquired)		–	(471)
Proceeds from business acquisition escrow claims		–	531
Payments for property, plant and equipment	34	(1,153)	(882)
Dividends received from joint venture	25	500	–
Interest received		423	301
Capitalised contract rights	7	(611)	(4,500)
Net cash outflow from investing activities		**(841)**	**(5,021)**
Cash flows from financing activities			
Repayment of borrowings	12	(73,748)	–
Dividends paid	16	(50,851)	(82,051)
Proceeds from long term incentive plan		3,392	3,869
Payment of lease liabilities	40	(2,756)	(2,846)
Proceeds from borrowings		38,000	6,900
Net cash outflow from financing activities		**(85,963)**	**(74,128)**
Net increase in cash and cash equivalents		**(29.562)**	**23,564**
Cash and cash equivalents at the beginning of the year		39,639	39,186
Restricted cash and cash equivalents at the beginning of the year		65,402	42,291
Cash and cash equivalents at the end of the financial year		27,368	39,639
Restricted cash and cash equivalents at the end of the financial year		48,111	65,402
Cash and cash equivalents at the end of the year		**75,479**	**105,041**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 1. General information

The financial statements cover Smartgroup Corporation Ltd (referred to as the 'Company' or 'parent entity') and its subsidiaries (collectively referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Smartgroup Corporation Ltd's functional and presentation currency.

Smartgroup Corporation Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 8, 133 Castlereagh Street
Sydney, Australia, 2000

A description of the nature of the Group's operations and its principal activities is included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 24 February 2021. The Directors have the power to amend and reissue the financial statements.

Note 2. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 27.

Rounding of amounts

The Company is of a kind referred to in *Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Net current liability position

As at 31 December 2020, the Group had net current liabilities of $7,432,000 due to the early repayment of non-current borrowings, specifically $53,748,000 of its term loan facility and $20,000,000 of its revolving loan facility, both of which were due to be repaid in May 2022 but were repaid in December 2020. The debt facilities were repaid early as the Group held a large excess cash balance immediately prior to repayment.

The Group has prepared projected cashflows for the twelve months from the date of the Directors' Declaration, taking into consideration the continued business impacts of the COVID-19 pandemic. These forecasts indicate that the Group is expected to generate sufficient levels of operating cashflows to enable it to pay its debts as and when they fall due. Further, the Group currently has undrawn debt facilities of $20,352,000 that may be drawn for operational liquidity purposes, with these facilities maturing on 1 May 2022. These factors support the Group's ability to continue as a going concern.

Note 3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out in note 41 and in the respective notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period with the following standards and amendments applied for the annual reporting period commencing 1 January 2020:

Conceptual Framework for Financial Reporting
AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2020 reporting year and have not been early adopted by the Group.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting years and on foreseeable future transactions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 4. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other factors that management believes to be reasonable under the circumstances, including expectations of future events. The resulting accounting judgements and estimates will seldom equal the eventual actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Coronavirus (COVID-19) impact

The Group has formed estimates based on its own direct experience and external reports about household consumption and Gross Domestic Product (GDP) performance in the medium term, from credible sources such as the Australian Bureau of Statistics, the Reserve Bank of Australia and BIS Oxford Economics. Areas of uncertainty include the extent and duration of disruption based on consumer, business, and government actions and incentives, to contain the spread of COVID-19, and mitigate the economic downturn. Furthermore, actual economic conditions may vary from the estimates used. This could result in material differences between the accounting estimates applied and the actual results of the Group for future periods.

Goodwill and other indefinite life intangible assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired, in accordance with the accounting policy stated in note 7 and note 41. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Due to the effects of COVID-19, the carrying values of goodwill, intangible assets, property, plant and equipment, right-of-use assets, and working capital for each cash generating unit (CGU) have been reassessed, and no CGU has been impaired as a result of stress-testing a range of reasonably expected outcomes. Further details are disclosed in note 7. The Group has, however, impaired the investment in the joint venture, Health-e Workforce Solutions Pty Ltd, by $5,118,000 after reviewing the asset carrying value. Further details are disclosed in note 25.

The Group has also recognised accelerated amortisation relating to the transaction functionality of acquired software no longer in use due to the transition of customers. Further details are disclosed in note 7.

Expected credit loss

In preparing the financial statements, the Group re-assessed areas of judgement and identified that the estimates more exposed to uncertainty were those of expected credit loss (ECL) and inputs to assessing the carrying value of assets and liabilities. Using the Group's own direct experience/knowledge as well as forward looking information, obtained by reviewing external analyst reports and public forecasts, to identify potential impacts from COVID-19, the inputs to these estimates were stress-tested, with the amount of the ECL re-evaluated.

Operations provision

The Group exercises judgement in measuring and recognising provisions relating to the operations, including potential customer and supplier disputes and claims. Judgement is necessary in assessing the likelihood that a claim will arise, and to quantify the possible range of financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

Note 5. Restatement of comparatives

On 10 October 2019, the Group acquired the novated leasing assets of Lease and Asset Finance (L&A) for a total consideration of $886,000. At 31 December 2019, the acquisition accounting for L&A was provisionally determined and this remained provisionally determined at 30 June 2020.

Acquisition accounting is now finalised for L&A, with no changes to the $894,000 in goodwill reported in the 2020 Half Year Report.

Details relating to the acquisition accounting are disclosed in note 24.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 6. Operating segments

Identification of reportable operating segments

The Group has identified its segments based on the internal reports that are reviewed and used by the Chief Executive Officer and Chief Financial Officer, who are identified as the Chief Operating Decision Makers (CODM), in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Outsourced administration (OA)	This part of the business provides outsourced salary packaging services, novated leasing, share plan administration and outsourced payroll services.
Vehicle services (VS)	This part of the business provides end-to-end fleet management services.
Software, distribution and group services (SDGS)	This part of the business provides salary packaging software solutions, the marketing of salary packaging debit cards, distribution of vehicle insurances and workforce management software to the healthcare industry.

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Operating segment information

Consolidated - 2020	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations / Corporate $'000	Total $'000
Revenue					
Products, services and commissions	116,561	–	8,211	–	124,772
Management and administrative fees	61,280	6,821	2,116	–	70,217
Performance fees and rebates	17,064	3,403	876	–	21,343
Inter-segment sales	228	3,912	26,254	(30,394)	–
Total revenue	**195,133**	**14,136**	**37,457**	**(30,394)**	**216,332**
Segment results (EBITDA)	**97,563**	**8,669**	**12,634**	**(23,829)**	**95,037**
Depreciation					(3,173)
Amortisation					(22,113)
Impairment of joint venture investment					(5,118)
Finance costs					(3,113)
Profit before income tax expense					**61,520**
Income tax expense					(20,195)
Profit after income tax expense					**41,325**
Assets					
Total segment assets	116,485	11,637	34,865	245,454	408,441
Total assets					**408,441**
Liabilities					
Total segment liabilities	75,774	6,247	25,171	30,314	137,506
Total liabilities					**137,506**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 6. Operating segments (continued)

Operating segment information (continued)

Consolidated - 2019	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations / Corporate $'000	Total $'000
Revenue					
Products, services and commissions	134,335	–	17,217	–	151,552
Management and administrative fees	67,658	6,936	671	–	75,265
Performance fees and rebates	17,674	3,789	1,555	–	23,018
Inter-segment sales	208	3,600	22,466	(26,274)	–
Total revenue	**219,875**	**14,325**	**41,909**	**(26,274)**	**249,835**
Segment results (EBITDA)	**102,815**	**8,709**	**21,162**	**(15,756)**	**116,930**
Depreciation					(3,521)
Amortisation					(21,680)
Finance costs					(3,019)
Profit before income tax expense					**88,710**
Income tax expense					(27,261)
Profit after income tax expense					**61,449**
Assets					
Total segment assets	163,434	19,498	39,821	250,156	472,909
Total assets	**163,434**	**19,498**	**39,821**	**250,156**	**472,909**
Liabilities					
Total segment liabilities	95,175	11,873	16,781	72,367	196,196
Total liabilities	**95,175**	**11,873**	**16,781**	**72,367**	**196,196**

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the CODM. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 7. Non-current assets — intangible assets

Consolidated	2020 $'000	2019 $'000
Goodwill - at cost	274,395	274,395
Goodwill	**274,395**	**274,395**
Customer contracts and relationships - at cost	65,109	65,109
Less: Accumulated amortisation	(58,725)	(50,081)
Customer contracts and relationships	**6,384**	**15,028**
Software and website - at cost	77,915	77,915
Less: Accumulated amortisation	(73,281)	(60,836)
Software and websites	**4,634**	**17,079**
Contract rights - at cost	5,168	4,557
Less: Accumulated amortisation	(1,483)	(459)
Contract rights	**3,685**	**4,098**
Brand names and logos - at cost	1,304	1,304
Brand names and logos	**1,304**	**1,304**
Intangible assets	**290,402**	**311,904**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Customer contracts and relationships $'000	Software and website $'000	Contract rights $'000	Brand names and logos $'000	Total $'000
Balance at 1 January 2019	**266,588**	**23,110**	**27,303**	**–**	**1,304**	**318,305**
Additions	–	–	–	4,557	–	4,557
Additions through business combinations (note 24)	7,807	680	2,235	–	–	10,722
Amortisation expense	–	(8,762)	(12,459)	(459)	–	(21,680)
Balance at 31 December 2019	**274,395**	**15,028**	**17,079**	**4,098**	**1,304**	**311,904**
Additions	–	–	–	611	–	611
Amortisation expense	–	(8,644)	(11,221)	(1,024)	–	(20,889)
Accelerated amortisation[1]	–	–	(1,224)	–	–	(1,224)
Balance at 31 December 2020	**274,395**	**6,384**	**4,634**	**3,685**	**1,304**	**290,402**

[1] The accelerated amortisation in 2020 relates to the transactional functionality of certain acquired software no longer in use after the transition of customers to other systems.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 7. Non-current assets — intangible assets (continued)

Impairment testing

The Group monitors its business through cash-generating units (CGU), being Outsourced Administration (OA), Vehicle Services (VS), Software Distribution and Group Services (SDGS), Autopia, and Public Benevolent Institutions (PBI).

The CGUs identified are consistent with the previous financial year, but for OA, which now includes Selectus, following the completion of customer transitions to other CGUs and the redeployment of Group resources.

Goodwill acquired through business combinations has been allocated to the following CGUs:

Goodwill	2020 $'000	2019 $'000
CGU 1: Outsourced Administration	149,029	122,482
CGU 2: Vehicle Services	8,564	8,564
CGU 3: SDGS	5,574	5,574
CGU 4: Autopia	31,318	31,318
CGU 5: PBI	79,910	79,910
CGU 6: Selectus	–	26,547
Goodwill	**274,395**	**274,395**

Brand names and logos have been allocated to the following CGUs:

Brand names and logos	2020 $'000	2019 $'000
CGU 1: Outsourced Administration	1,285	1,285
CGU 2: Vehicle Services	15	15
CGU 3: SDGS	4	4
Brand names and logos	**1,304**	**1,304**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the long-term average growth rates for the industry in which each CGU operates.

In addition to testing the carrying amount of goodwill and intangible assets with an indefinite useful life against the recoverable amount of a CGU. Property, plant and equipment, right-of-use assets, and working capital are also included in the carrying value tested.

The following key assumptions were used in the discounted cash flow model for different CGUs:

A projected terminal growth rate of 1.4% (2019: 1.4%) has been used for all CGUs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 7. Non-current assets — intangible assets (continued)

Pre-tax discount rates	2020	2019
CGU 1: Outsourced Administration	17.5%	16.0%
CGU 2: Vehicle Services	20.0%	15.7%
CGU 3: SDGS	20.4%	15.5%
CGU 4: Autopia	23.9%	21.8%
CGU 5: PBI	18.3%	16.1%
CGU 6: Selectus	–	13.6%

In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rates to discount the estimated future post-tax cash flows. The equivalent pre-tax discount rates are disclosed above. The recoverable amount of net assets in each CGU is greater than the carrying value of the assets and, therefore, the intangible assets are not considered to be impaired.

Increases in the pre-tax discount rates calculated from 2019 to 2020 are largely the result of the debt repayments that occurred in December 2020.

While the same terminal growth rates as the prior year have been used, due to the volatility and economic disruption arising from the COVID-19 pandemic and ongoing uncertainty regarding the impact of the winding down of various government assistance measures, an additional COVID-19 risk premium has been applied to pre-tax discount rates.

Sensitivity analysis

Several revenue and earnings scenarios have been modelled in order to estimate the recoverable amount of intangible assets.

Transactional revenue streams primarily relating to novated leasing have been most impacted by COVID-19 and are likely to be most impacted by any prolonged economic disruption. The scenarios modelled vary in terms of the duration of the economic downturn and strength of the subsequent economic recovery, taking into account economic forecasts from a broad range of sources. For non-transactional revenue streams, and due to the nature of the Group's customer base, the Group has assumed that revenue growth will be in line with GDP growth estimates as at 31 December 2020, adjusted for known and expected contract re-pricing. Each scenario has been probability-weighted, in order to determine a best-estimate recoverable amount of intangible assets. Under all reasonably expected scenarios, there is sufficient headroom for all CGUs, such that the carrying amount does not exceed its forecast recoverable amount.

Under the probability-weighted revenue and earnings scenario, no reasonably expected change in assumptions would cause the CGUs' carrying amounts to exceed their forecast recoverable amounts, assuming there are no significant changes to salary packaging tax concessions or the group's ability to sell add-on insurance products. Should the relevant legislation change, depending on the nature of the changes, there may be a different impairment testing conclusion for CGUs 1, 3, 4 and 5.

Smartgroup has identified CGU1 as the CGU most at risk to changes in pre-tax discount rates and transactional volumes. Applying a pre-tax discount rate in excess of 37.5% would result in an impairment to CGU1. Reasonably expected transactional volume reductions for this CGU, such as a novated leasing volume reduction of 14%, would not result in an impairment.

For CGUs 2 to 5, applying pre-tax discount rates in excess of 30.0% would result in an impairment however revenue for these CGUs is generally less volatile. Reasonably expected revenue reductions for these CGUs would not result in an impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 7. Non-current assets — intangible assets (continued)

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the year in which the expenditure is incurred.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Customer contracts and relationships

Customer contracts and relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being 5 to 6 years.

Software and website

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; and when the Group has sufficient resources and intent to complete the internal development and the related costs can be measured reliably. The software costs are amortised on a straight-line basis over the period of their expected benefit, being between 2 and 5 years.

Brand names and logos

Brand names and logos acquired in a business combination are recognised separately to goodwill and included in other intangible assets. They have been assessed as having an indefinite useful life on the basis that the asset is allocated to businesses that are expected to continue into perpetuity.

Contract rights

Contract rights consist of exclusive rights to distribute services to certain customers in accordance with AASB 138 *Intangible Assets*, as well as capitalised incremental costs and fulfilment costs arising from contractual obligations over a period greater than one year which are recoverable and generate revenue in accordance with AASB 15 *Revenue*. Amortisation is on a straight-line basis over the period of their expected benefit, the life of the contract, and being up to 5 years.

Accounting policy for impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 8. Revenue

Consolidated	2020 $'000	2019 $'000
Products, services and commissions	124,772	151,552
Management and administration fees	70,217	75,265
Performance fees and rebates	21,343	23,018
Revenue	**216,332**	**249,835**

Accounting policy for revenue recognition

The Group recognises revenue when it transfers control over a product or a service to a customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Nature of goods and services

The following is a description of the principal activities, separated by reportable segments, from which the Group generates its revenue. For more detailed information about reportable segments, see note 6.

Management and administration fees

The Group generates revenue from arranging and administering outsourced salary packaging and fleet management services on behalf of employers. Administration fees for salary packaging are paid by the employers through amounts deducted from their employees' pre-tax salary. Revenue is recognised over the period of administration and includes interest earned from cash held on behalf of customers.

Fleet management fees are paid by employers in respect of fleet management services and revenue is recognised over the period of administration.

Share plan and payroll administration revenue is recognised over the period of administration. Revenue on customer contributions is recognised when contributions occur.

Revenue from the licensing of in-house salary packaging software is recognised monthly based on a monthly fee per user.

Products, services and commissions

The Group earns upfront commissions and rebates from suppliers relating to financing and sourcing of vehicles, sale of certain insurance products and fees for the sale of certain auxiliary products. Revenue is recognised upon delivery of the service or product to the customer.

Performance fees and rebates

The Group generates revenue from arranging and providing salary packaging products and services. The Group earns fees and rebates from various suppliers relating to maintenance of a vehicle finance book, the arrangement of certain insurance products, and fees for the arrangement or provision of ancillary vehicle consumables. The Group also acts as a distributor of salary packaging debit cards for a major financial institution. Revenue is recognised in the period the services are rendered.

Contract balances

Contract assets primarily relate to the Group's rights to consideration for products and services provided and not billed at the reporting date. Incremental costs and directly attributable costs to fulfil a contract over one year that are recoverable and generate resources are capitalised, in accordance with AASB 15 *Revenue*, and included within contract rights in note 7.

Contract liabilities primarily relate to consideration received in advance from customer contracts for which revenue is recognised on satisfaction of outstanding performance obligations.

Receivable and contract asset balances at the reporting date are disclosed in note 19 as trade receivables and accrued revenue, respectively, and contract liability balances are disclosed in note 23 as income received in advance.

Significant changes in contract assets and liabilities during the period result from satisfaction of performance obligations.

Transaction price allocated to the remaining performance obligations

The Group applies the practical expedients available in AASB 15 *Revenue* and does not disclose information about its remaining performance obligations, the amount of the transaction price allocated to the remaining performance obligations, or an explanation of when the Group expects to recognise that amount as revenue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 9. Expenses

Consolidated	2020 $'000	2019 $'000
Depreciation		
Office equipment	188	199
Computer equipment	325	318
Furniture, fixtures and fittings	66	102
Other assets	5	6
Leasehold improvements	140	426
Right-of-use assets	2,449	2,470
Total depreciation	**3,173**	**3,521**
Amortisation		
Customer contracts and relationships	8,644	8,762
Software and website	11,221	12,459
Accelerated software and website amortisation	1,224	–
Total amortisation of acquired intangible assets	**21,089**	**21,221**
Amortisation		
Contract rights	1,024	459
Total amortisation of contract rights	**1,024**	**459**
Total depreciation and amortisation	**25,286**	**25,201**
Finance costs		
Interest and finance charges paid/payable	2,530	2,334
Interest on lease liabilities	1,006	986
Finance income	(423)	(301)
Total finance costs	**3,113**	**3,019**
Occupancy costs	**1,428**	**1,366**
Superannuation expense		
Defined contribution superannuation expense	5,702	6,362
Share-based payments expense		
Share-based payments expense	466	1,596
Onerous lease costs		
Accelerated depreciation	–	361
Right-of-use asset write-down	–	10
Other lease termination costs	11	67
Total onerous lease costs	**11**	**438**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 10. Income tax

Income tax expense

Consolidated	2020 $'000	2019 $'000
Current tax	24,255	28,527
Deferred tax - origination and reversal of temporary differences	(4,060)	(1,266)
Aggregate income tax expense	**20,195**	**27,261**
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	**(4,060)**	**(1,266)**

Numerical reconciliation of income tax expense and tax at the statutory rate

Consolidated	2020 $'000	2019 $'000
Profit before income tax expense	**61,520**	**88,710**
Tax at the statutory tax rate of 30%	18,456	26,613
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of joint venture investment	1,535	–
Intangible assets	124	–
Non-deductible expenses	17	133
Share-based payments	140	479
Share of profits — joint venture	(19)	(4)
Sundry items	(17)	–
	20,236	**27,221**
Prior year tax claims not recognised now recouped	(53)	26
Prior year temporary differences not recognised now recognised	12	14
Income tax expense	**20,195**	**27,261**

Amounts recognised directly in equity

Consolidated	Note	2020 $'000	2019 $'000
Amounts charged/(credited) directly to equity:			
Deferred tax assets		**(146)**	**(947)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 10. Income tax (continued)

Deferred tax assets

Consolidated	2020 $'000	2019 $'000
Deferred tax assets comprises of temporary differences attributable to:		
Impairment of receivables	74	30
Employee benefits	2,505	2,412
Accruals and other provisions	6,838	4,167
Property and equipment	162	(401)
Revenue received in advance	1,677	1,396
Acquisition and issuance costs	2,050	2,704
Leased property and equipment	981	1,093
Intangible assets	(1,394)	(3,125)
Prepayments	(190)	(131)
Accrued revenue	(717)	(180)
Derivative financial instruments	14	3
Sundry items	6	(22)
Total temporary differences	**12,006**	**7,946**
Amounts recognised in equity:		
Derivative financial instruments	(2)	9
Share issue transaction costs	243	378
Total recognised in equity	**241**	**387**
Net deferred tax assets	**12,247**	**8,333**

Movements:

Consolidated	Note	2020 $'000	2019 $'000
Opening balance		8,333	8,051
Credited to profit or loss		4,060	1,266
Credited/(charged) to equity		(146)	(947)
Additions through business combinations		–	(37)
Closing balance		**12,247**	**8,333**

Income tax payable

Consolidated	2020 $'000	2019 $'000
Income tax payable	**851**	**1,474**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 10. Income tax (continued)

Accounting policy for income tax

The income tax expense for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities arising from temporary differences, unused tax losses and adjustments recognised in relation to prior periods, where applicable. Current tax liabilities are measured at the amount expected to be recovered from or paid to taxation authorities at the tax rates and tax laws enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets is reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and deferred tax for the year

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation group

Smartgroup Corporation Ltd (the head entity) and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime, from 6 June 2012. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 11. Current assets — cash and cash equivalents

Consolidated	2020 $'000	2019 $'000
Cash at bank and in hand	27,368	39,623
Term deposits	–	16
Cash and cash equivalents	**27,368**	**39,639**

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, term 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 that are subject to an insignificant risk of changes in value.

Note 12. Non-current liabilities — borrowings

Consolidated	2020 $'000	2019 $'000
Bank loan	24,900	60,648
Borrowing costs and interest at amortised cost	(227)	(256)
Borrowings	**24,673**	**60,392**

Refer to note 18 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

Consolidated	2020 $'000	2019 $'000
Bank loan	**24,900**	**60,648**

As at 31 December 2019, the following facilities were available to the Group:

- A three year facility of $99,000,000;
- A three year letter of credit facility of $4,000,000; and
- Ancillary facilities: credit card and electronic pay away facility of $12,500,000

On 27 March 2020, $38,000,000 of the three year facility was drawn down, with the banking facilities refinanced on 1 May 2020. A loss on revaluation of financial liabilities of $1,283,000 was recognised in the first half of the year.

On 23 December 2020, $73,748,000 of the three year facility was repaid early, and a gain on revaluation of financial liabilities of $1,157,000 was recognised.

As a result of the debt repayment on 23 December 2020, the following facilities are now available to the Group as part of an arrangement maturing on 1 May 2022:

- A three year facility of $45,252,000;
- A three year letter of credit facility of $4,000,000; and
- Ancillary facilities: credit card and electronic pay away facility of $12,500,000

The banking facilities are guaranteed and secured by the Company and certain of the Company's subsidiaries. The facilities are subject to a variable interest rate, which is based on the BBSY plus a margin.

The Group is subject to certain financing covenants and meeting these is given priority in all capital risk management decisions. These covenants include leverage and interest cover ratios with reference to recurring earnings before interest, tax, depreciation and amortisation, and with distribution restrictions on dividends. There have been no events of default on the financing arrangement during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 12. Non-current liabilities — borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

Consolidated	2020 $'000	2019 $'000
Total facilities		
Bank loan	45,252	99,000
Letter of credit facility	4,000	4,000
	49,252	**103,000**
Used at the reporting date		
Bank loan	24,900	60,648
Letter of credit facility	3,572	3,572
	28,472	**64,220**
Unused at the reporting date		
Bank loan	20,352	38,352
Letter of credit facility	428	428
	20,780	**38,780**

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the years of the facility to which it relates.

Accounting for finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

Accounting for finance income

Interest income on corporate accounts is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 13. Equity — issued capital

	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary Shares — fully paid	132,820,695	131,651,028	283,516	277,799
Less: Shares associated with the loan funded share plan (LFSP)	(3,303,160)	(2,682,932)	(20,994)	(18,684)
Issued Capital	**129,517,535**	**128,968,096**	**262,522**	**259,115**

Movements in ordinary share capital

Details	Date	Shares	Total $'000
Opening balance	1 January 2019	130,891,931	272,114
Shares issued for LFSP	20 March 2019	830,191	7,023
	13 May 2019	383,648	3,146
Buy-back of forfeited LFSP shares	4 February 2019	(210,952)	(2,004)
	2 September 2019	(243,790)	(2,182)
Deferred tax directly recognised in equity			(298)
Balance	**31 December 2019**	**131,651,028**	**277,799**
Shares issued for LFSP	6 March 2020	1,245,905	8,308
	15 June 2020	835,243	5,179
Buy-back of forfeited LFSP shares	27 February 2020	(154,082)	(853)
	19 March 2020	(697,784)	(6,277)
	10 July 2020	(59,615)	(505)
Deferred tax directly recognised in equity			(135)
Balance	**31 December 2020**	**132,820,695**	**283,516**

Movements in loan funded share plan

Details	Date	Shares	Total $'000
Opening balance	1 January 2019	(2,513,465)	(15,427)
LFSP shares exercised	8 February 2019	589,630	2,726
Shares issued for LFSP	20 March 2019	(830,191)	(7,023)
	13 May 2019	(383,648)	(3,146)
Buy-back of forfeited LFSP shares	4 February 2019	210,952	2,004
	2 September 2019	243,790	2,182
Balance	**31 December 2019**	**(2,682,932)**	**(18,684)**
LFSP shares exercised	11 February 2020	549,439	3,542
Shares issued for LFSP	6 March 2020	(1,245,905)	(8,308)
	15 June 2020	(835,243)	(5,179)
Buy-back of forfeited LFSP shares	27 February 2020	154,082	853
	19 March 2020	697,784	6,277
	10 July 2020	59,615	505
Balance	**31 December 2020**	**(3,303,160)**	**(20,994)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 13. Equity — issued capital (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Loan funded share plan (LFSP)

On 6 March 2020, loan funded shares were granted to the management team under the LFSP based on the closing share price on 2 March 2020 (ex-dividend), and at the Annual General Meeting on 15 June 2020, the 2020 LFSP grant to the CEO and CFO was approved, with shares being granted based on the closing share price on 10 June 2020. The shares vest on 31 December 2022.

The shares granted as part of the LFSP are eligible for dividends and are held by the participant until they vest or are forfeited. Should the Company pay dividends or make capital distributions in the future, any dividends paid or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions.

The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle and a total shareholder return hurdle, and a continuous employment condition. The shares can only be exercised once the participant has repaid the loan.

Shares issued under the LFSP are accounted for as options. As a consequence of this classification, the unvested shares issued under the LFSP have been treated as contingently issuable, as the vesting conditions have not been satisfied at the balance date. Therefore, the shares issued under the LFSP are excluded from basic earnings per share and included in diluted earnings per share.

LFSP shares forfeited

For the year ended 31 December 2020, the Group recorded $7,635,000 for the buy-back shares issued under the LFSP because the vesting conditions on those shares had not been met and the shares were forfeited. 911,481 shares were bought back and cancelled, resulting in a reduction of ordinary shares on issue.

Share buy-back

There is no current on-market share buy-back of the Company's shares.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings excluding prepaid borrowing costs less cash and cash equivalents, and excludes restricted cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment or to reduce debt.

The capital risk management policy remains unchanged from the 31 December 2019 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 14. Equity — reserves

	2020 $'000	2019 $'000
Cash flow hedge reserve	5	(21)
Share-based payments reserve	8,686	8,456
Other reserves	85	–
Reserves	**8,776**	**8,435**

Hedging reserve – cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to the senior management team as part of their remuneration.

Other reserves

Other reserves are used to record increments and decrements to the valuation of non-current assets, and preserve current profits for the purpose of paying dividends in future years.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Cash flow hedges $'000	Share-based payments $'000	Other Reserves $'000	Total $'000
Balance at 1 January 2019	139	5,717	–	5,856
Movements in hedges	(229)	–	–	(229)
Deferred tax	69	–	–	69
Share-based payments	–	5,698	–	5,698
LFSP exercised	–	(2,726)	–	(2,726)
LFSP forfeited	–	(233)	–	(233)
Balance at 31 December 2019	**(21)**	**8,456**	**–**	**8,435**
Movements in hedges	37	–	–	37
Deferred tax	(11)	–	–	(11)
Transfer from share-based payments reserve to other reserves	–	(85)	85	–
Share-based payments	–	5,103	–	5,103
LFSP exercised	–	(3,521)	–	(3,521)
LFSP forfeited		(1,267)	–	(1,267)
Balance at 31 December 2020	**5**	**8,686**	**85**	**8,776**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 15. Share-based payments

Loan funded share plan (LFSP)

The LFSP is a long term incentive plan for the senior management team. Refer to note 13 for the terms of LFSP. The LFSP shares are legally held by the employees, however, they cannot trade in the shares until the vesting conditions are satisfied and the loan is fully repaid. These have been treated as options in accordance with AASB 2 *Share-based payment*.

Set out below are summarises of loan funded shares granted under the Company's LFSP:

Grant date	Vesting date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
2020								
17 March 2017	31 December 2019	$6.39	543,165	–	(446,658)	(96,507)	–	178,272
5 May 2017	31 December 2019	$6.50	338,628	–	(281,053)	(57,575)	–	–
28 March 2018	31 December 2020	$10.89	333,247	–	–	(333,247)	–	–
4 May 2018	31 December 2020	$10.84	382,984	–	–	(382,984)	–	–
20 March 2019	31 December 2021	$8.55	701,260	–	–	(45,594)	655,666	–
13 May 2019	31 December 2021	$8.20	383,648	–	–	(383,648)	–	–
3 March 2020	31 December 2022	$6.95	–	1,245,905	–	–	1,245,905	–
10 June 2020	31 December 2022	$6.20	–	835,243	–	–	835,243	–
			2,682,932	**2,081,148**	**(727,711)**	**(1,299,555)**	**2,736,814**	**178,272**
Weighted average exercise price			$8.42	$6.65	$6.43	$9.47	$7.10	$6.39
2019								
18 March 2016	31 December 2018	$4.42	235,978	–	(235,978)	–	–	–
9 May 2016	31 December 2018	$4.76	353,652	–	(353,652)	–	–	–
17 March 2017	31 December 2019	$6.39	672,641	–	–	(129,476)	543,165	–
5 May 2017	31 December 2019	$6.50	338,628	–	–	–	338,628	–
28 March 2018	31 December 2020	$10.89	529,582	–	–	(196,335)	333,247	–
4 May 2018	31 December 2020	$10.84	382,984	–	–	–	382,984	–
20 March 2019	31 December 2021	$8.55	–	830,191	–	(128,931)	701,260	–
13 May 2019	31 December 2021	$8.20	–	383,648	–	–	383,648	–
			2,513,465	**1,213,839**	**(589,630)**	**(454,742)**	**2,682,932**	–
Weighted average exercise price			$7.62	$8.44	$4.62	$8.95	$8.42	–

The weighted average share price during the financial year was $5.91 (2019: $9.54).

The loan funded shares have an expiry date of 5 years from the date of issue and their weighted average remaining contractual life outstanding at the end of the financial year was 3.9 years (2019: 3.4 years).

For the loan funded shares granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Vesting date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
3 March 2020	31 December 2022	$6.14	$6.67	40%	6.49%	0.58%	$1.25
10 June 2020	31 December 2022	$6.65	$6.20	40%	6.17%	0.28%	$1.40

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 16. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

Consolidated	2020 $'000	2019 $'000
Final dividend for the year ended 31 December 2019 of 21.5 cents (2018: 21.0 cents) per ordinary share	28,272	27,446
Interim dividend for the year ended 31 December 2020 of 17.0 cents (2019: 21.5 cents) per ordinary share	22,579	28,305
Special dividend for the year ended 31 December 2019 of 20.0 cents per ordinary share	–	26,300
Dividends paid	**50,851**	**82,051**

On 24 February 2021, the Directors declared a fully franked final dividend of 17.5 cents per ordinary share. The final dividend will be paid on 23 March 2021 to shareholders registered on 9 March 2021 with an expected total distribution of $23,240,000.

On 24 February 2021, the Directors also declared a total special dividend of 14.5 cents per share, comprising of a final special dividend of 9.0 cents per share in respect of the year ended 31 December 2020, and an interim special dividend of 5.5 cents per share in respect of the current year. The special dividend will be paid on 23 March 2021 to shareholders registered on 9 March 2021 with an expected total distribution of $19,259,000.

The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2020 financial statements and will be recognised in subsequent financial reports.

Franking credits

Consolidated	2020 $'000	2019 $'000
Franking credits available at the reporting date based on a tax rate of 30%	30,074	49,628
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	260	1,474
Franking credits available for subsequent financial years based on a tax rate of 30%	**30,334**	**51,102**

Accounting policy for dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Note 17. Earnings per share

Consolidated	2020 $'000	2019 $'000
Profit after income tax attributable to the owners of Smartgroup Corporation Ltd	**41,325**	**61,449**

Consolidated	2020 Number	2019 Number
Weighted average ordinary shares used in calculating basic earnings per share	129,612,299	128,905,095
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	–	219,444
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**129,612,299**	**129,124,539**

Consolidated	2020 Cents	2019 Cents
Basic earnings per share	31.9	47.7
Diluted earnings per share	31.9	47.6

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 17. Earnings per share (continued)

Accounting policy for earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Smartgroup Corporation Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding, excluding shares issued under the LFSP, during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares, including shares issued under the LFSP, which are treated as options in the calculation of diluted earnings per share, as they may not vest. Shares issued under LFSP are only included where the average market price of ordinary shares during the period exceeds the exercise price of the LFSP shares.

Note 18. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as interest rate swap contracts to hedge certain risk exposures. Derivatives are exclusively used for risk management purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and rolling cash flow forecasts for analysis of liquidity risk.

Risk management is carried out centrally by the management team under oversight from the Board. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. The management team identifies, evaluates and may hedge financial risks within the Group's operating units.

Market risk

Foreign exchange risk

The Group operates primarily in Australia and is not exposed to any significant foreign currency risk.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings, cash and cash equivalents, and restricted cash and cash equivalents, which are subject to variable interest rates. The exposure to interest rate risk on long-term borrowings is managed through the use of interest rate swaps.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 18. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

As at the reporting date, the Group had the following variable rate borrowings, cash and cash equivalents, restricted cash and cash equivalents and interest rate swap contracts outstanding:

Consolidated	2020 Weighted average interest rate %	2020 Balance $'000	2019 Weighted average interest rate %	2019 Balance $'000
Bank loans	2.07%	24,900	2.17%	60,648
Cash and cash equivalents	0.49%	(27,368)	0.91%	(39,639)
Restricted cash and cash equivalents	0.60%	(48,111)	0.69%	(65,402)
Interest rate swaps (notional principal amount)	0.31%	(15,500)	0.96%	(31,000)
Net exposure to cash flow interest rate risk		**(66,079)**		**(75,393)**

Sensitivity

An increase in interest rates of 100 (2019: 100) basis points would have a favourable effect on profit before tax and equity of $630,000 (2019: $760,000) per annum while a decrease in interest rates to the interest rate floor of certain financial assets would have an adverse impact on profit before tax and equity of $228,000 (2019: $760,000). The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Derivatives interest rate swap

The Group has entered into interest rate swap contracts with notional/principal value as at 31 December 2020 of $15,500,000 (2019: $51,250,000). The interest rate contracts hedge the Group's risk against an increase in variable interest rates. The weighted average fixed rate is 0.96% (2019: 0.96%).

Sensitivity – derivative valuation

An increase in interest rates of 100 (2019:100) basis points would have a favourable effect on derivative financial instruments value and total equity by $257,000 (2019: $488,100) while a decrease in interest rates to nil would have an adverse effect on derivative financial instruments value and total equity by $10,000 (2019: $488,100).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has procedures in place to monitor credit risk, which include obtaining references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral, and nor does the group utilise supplier financing.

Expected credit loss assessment for customers

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. Exposures within each credit risk grade are generally based on actual historical credit loss experience.

The Group has historically based the expected credit loss (ECL) on actual historical credit loss experience, however, due to the disruption of the COVID-19 pandemic, additional information has also been considered in reassessing the expected credit loss rate, with specific provisions totalling $235,000 raised for at-risk customer groups.

The Group has identified motor vehicle dealers and small-medium corporates as the most at-risk groups of credit loss. Using counterparty-specific information and historical data from previous recessions and economic projections, the credit loss rates based on a 3-year rolling average have been revised and increased between 0.2% - 3.5%.

The Group has additionally provided $977,000 in relation to counterparty arrangements with motor vehicle dealerships, given that the economic downturn has seen significant volatility in motor vehicle values. This provision is reflected in Current Liabilities – Provisions within the Consolidated Statement of Financial Position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 18. Financial instruments (continued)

Credit risk (continued)

Expected credit loss assessment for customers (continued)

The following table provides information about the exposure to credit risk and ECL for trade receivables as at 31 December 2020:

31 December 2020	Gross carrying amount ($'000)	Expected credit loss allowance ($'000)	Specific loss allowance ($'000)	Total impairment loss allowance ($'000)	Weighted-average loss rate
Grade 1 (Financiers/Insurers)	563	–	(23)	(23)	4.09%
Grade 2 (Employer/Corporate)	5,869	(12)	(165)	(177)	3.02%
Grade 3 (Dealers)	1,169	–	(47)	(48)	4.08%

Liquidity risk

Prudent liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturities for its financial instrument liabilities. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the consolidated statement of financial position.

Contractual maturities of financial liabilities	1 year or less $'000	>1 to 2 years $'000	>2 to 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
At 31 December 2020					
Non-interest bearing					
Trade payables	4,416	–	–	–	4,416
Customer salary packaging liability	48,111	–	–	–	48,111
Interest bearing - variable					
Bank loans	499	25,076	–	–	25,575
Lease liabilities	3,738	3,541	7,792	–	15,071
Total non-derivatives	**56,764**	**28,617**	**7,792**	**–**	**93,173**
At 31 December 2019					
Non-interest bearing					
Trade payables	10,860	–	–	–	10,860
Customer salary packaging liability	65,402	–	–	–	65,402
Interest bearing - variable					
Bank loans	1,321	61,965	–	–	63,286
Lease liabilities	3,629	3,738	11,330	–	18,697
Total non-derivatives	**81,212**	**65,703**	**11,330**	**–**	**158,245**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 18. Financial instruments (continued)

Credit risk (continued)

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

Consolidated	2020 $'000	2019 $'000
Unused at the reporting date		
Bank loan	20,352	38,352
Letter of credit facility	428	428
	20,780	**38,780**

Note 19. Current assets – trade and other receivables

Consolidated	2020 $'000	2019 $'000
Trade receivables	7,601	11,123
Less: Provision for impairment of receivables	(248)	(99)
	7,353	**11,024**
Contract assets	7,346	10,559
Other receivables	1,182	4,066
	8,528	**14,625**
Total trade and other receivables	**15,881**	**25,649**

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $2,435,000 as at 31 December 2020 ($4,299,000 as at 31 December 2019). The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

Consolidated	2020 $'000	2019 $'000
0 to 3 months overdue	2,431	4,168
> 3 to 6 months overdue	2	117
> 6 months overdue	2	14
Past due and not impaired	**2,435**	**4,299**

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 14 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. Contract assets represent unbilled receivables for commission-based revenue with a lower expected credit loss as funds have been collected and are held within the restricted cash accounts.

Expected credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors that may affect the ability of the customers to settle the receivables, such as GDP rates. They are also adjusted to reflect historical and current debtor-based information impacting the probability that certain debtors will enter bankruptcy or financial reorganisation, or default on payments (more than 60 days overdue). The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of management's estimate of future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 20. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input significant to fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Consolidated	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020				
Liabilities				
Interest rate swap contracts - cash flow hedges	–	(47)	–	(47)
Total liabilities	**–**	**(47)**	**–**	**(47)**
2019				
Liabilities				
Interest rate swap contracts - cash flow hedges	–	(10)	–	(10)
Total liabilities	**–**	**(10)**	**–**	**(10)**

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivatives - interest rate swap contracts
Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principal market or, in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset, or liability, assuming they act in their economic best interests. Valuation techniques that are appropriate in the circumstances, and for which sufficient data is available to measure fair value, are used maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used either when internal expertise is not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 21. Current assets — other current assets

Consolidated	2020 $'000	2019 $'000
Prepayments	1,815	1,943
Other current assets	54	96
Back-to-back leased vehicles	–	582
Other current assets	**1,869**	**2,621**

Note 22. Derivative financial instruments

Consolidated	2020 $'000	2019 $'000
Interest rate swap contracts - cash flow hedges	**(47)**	**(10)**

Refer to note 20 for further information on fair value measurement.

Accounting policy for derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depending on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, is exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Note 23. Current liabilities — other current liabilities

Consolidated	2020 $'000	2019 $'000
Leased vehicle borrowings	–	1,081
Contract liabilities	5,782	4,652
Other current liabilities	**5,782**	**5,733**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 24. Business combinations

(a) Prior period acquisitions

Lease & Asset Finance (L&A)

On 10 October 2019, the Group acquired the novated leasing assets of Lease and Asset Finance (L&A) for a total cash consideration of $886,000. The goodwill of $894,000 reflects the synergies expected to be obtained by the Group from this acquisition.

Excluding integration costs, L&A contributed revenues of $121,000 and net profit after tax of $47,000 to the Group for the period from 10 October 2019 to 31 December 2019. If the acquisitions had occurred on 1 January 2019, the full year contribution would have been revenue of $552,000, and profit after tax of $239,000, subject to adjustments arising as a result of purchase price allocation.

No revisions were made and the business combination has been finalised in the current reporting period, for the year ended 31 December 2019.

Details of the purchase consideration, the net assets acquired and goodwill are summarised as follows:

	L&A Fair Value $'000
Restricted cash and cash equivalents	1,680
Other intangibles	106
Net deferred tax liabilities	3
Customer salary packaging liability	(1,680)
Employee provisions	(20)
Other provisions	(97)
Net assets acquired	**(8)**
Goodwill	894
Acquisition date fair value of consideration transferred	**886**
Representing:	
Cash paid to vendor/into escrow	886
Acquisition costs	88
Cash used to acquire business, net of cash acquired:	
Cash paid to vendor/into escrow	886
Less: Restricted cash and cash equivalents	(1,680)
Net consideration	**(794)**

Note 25. Non-current assets — investments accounted for using the equity method

Consolidated	2020 $'000	2019 $'000
Investment in joint venture - Health-e Workforce Solutions Pty Ltd	**827**	**6,400**

Smartgroup holds an investment in the joint venture, Health-e Workforce Solutions Pty Ltd. Expected future cashflows were evaluated to determine the value-in-use following indicators of impairment that arose in relation to this investment. Based on historical performance, an impairment charge of $5,118,000 has been recognised during the year in relation to the Group's investment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 25. Non-current assets — investments accounted for using the equity method (continued)

Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the Group are set out below:

Name of entity	Place of business/ country of incorporation	2020 %	2019 %
Health-e Workforce Solutions Pty Ltd	Australia	50	50

Consolidated	2020 $'000	2019 $'000
Summarised statement of financial position		
Current assets	2,587	2,447
Non-current assets	54	1,204
Total assets	**2,641**	**3,651**
Current liabilities	656	125
Total liabilities	**656**	**125**
Net assets	**1,985**	**3,526**
Summarised statement of profit or loss and other comprehensive income		
Revenue	2,720	2,723
Amortisation expense	(572)	(572)
Other expenses	(2,021)	(2,127)
Profit before income tax	**127**	**24**
Income tax expense	(38)	(7)
Profit after income tax	**89**	**17**
Other comprehensive income	–	–
Total comprehensive income	**89**	**17**
Reconciliation of the Group's carrying amount		
Opening carrying amount	6,400	6,392
Dividends received	(500)	–
Share of profit after income tax expense	45	8
Impairment of joint venture investment	(5,118)	–
Closing carrying amount	**827**	**6,400**

Contingent liabilities

Share of contingent liabilities relating to joint venture as at 31 December 2020 was $nil (2019: $nil).

Commitments

Share of commitments relating to joint venture as at 31 December 2020 was $nil (2019: $nil).

Accounting policy for joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the after tax profits or losses of the joint venture is recognised in the statement of profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities increase the carrying amount of the investment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 26. Related party transactions

Parent entities

Smartgroup Corporation Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Joint ventures

Interests in joint ventures are set out in note 25.

Key management personnel compensation

Disclosures relating to key management personnel are set out in note 29 and the Remuneration Report included in the Directors' Report.

Receivable from/payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Transactions with other related parties

There were no transactions with related parties during the current and previous financial year.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 27. Parent entity financial information

Summary financial information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	2020 $'000	2019 $'000
Profit after income tax expense	48,371	87,981
Total comprehensive income	**48,371**	**87,981**

Statement of financial position

	2020 $'000	2019 $'000
Current assets	415,287	581,130
Total assets	**504,316**	**669,422**
Current liabilities	174,257	304,951
Total liabilities	**199,030**	**365,404**
Issued capital	261,522	258,115
Reserves		
Hedging reserve - cash flow hedges	5	(21)
Share-based payments reserve	8,312	8,082
Other reserves	85	–
Retained earnings	35,362	37,842
Total equity	**305,286**	**304,018**

Guarantees entered into by the parent entity

The parent entity and certain of its subsidiaries are party to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist in any of these subsidiaries. Refer to note 32 for further details.

The parent entity has also provided guarantees in respect of banking facilities provided to the Group.

Contingent liabilities of the parent entity

The parent entity has given bank guarantees as at 31 December 2020 of $1,409,000 (2019: $1,409,000).

Capital commitments - Property and equipment

The parent entity had no capital commitments for property and equipment as at 31 December 2020 and 31 December 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 3 and note 41, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 28. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described throughout the financial statements:

Name	Principal place of business/ corporation	2020 %	2019 %
ABM Corporation Pty Limited	Australia	100	100
AccessPay Pty Ltd	Australia	100	100
Australian Vehicle Consultants Pty Ltd	Australia	100	100
Autopia Group Pty Limited	Australia	100	100
Autopia Management Pty Limited	Australia	100	100
Fleet West Pty Ltd	Australia	100	100
Pay-Plan Pty Ltd	Australia	100	100
PBI Benefit Solutions Pty Limited	Australia	100	100
Salary Packaging Solutions Pty Ltd	Australia	100	100
Salary Solutions Australia Pty Ltd	Australia	100	100
Selectus Pty Ltd	Australia	100	100
SET Leasing Pty Ltd	Australia	100	100
Smartsalary Software Solutions Pty Ltd	Australia	100	100
Smartequity EIS Pty Ltd	Australia	100	100
Smartequity Pty Ltd	Australia	100	100
Smartfleet Management Pty Ltd	Australia	100	100
Smartgroup Benefits Pty Ltd	Australia	100	100
Smartsalary Pty Limited	Australia	100	100
Smartsalary Payroll Solutions Pty Ltd	Australia	100	100

Note 29. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

Consolidated	2020 $	2019 $
Short-term employee benefits	3,183,677	3,032,552
Post-employment benefits	191,324	193,834
Long-term benefits	192,986	183,665
Termination benefits	618,998	124,823
Share-based payments	91,413	1,471,898
Compensation	**4,278,398**	**5,006,772**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 30. Contingent liabilities

The Group had contingent liabilities at 31 December 2020 of $3,572,000 (2019: $3,572,000) which primarily relate to guarantees on property leases. The Group has given guarantees for performance of contracts to its customers as at 31 December 2020 of $500,000 (2019: $500,000).

Note 31. Events occurring after the reporting period

In December 2020, the final legislation regarding the Deferred Sales Model for the sale of Add On Insurance Products passed through Parliament. Full compliance with this model is required by 5 October 2021.

The Australian Securities and Investments Commission (ASIC) has confirmed its intention to move ahead with a revised version of the draft *Product Intervention Order - Add-on Motor Vehicle Financial Risk Products released in August 2020 (PIO)*. ASIC has confirmed that the revised PIO:

1. will not apply to motor vehicle add-on insurance. Rather it will apply only to motor vehicle extended warranty products; and
2. will be designed to mirror the structure and operation of the industry-wide DSM.

Smartgroup has commenced the work for compliance with the legislated Deferred Sales Model to ensure that the necessary changes are made to its processes and systems before 5 October 2021.

Based on 2020 volumes and following the repricing of add-on insurance products by Smartgroup's insurance partner effective 1 July 2020, Smartgroup estimates that it generates approximately $5.4m revenue per annum from the sale of add-on insurance products covered by the ASIC review and Treasury legislation. Given the range of possible outcomes and potential steps Smartgroup might take to mitigate any impact from these changes, Smartgroup is not yet able to provide specific detail on the quantum and timing of any such impacts, and whether or not they will be material.

As of the date of issue, the future impact of COVID-19 on the Australian economy and the flow-on effects on the Group remain uncertain, and Smartgroup will continue monitor the situation.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Note 32. Deed of cross guarantee

The following entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others:

Smartgroup Corporation Ltd
AccessPay Pty Ltd
Autopia Group Pty Limited
Autopia Management Pty Limited
Salary Packaging Solutions Pty Ltd
Salary Solutions Australia Pty Ltd
Selectus Pty Ltd
Smartfleet Management Pty Ltd
Smartgroup Benefits Pty Ltd
Smartsalary Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Smartgroup Corporation Ltd, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 32. Deed of cross guarantee (continued)

Consolidated statement of profit or loss and other comprehensive income and summary of movements in consolidated retained earnings

	2020 $'000	2019 $'000
Consolidated Statement of Profit or Loss and Other Comprehensive Income		
Revenue	212,460	251,431
Product costs	(5,970)	(8,059)
Employee benefits expense	(77,573)	(86,043)
Administration and corporate expenses	(28,798)	(27,630)
Occupancy expenses	(1,428)	(1,332)
Advertising and marketing expenses	(1,843)	(3,389)
Amortisation of acquired intangibles	(20,097)	(21,859)
Depreciation expense	(3,162)	(3,422)
Other expenses	(1,825)	(2,556)
Operating profit before income tax expense	**71,764**	**97,141**
Finance costs	(3,113)	(3,052)
Impairment of joint venture investment	(5,118)	–
Profit before income tax expense	**63,533**	**94,089**
Income tax expense	(20,857)	(25,704)
Profit after income tax expense	**42,676**	**68,385**
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	26	(160)
Total comprehensive income for the year	**42,702**	**68,225**

	2020 $'000	2019 $'000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**1,159**	**14,825**
Profit after income tax expense	42,676	68,385
Dividends paid	(50,851)	(82,051)
Retained earnings at the end of the financial year	**(7,016)**	**1,159**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 32. Deed of cross guarantee (continued)

Consolidated Statement of Financial Position

	2020 $'000	2019 $'000
Current assets		
Cash and cash equivalents	26,148	38,057
Restricted cash and cash equivalents	47,776	65,085
Trade and other receivables	20,217	32,319
Income tax receivable	2,071	–
Other current assets	1,869	2,022
Total current assets	**98,081**	**137,483**
Non-current assets		
Investments accounted for using the equity method	28,546	34,119
Deferred tax assets	11,548	8,351
Property and equipment	1,739	1,356
Intangible assets	260,692	281,633
Right-of-use assets	9,143	11,592
Total-non-current assets	**311,668**	**337,051**
Total assets	**409,749**	**474,534**
Current liabilities		
Trade and other payables	40,678	48,972
Customer salary packaging liability	47,776	65,085
Lease liabilities	3,738	3,629
Income tax payable	–	160
Provisions	12,774	10,670
Other current liabilities	5,136	4,363
Total current liabilities	**110,102**	**132,879**
Non-current liabilities		
Provisions	2,596	1,630
Derivative financial instruments	47	10
Borrowings	24,673	60,392
Lease liabilities	8,678	11,543
Total non-current liabilities	**35,994**	**73,575**
Total liabilities	**146,096**	**206,454**
Net assets	**263,653**	**268,080**
Equity		
Share capital	261,893	258,486
Reserves	8,776	8,435
Retained earnings	(7,016)	1,159
Total equity	**263,653**	**268,080**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 33. Reconciliation of profit after income tax to net cash from operating activities

Reconciliation of profit after income tax to net cash inflow from operating activities

Consolidated	2020 $'000	2019 $'000
Profit for the year	**41,325**	**61,449**
Adjustments for		
Share of profits — joint ventures	(45)	(8)
Share-based payments	466	1,596
Fair value change to derivative financial instruments	(69)	(21)
Interest received — disclosed under investing activities	(423)	(301)
Amortisation of interest and borrowing costs	150	481
Loss on sale of non-current assets	48	12
Depreciation	3,173	3,521
Amortisation	22,113	21,680
Impairment of joint venture investment	5,118	–
Net (gain)/loss on revaluation of financial liabilities	127	–
Onerous lease costs	11	438
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	9,492	(1,274)
Decrease/(increase) in net deferred tax assets	(4,195)	(548)
Decrease/(increase) in other current assets	1,282	8,977
Increase/(decrease) in trade and other payables	(5,384)	3,626
Increase/(decrease) in provision for income tax	(2,325)	(4,069)
Increase/(decrease) in provisions and other liabilities	3,669	(6,574)
	74,533	**88,985**
Increase/(decrease) in customer salary packaging liability	(17,291)	13,728
Net cash from operating activities	**57,242**	**102,713**

Changes in liabilities arising from financing activities

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Consolidated	Borrowings $'000
Balance as at 1 January 2019	**53,011**
Proceeds from borrowings	6,900
Amortisation of interest and borrowing costs (non-cash)	481
Balance as at 31 December 2019	**60,392**
Proceeds from borrowings	38,000
Borrowing costs	(248)
Repayment of borrowings	(73,748)
Net gain on revaluation of financial liabilities (non-cash)	127
Amortisation of interest and borrowing costs (non-cash)	150
Balance as at 31 December 2020	**24,673**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 34. Non-current assets — property and equipment

Consolidated	2020 $'000	2019 $'000
Computer equipment		
At cost	7,055	6,383
Accumulated depreciation	(6,313)	(6,033)
Computer equipment	**742**	**350**
Furniture, fixtures and fittings		
At cost	1,265	1,455
Accumulated depreciation	(1,093)	(1,226)
Furniture, fixtures and fittings	**172**	**229**
Office equipment		
At cost	1,707	1,643
Accumulated depreciation	(1,478)	(1,288)
Office equipment	**229**	**355**
Leasehold improvements		
At cost	5,066	4,757
Accumulated depreciation	(4,478)	(4,338)
Leasehold improvements	**588**	**419**
Other assets		
At cost	22	22
Accumulated depreciation	(11)	(6)
Other assets	**11**	**16**
Property and equipment	**1,742**	**1,369**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 34. Non-current assets — property and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Computer equipment $'000	Furniture, fittings and equipment $'000	Office equipment $'000	Leasehold improvements $'000	Other assets $'000	Total $'000
Year ended 31 December 2020						
Opening net book amount	350	229	355	419	16	1,369
Additions	766	9	69	309	–	1,153
Assets written off	(49)	–	(7)	–	–	(56)
Depreciation expense (note 9)	(325)	(66)	(188)	(140)	(5)	(724)
Closing net book amount	**742**	**172**	**229**	**588**	**11**	**1,742**
Year ended 31 December 2019						
Opening net book amount	407	303	311	834	56	1,911
Additions	258	72	297	279	–	906
Transfers	28	–	(28)	–	–	–
Assets written off	(2)	–	–	–	(34)	(36)
Depreciation expense (note 9)	(318)	(102)	(199)	(426)	(6)	(1,051)
Accelerated depreciation (note 9)	(23)	(44)	(26)	(268)	–	(361)
Closing net book amount	**350**	**229**	**355**	**419**	**16**	**1,369**

Accounting policy for property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or lease term as follows:

- Leasehold improvements — Period of lease
- Furniture, fixtures and fittings — 3 - 7 years
- Computer equipment — 2 - 5 years
- Office equipment — 3 - 6 years
- Other assets — 1 - 5 years

The residual values, useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

Property and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property and equipment is de-recognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 35. Current liabilities — trade and other payables

Consolidated	2020 $'000	2019 $'000
Trade payables	4,416	10,860
Accrued expenses	16,821	18,842
Other payables and accruals	8,655	5,571
Trade and other payables	**29,892**	**35,273**

Refer to note 18 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and that are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 36. Current liabilities — provisions

Consolidated	2020 $'000	2019 $'000
Employee benefits	6,714	7,004
Operations provision	7,275	4,052
Provisions – current	**13,989**	**11,056**

Employee benefits

The provision for employee benefits relates to the Group's liability for annual leave and long service leave. Refer to note 41 for the accounting policy relating to employee benefits.

Operations provision

The provision relates to negative employee salary packaging account balances which may be uncollectible, customer and supplier disputes as well as provisions relating to indirect tax obligations.

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

Consolidated	2020 $'000	2019 $'000
Employee benefits obligation expected to be settled after 12 months	**1,136**	**973**

Accounting policy for provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 37. Non-current liabilities — provisions

Consolidated	2020 $'000	2019 $'000
Employee benefits	1,092	1,221
Operations provision	1,041	–
Make good provision	463	463
Provisions – non-current	**2,596**	**1,684**

Make good provision

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision (current (note 36) and non-current) during the financial year, other than employee benefits, are set out below:

Consolidated 2020	Make good provision $'000	Operations provision $'000
Carrying amount at start of year	463	4,052
Charged/(credited) to profit or loss	–	–
– additional provisions recognised/(de-recognised)	–	4,264
Carrying amount at end of year	**463**	**8,316**

Note 38. Cash held on behalf of customers and associated liabilities

The Group administers funds on behalf of customers and this can take one of two forms:

- Restricted cash and cash equivalents (pooled customer funds)
- Cash held on behalf of customers (segregated bank accounts in a customer's name).

Restricted cash and cash equivalents

Consolidated	31 December 2020 $'000	31 December 2019 $'000
Restricted cash and cash equivalents	48,111	65,402
Customer salary packaging liability	(48,111)	(65,402)

The restricted cash and cash equivalents in the Consolidated Statement of Financial Position and in the Consolidated Statement of Cash Flows represents funds held by the Group on behalf of certain customers. The use of these funds is restricted to the making of salary packaging payments on behalf of those customers only and therefore not available for general use. The Group recognises a liability for all restricted cash balances to reflect the amounts owing to its customers.

The restricted cash accounts are held with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the year ended 31 December 2020, the Group has recognised finance revenue of $231,000 (31 December 2019: $468,000) from restricted cash.

Refer to note 18 for interest rate sensitivity analysis on restricted cash balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 38. Cash held on behalf of customers and associated liabilities (continued)

Cash held on behalf of customers not recognised in the statement of financial position:

	2020		2019	
	Weighted average interest rate	$'000	Weighted average interest rate	$'000
Accounts established by the Group as cash held on behalf of customers	0.56%	131,817	0.88%	113,925
Accounts established by customers directly	0.01%	87,863	0.03%	96,837
Cash held on behalf of customers		**219,680**		**210,762**

Cash held on behalf of salary packaging and share plan administration customers is deposited by customers into segregated bank accounts, to be used only to settle their employees' salary packaging obligations to suppliers or for contributions into share plans. The Group cannot use these funds for any other purpose than as directed by its customers. Customers are liable to ensure adequate funds are kept in the segregated bank accounts for salary packaging and share plan payments. The Group has assessed that these assets are held in a fiduciary capacity rather than being assets of the Group and as such, have excluded them from the Consolidated Statement of Financial Position.

The segregated bank accounts used for cash held on behalf of customers are with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the year ended 31 December 2020, the Group has recognised interest revenue of $648,000 (31 December 2019: $1,683,000) from those accounts established by the Group as cash held on behalf of customers, and $5,000 (31 December 2019: $29,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

Note 39. Remuneration of auditors

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

Consolidated	2020 $	2019 $
Audit and review of financial statements	550,000	554,720
Total remuneration for audit and other assurance services	**550,000**	**554,720**
Other assurance services		
Risk and governance	22,683	46,376
Total remuneration for other services	**22,683**	**46,376**
PricewaterhouseCoopers	**572,683**	**601,096**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 40. Leases

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Right-of-use assets

	Property $'000	Equipment $'000	Total $'000
Balance at 1 January 2019	11,108	435	11,543
Additions	2,741	–	2,741
Depreciation charge for the year	(2,371)	(99)	(2,470)
Impairment charge for the year	(10)	–	(10)
Remeasurement of leases on lease renewal	(212)	–	(212)
Balance at 31 December 2019	**11,256**	**336**	**11,592**
Depreciation charge for the year	(2,351)	(98)	(2,449)
Balance at 31 December 2020	**8,905**	**238**	**9,143**

Lease liabilities (current and non-current)

Consolidated	2020 $'000	2019 $'000
Balance at 1 January	15,172	15,582
Interest incurred	1,006	986
Interest paid on lease liabilities	(1,006)	(986)
Payments of lease liabilities	(2,756)	(2,846)
Additions	–	2,853
Lease surrender costs	–	(417)
Balance at 31 December	**12,416**	**15,172**

Maturity analysis - contractual undiscounted cashflows

At 31 December 2020	1 year or less $'000	>1 to 2 years $'000	>2 to 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Lease liabilities	**3,738**	**3,541**	**7,792**	**–**	**15,071**

Amounts recognised in the statement of profit or loss

The Consolidated Statement of Profit or Loss and Other Comprehensive Income shows the following amounts relating to leases:

Consolidated	2020 $'000	2019 $'000
Interest on lease liabilities (included in finance costs)	(1,006)	(986)
Expense relating to short-term leases (included in other expenses)	–	(46)

Amounts recognised in the statement of cash flows

Consolidated	2020 $'000	2019 $'000
Total cash outflow for leases	**(3,762)**	**(3,832)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 40. Leases (continued)

Accounting policy for leases

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 41. Additional significant accounting policies

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Smartgroup Corporation Ltd as at 31 December 2020 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained, together with any gain or loss in profit or loss.

(b) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(c) Financial instruments (Note 18)

Recognition and measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at:

- Amortised cost;
- Fair value through profit & loss (FVTPL); or
- Fair value through other comprehensive income (FVOCI)

Financial assets are not reclassified subsequently unless the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within these categories as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 41. Additional significant accounting policies (continued)

(c) Financial instruments (Note 18) (continued)

Classification and subsequent measurement (continued)

Financial assets (continued)

Financial assets at FVTPL: Measured at fair value and changes therein were recognised in profit or loss.

Held-to-maturity financial asset: Measured at amortised cost using the effective interest method.

Loans and receivables: Measured at amortised cost using the effective interest method.

Available-for-sale financial assets: Measured at fair value and changes therein, other than impairment losses and interest income, were recognised in OCI and accumulated in reserves. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities - classification, subsequent measurement and gains and losses: Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

(d) Employee benefits

Short-term employee benefits (Note 36)

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee obligations (Notes 36 and 37)

The liability for long term employee benefits is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense (Note 9)

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments (Note 15)

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date, less amounts already recognised in previous periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

Note 41. Additional significant accounting policies (continued)

(d) Employee benefits (continued)

Share-based payments (Note 15) (continued)

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled they are treated as if they have vested on the date of cancellation, and any remaining expense is recognised immediately. If new replacement awards are substituted for the cancelled awards, the cancelled and new awards are treated as if they were a modification.

(e) Business combinations (Note 24)

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

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

Directors' Declaration

For the year ended 31 December 2020

In the Directors' opinion:

(a) the financial statements and notes set out on pages 70 to 118 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

  (ii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board, and

  (iii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 32 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 32.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the Directors

Michael Carapiet
Chairman
24 February 2021
Sydney

Independent auditor's report

To the members of Smartgroup Corporation Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Smartgroup Corporation Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2020 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 Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2020
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' 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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

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One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of $3.1 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, profit before tax (which is a generally accepted benchmark for profit-orientated entities) is a key metric against which the performance of the Group is measured.
- We selected 5% based on our professional judgement, noting that it is within the range of commonly acceptable profit related materiality thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.
- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group,

its accounting processes and controls and the industry in which it operates.

- Smartgroup Corporation Ltd's financial report consolidates the businesses of various controlled entities and the Group has a substantially centralised finance function.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	***How our audit addressed the key audit matter***
Goodwill and indefinite life assets impairment	
Refer to note 7 - $275.7 million The Group's goodwill and brand names and logos are required by Australian Accounting Standards to be tested annually for impairment at the cash generating unit (CGU) level. The impairment assessment was a key audit matter due to: • the size of the goodwill and other indefinite life intangible assets balances • the judgement involved in assessing whether an impairment was required and; • the volatility and disruption arising from the COVID-19 pandemic and ongoing uncertainty regarding the impact of the winding down of government assistance measures. The Group performed an impairment assessment over goodwill and other indefinite life intangible assets by calculating the value in use for each CGU, using discounted cash flow models (the models). Key judgements in the models included the determination of CGUs, discount rates, annual revenue and terminal growth rates and the assumption that there will be no significant changes to the legislation governing the provision of products and services within the salary packaging administration and novated leasing industries in the forecast periods.	We performed the following audit procedures, amongst others: • we assessed whether the Group's identification of CGUs was consistent with our knowledge of the operations, internal reporting lines and the level of integration of the previously acquired businesses • we evaluated the process by which the cash flow forecasts were developed including the review of significant assumptions and judgements by the Audit and Risk Committee • we compared the cash flow forecasts to Board approved budgets and inspected evidence of oversight over key assumptions in the forecasts by the directors • we assessed the Group's ability to accurately forecast by comparing previous forecasts with actual results • for significant inputs and assumptions, we considered and evaluated management's evaluation and response to estimation uncertainty • together with PwC valuation experts, we tested the method used by management to determine the recoverable amount of the CGUs and confirmed that this was in compliance with the requirements of the Australian Accounting Standards • together with PwC valuation experts, we tested the inputs and assumptions used by management in determining the discount rates by comparing to observable and comparable data • we tested the integrity of the data (including revenue and expense forecasts and growth rates) and assumptions used by management in developing the cashflow forecasts by agreeing to observable data

Key audit matter	*How our audit addressed the key audit matter*
	• we tested the mathematical accuracy of the impairment model • we considered whether there had been any published plans from mainstream Australian political parties relating to any potential changes to legislation governing the provision of products and services within the salary packaging administration and novated leasing industries to assess the appropriateness of management's assumptions about the future of the salary packaging industry is reasonable • we compared the Group's net assets of $270.9 million as at 31 December 2020 to its market capitalisation of $932 million on the same date • we evaluated the reasonableness of the Group's disclosures on goodwill and other infinite life intangible assets impairment in light of the requirements of Australian Accounting Standards.
Restricted cash and cash equivalents held on behalf of customers *Refer to note 38 – $48.1 million* The provision of salary packaging services involves the Group holding funds on behalf of certain customers, either as restricted cash or cash equivalents held on behalf of customers. This was a key audit matter as the Group may be responsible for any shortfall in these accounts, there is a significant volume of transactions impacting restricted cash and cash held on behalf of customers' accounts throughout the year and due to the large volume of accounts and employees under management (EUM).	We performed the following audit procedures, amongst others: • tests of the operating effectiveness of the Group's relevant key controls over the EUM cash transaction process, which include reconciliation of trust bank accounts to bank statements, reconciliation of employer deductions to bank statements and authorisation of payments from trust accounts • for bank balances relating to restricted cash and cash held on behalf of customers, we examined evidence of reconciliations between the bank statements and the cashbook balances for a sample of bank accounts and obtained confirmations directly from banks of the balances at year end • we read board minutes, enquired with management and obtained a written description from the Group's lawyers of current legal matters to identify whether there were any material claims from EUMs or employers • we considered the adequacy and accuracy of the Group's disclosures in relation to restricted cash and cash held on behalf of customers' accounts in the light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2020 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 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 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 that we 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 for the financial report

The directors of the Company 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 Group 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 Group 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

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Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 51 to 65 of the directors' report for the year ended 31 December 2020.

In our opinion, the remuneration report of Smartgroup Corporation Ltd for the year ended 31 December 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Joe Sheeran
Partner

Sydney
24 February 2021

Shareholder Information

This section contains additional information required by the ASX Listing Rules not disclosed anywhere else in this report. The information in this section is current as at 29 January 2021.

Substantial Shareholders

As at 29 January 2021, the following persons were disclosed as substantial holders in substantial holding notices given to the Company under the Corporations Act:

Name	Number of shares in which relevant interests held	Voting power
Mitsubishi UFJ Financial Group, Inc.	9,053,344	6.82%
Commonwealth Bank of Australia	6,800,125	5.12%

Class of shares and voting rights

At 29 January 2021, there were 8,721 holders of ordinary shares in the Company.

The voting rights attached to the ordinary shares set out in the Company's Constitution are that on a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Distribution of shareholders as at 29 January 2021:

Size of holding	Number of holders	Total shares held	Percentage of total shares
1 – 1,000	4,315	1,961,340	1.48%
1,001 – 5,000	3,133	8,172,246	6.15%
5,001 – 10,000	760	5,620,115	4.23%
10,001 – 100,000	455	10,919,538	8.22%
100,001 and over	58	106,147,456	79.92%
Total shareholders	**8,721**	**132,820,695**	**100.00%**

Twenty largest shareholders of ordinary shares as at 29 January 2021:

Name	Number of ordinary shares	Percentage of ordinary shares
HSBC Custody Nominees (Australia) Limited	37,681,180	28.37%
J P Morgan Nominees Australia Pty Limited	17,874,742	13.46%
Citicorp Nominees Pty Limited	13,230,647	9.96%
National Nominees Limited	9,195,955	6.92%
BNP Paribas Noms Pty Ltd	5,517,475	4.15%
BNP Paribas Nominees Pty Ltd	5,185,023	3.90%
Anacacia Pty Limited	1,935,435	1.46%
HSBC Custody Nominees (Australia) Limited - A/C 2	1,729,223	1.30%
Gentilly Holdings 2 Pty Limited	1,606,897	1.21%
Equitas Nominees Pty Limited	1,460,836	1.10%
Heatherwood Court Pty Ltd	1,246,001	0.94%
Timothy Looi	1,195,358	0.90%
Point Capital Pty Ltd	625,000	0.47%
AMP Life Limited	563,607	0.42%
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	519,979	0.39%
Netwealth Investments Limited	496,965	0.37%
Mr Haining Yu & Ms Weihua Han	410,563	0.31%
Sophie MacIntosh	405,949	0.31%
Sarah Haas	405,520	0.31%
Mutual Trust Pty Ltd	342,767	0.26%
Total	**101,629,122**	**76.52%**

Restricted securities or securities subject to voluntary escrow
There are no securities or securities subject to voluntary escrow as at 29 January 2021.

Note: in accordance with the ASX Listing Rules, securities issued under the Company's LTIP that have restrictions on their transfer under the terms of the LTIP are not regarded as being subject to voluntary escrow.

On-market buy-back

There is no current on-market buy-back.

Five Year Summary

Index	2020	2019	2018	2017	2016
Income statement ($m)					
Revenue	216.3	249.8	241.8	205.4	147.1
EBITDA	95.4	118.2	115.0	93.6	63.3
NPAT (statutory)	41.3	61.4	59.3	41.2	32.8
NPATA	65.2	81.0	77.8	64.1	44.0
Statement of financial position ($m)					
Assets	408.4	472.9	464.0	466.7	438.6
Liabilities	137.5	196.2	171.7	262.0	244.3
Net assets	270.9	276.7	292.3	204.7	194.3
Net cash/(debt)	2.5	(21.0)	(14.6)	(111.1)	(72.0)
Share information					
Ordinary shares (million shares)	132.8	131.7	130.9	123.2	121.5
Dividends per share (cents per share)					
Interim	17.0	21.5	20.5	16.5	9.8
Special	9.0	20.0	–	–	–
Final	17.5	21.5	21.0	18.5	15.0
Total dividends	**43.5**	**63.0**	**41.5**	**35.0**	**24.8**
Share price at 31 December ($)	6.83	6.94	8.88	10.85	6.28
NPATA/ordinary shares (cents per share)	49.1	61.5	59.4	52.0	36.2
Ratios					
Ordinary dividend payout ratio	70%	70%	70%	67%	68%
Operating cashflow/NPATA	115%	110%	103%	99%	103%
Net debt/EBITDA	(0.0)	0.2	0.1	1.2	1.1
Operational metrics					
FTEs	630	689	695	706	544
Packages	360,500	358,500	343,000	325,000	221,000
Novated leases under management	66,700	68,500	65,250	62,500	53,000

Glossary of terms

AGM	The annual general meeting of the Company
ARC	Audit and Risk Committee
Board	Board of Directors
Company	Smartgroup Corporation Ltd ABN 48 126 266 831
CAGR	Compound annual growth rate
CEO	Managing Director and Chief Executive Officer
CFO	Chief Financial Officer
CGS	Corporate Governance Statement. Available on the website at http://ir.smartgroup.com.au/Investors/?page=Corporate-Governance
CIO	Chief Information Officer
CLO	Chief Legal Officer
COO	Chief Operating Officer
Director	Director means a director of the Company
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation adjusted for significant non-operating items
EPS	Earnings per share
Executive	The CEO and each of his direct reports
Executive KMP	The KMP, excluding the Non-Executive Directors
Greenfleet	An environmental not-for-profit organisation, whose mission is to protect the climate by restoring forests
GRI	The Global Reporting Initiative is an international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption. It developed the GRI Standards
Group	The consolidated Smartgroup Corporation Ltd entity consisting of the Company and the entities it controlled at the end of or during the year ended 31 December 2020
GST	Goods and services tax
HRRC	Human Resources and Remuneration Committee
ITIC	IT and Innovation Committee
KMP	Key management personnel, being those employees who had authority and responsibility for planning, directing and controlling the activities of the Group during the 2020 financial year, and includes the Directors
KPI	Key performance indicator
LFS	Loan funded shares
LTIP	Long-term incentive plan
Net debt	Cash and cash equivalents less corporate borrowings, adjusted to exclude capitalised borrowing costs
Non-Executive Director	Director who is not an Executive
NPAT	Net Profit After Tax
NPATA	Net Profit After Tax, adjusted to exclude the non-cash tax effected acquired amortisation of intangibles and significant non-operating items
NPS	Net promoter score. Net promoter score is a measure of how likely a customer is to provide a word-of-mouth referral, measured on a scale of -100 to +100
Operating cash flow	Operating cash flow excludes receipts and payments from customers' salary packaging accounts, significant non-operating items
PBI	Public benevolent institution
PBT	Profit before tax
Smartgroup	Smartgroup Corporation Ltd ABN 48 126 266 831
STIP	Short-term incentive plan
TFR	Total fixed remuneration
TSR	Total shareholder return
VWAP	Volume-Weighted Average Price
WGEA	Workplace Gender Equality Agency
Website	smartgroup.com.au

GRI content index

The 2020 Smartgroup Sustainability Report has been prepared in accordance with the GRI Standards Core Option.

Identifying material topics, report content and boundaries

We have selected material topics to report on that have the greatest impact on our stakeholders and the communities in which we operate and over which we have some ability to influence or address related impacts. A significant number of the possible material topics listed in the GRI standards are not relevant to our business, or have limited impact on our business and importance to our share holders and thus have been excluded from our review. Our process to identify material topics will continue to evolve as we continuously review the expectations of stakeholders and broader sustainability trends.

The impacts for employee related topics are entirely within Smartgroup, whilst governance, environmental and community impacts occur both inside and outside Smartgroup and client, customer and supplier impacts occur mostly outside Smartgroup.

The location of the disclosures are referenced to the relevant pages in this report, to Smartgroup's Corporate Governance Statement and its website. Where it has not been possible to disclose information, then a brief explanation is given.

GRI Standard	Disclosure	Reference or link
General Disclosures		
GRI 102: General Disclosures 2016		
GRI 102: 1. Organisational Profile		
102-1	Name of the organisation	Smartgroup Corporation Ltd
102-2	Activities, brands, products and services	Website: "About Us", "What we do". Pages 6, 10, 12
102-3	Location of headquarters	Corporate Directory (page 133)
102-4	Location of operations	Australia – see Website
102-5	Ownership and legal form	ASX-listed public company
102-6	Markets served	Website: "About Us", "Who we Help", "What we do". Pages 8-10
102-7	Scale of the operation	Page 17-20 and Financial Report (page 70 onwards)
102-8	Information on employees and other workers	Pages 24-29 and Corporate Governance Statement
102-9	Supply chain	Page 39 and page 45
102-10	Significant changes to the organisation and its supply chain	Nil. There were no such changes in CY2020
102-11	Precautionary principle or approach	Not applicable
102-12	External initiatives	Not applicable
102-13	Membership of associations	Smartgroup is a member of NALSPA (National Automotive Leasing and Salary Packaging Association) and AFIA (Australian Finance Industry Association)
GRI 102: 2. Strategy		
102-14	Statement from senior decision-maker	Managing Director and CEO Report (page 16)
102-15	Key impacts, risks and opportunities	Pages 36-41, 44-46 and Corporate Governance Statement
GRI 102: 3. Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	Page 28 and Corporate Governance Statement
102-17	Mechanisms for advice and concerns about ethics	Corporate Governance Statement
GRI 102: 4. Governance		
102-18	Governance Structure	Corporate Governance Statement

GRI Standard	Disclosure	Reference or link
GRI 102: 5. Stakeholder engagement		
102-40	List of stakeholder groups	Pages 44-46
102-41	Collective bargaining agreements	Nil
102-42	Identifying and selecting stakeholders	Smartgroup identifies our key stakeholders as those who have the greatest impact on our business, or who are most impacted by our activities
102-43	Approach to stakeholder engagement	To ensure we focus on the issues that matter most to our stakeholders, we regularly engage throughout the year with stakeholders in different forums and ensure that the feedback is appropriately shared within the Company
102-44	Key topics and concerns raised	The topics and concerns raised depend upon the relevant group and their interests in the Company. Page 44-46 cover a number of these issues in our risks overview
GRI 102: 6. Reporting practice		
102-45	Entities included in the consolidated financial statements	Financial report of the Company for the year ended 31 December 2020 comprises the Company and its subsidiaries (the Group). Refer page 70 onwards
102-46	Defining report content and topic Boundaries	Page 130
102-47	List of material topics	Reporting is limited to the disclosures most relevant to Smartgroup and are located at pages 22-46
102-48	Restatements of information	No material restatements
102-49	Changes in reporting	In 2019, Smartgroup progressed from 'GRI Referenced' to 'GRI: Core' reporting. There have been no further changes to reporting in 2020
102-50	Reporting period	1 January to 31 December 2020
102-51	Date of most recent report	February 2020
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Email: ir@smartgroup.com.au
102-54	Claims of reporting in accordance with the GRI Standards	Page 130
102-55	GRI Content Index	Pages 130-132
102-56	External assurance	No external assurance sought for the Sustainability Report
Material topics		
GRI 200: Economic		
GRI 205: Anti-corruption		
205-1	Operations assessed for risks related to corruption	The whole Smartgroup group of companies is subject to the risk assessment. No significant risks identified
205-2	Communication and training about anti-corruption policies and procedures	All employees of the Smartgroup Group undertake training
205-3	Confirmed incidents of corruption and actions taken	There have been no confirmed incidents
GRI 206: Anti-competitive behaviour		
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	None

GRI Standard	Disclosure	Reference or link
GRI 300: Environmental		
GRI 302: Energy		
302-1	Energy consumption within the organisation	Page 42 (Electricity – total consumption (kwh))
302-3	Energy intensity	Page 42 (Electricity (tonnes CO2-e per FTE))
302-4	Reduction of energy consumption	Pages 36-41
GRI 305: Emissions		
305-1	Direct (Scope 1) GHG emissions	Not applicable
305-2	Energy indirect (Scope 2) GHG emissions	Pages 40-41
305-3	Other indirect (Scope 3) GHG emissions	Page 36-41 (in part)
305-4	GHG emissions intensity	Page 36-41 (Electricity (tonnes CO2-e per FTE))
305-5	Reduction of GHG emissions	Page 36-41
GRI 400: Social		
GRI 401: Employment		
401-1	New employee hires and employee turnover	Pages 22-29 and page 42
401-3	Parental leave	Page 42
GRI 404: Training and education		
404-3	Percentage of employees receiving regular performance and career development reviews	100%
GRI 405: Diversity and equal opportunity		
405-1	Diversity of governance bodies and employees	Pages 24-26
GRI 419: Socioeconomic compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	No non-compliance identified

Corporate Directory

Directors

Michael Carapiet
Timothy Looi
Gavin Bell
Andrew Bolam
Carolyn Colley
Deborah Homewood
John Prendiville
Ian Watt

Company secretaries

Sophie MacIntosh
Jonathan Swain

Registered office and principal place of business

Smartgroup Corporation Ltd
Level 8, 133 Castlereagh Street
Sydney, NSW, Australia, 2000
Tel: 1300 665 855

Share register

LINK Market Services Limited
Level 12, 680 George Street
Sydney, NSW, Australia, 2000
Tel: 1300 554 474

Auditor

PricewaterhouseCoopers
One International Towers
Watermans Quay
Barangaroo, Sydney
NSW, Australia, 2000

Solicitors

MinterEllison Lawyers
Level 23, 525 Collins Street
Melbourne, VIC
Australia, 3000
Tel: 03 8608 2000

Bankers

Westpac Group
275 Kent Street, Sydney
NSW, Australia 2000

Australia and New Zealand Banking Group Limited
242 Pitt Street, Sydney
NSW, Australia, 2000

Stock Exchange listing

Smartgroup Corporation Limited shares are listed on the Australian Securities Exchange (ASX code: SIQ)

Website

smartgroup.com.au

Corporate Governance Statement

The corporate governance statement, which was approved at the same time as the Annual Report, can be found at: ir.smartgroup.com.au/Investors/?page=Corporate-Governance

Annual General Meeting

12 May 2021 at 11am.
Please refer to the website for further details.

smartgroup.com.au

Smartgroup Corporation Ltd
National Head Office
Level 8, 133 Castlereagh Street
Sydney NSW 2000