ASX Announcement
Appendix 4E and 2021 Annual Report

Release date: 18 February 2022

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

- Appendix 4E, and
- 2021 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 2021

Previous period: For the year ended 31 December 2020

2. Results for announcement to the market

		$'000		$'000
Revenues from ordinary activities	up	5,466	2.5% to	221,798
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	up	17,488	42.3% to	58,813
Profit for the year attributable to the owners of Smartgroup Corporation Ltd	up	17,488	42.3% to	58,813

Dividends

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend for the year ended 31 December 2020 (paid 23 March 2021)	17.5	17.5
Final special dividend for the year ended 31 December 2020 (paid 23 March 2021)	9.0	9.0
Interim special dividend for the year ended 31 December 2021 (paid 23 March 2021)	5.5	5.5
Interim ordinary dividend for the year ended 31 December 2021 (paid on 16 September 2021)	17.5	17.5

On 17 February 2022, the Directors declared a fully franked dividend of 19.0 cents per ordinary share. The final dividend will be paid on 23 March 2022 to shareholders registered on 9 March 2022 with an expected total distribution of $25,365,000.

On 17 February 2022, the Directors also declared a special dividend of 30.0 cents per share in respect of the year ended 31 December 2021. The special dividend will be paid on 23 March 2022 to shareholders registered on 9 March 2022 with an expected total distribution of $40,050,000.

There is no dividend reinvestment plan.

Comments

The profit for the Group after providing for income tax amounted to $58,813,000 (31 December 2020: $41,325,000).

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	(26.78)	(30.76)

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 or lost over entities

On 29 October 2021, the Group divested 100% of its shares in Smartequity Pty Ltd and Smartequity EIS Pty Ltd. There were no other changes to control over entities in the period.

5. Details of associates and joint venture entities

	Reporting entity's percentage holding		Contribution to profit after tax	
Detail of joint ventures	31 Dec 2021 %	31 Dec 2020 %	31 Dec 2021 $'000	31 Dec 2020 $'000
Health-e Workforce Solutions Pty Ltd	50%	50%	248	45

6. Independent auditor's review

The financial report for the year ended 31 December 2021 has been audited by PricewaterhouseCoopers and an unqualified opinion has been issued.

7. Attachments

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

Smartgroup
Annual Report
2021

Growing.
Smarter.

smart group corporation

How can we help our people keep more of their pay?

Salary packaging is an Australian Taxation Office (ATO) approved incentive that allows your people to increase their disposable income by paying for certain expenses from their pre-tax income at no cost to you. We have significant experience in this area. We'll work with you to build an effective program and fully manage its administration.

Smarter packages.

What’s the best way to organise all our vehicles?

We can tailor your fleet management to meet your specific needs. If you want to manage your fleet as you grow, we offer cloud-based fleet management software that offers you complete transparency and lets you manage your own data entry and reporting. Or choose a fully outsourced solution and let us take care of everything for you – from vehicle procurement to registration renewals and repairs.

Smarter fleet management.

How do we streamline everything we do around compensating our people?

We'll review your current payroll process, then design a tailored payroll solution that will continue to work for you as you grow. We offer you cloud-based software that takes all the guesswork out of compensating your people correctly. We also offer your employees the opportunity to self-service, enabling them to manage their personal data and bank accounts, timesheet entries, reimbursements and applications for leave.

Smarter processes.

Investing in a Smart Future

We're committed to doing right by our clients and their staff. In another year of COVID-19 challenges, we've continued to work with our key clients to renew and extend their contracts. Strong organic growth and new wins reflect directly on the hard work of our people, the reputation we have built and our drive to be the partner of choice for Australian organisations delivering benefits to their employees.

CUSTOMERS remain our most important focus. Even though we already work with community workers, nurses, teachers, public servants and many others to save money easily and quickly through salary packaging, there is still plenty to do. We continue to look for ways to do more for people who work in our client organisations.

By better understanding them, we can tailor our approaches more accurately and effectively. Equally, there are many organisations that Smartgroup hasn't reached yet who would benefit from what we offer.

SMARTER BUSINESS for us is about ensuring that we deliver our customers even better experiences, with seamless digital journeys, and simplified and streamlined ways of working. The returns for our investors are expected to be significant – organic growth, lower costs to serve and less complexity and risk. For our people, it's continuing to build and nurture a national business where they feel valued and engaged and can see the tangible results of all their hard work.

By **LEVERAGING** our relationships, technology and skills, we're building a powerful growth plan that will reduce operational complexity and risk and continue to improve our seamless customer experience. In 2021, we introduced a number of new technology platforms that are the foundations of our Smart Future strategy:

- We implemented a Digital Experience Platform that will ultimately enable rapid deployment of changes to websites, portals and apps, with the new Smartgroup website being launched on the platform late in the year.
- April saw us launch our new Smartleasing calculator, which has seen a c.40% and c.60% increase in calculator traffic and leasing leads respectively.
- Mid-year we implemented a new Application Programming Interface (API) platform that will enable us to increase automation and partner connectivity.
- We insourced our robotic process automation capability, supporting around 60 robotic processes and 50+ 'digital' FTEs.
- Data and analytics functions and a common data platform were established. These are already leading to insights that will improve the value proposition to customers and will increase revenue and organisational efficiency.
- We migrated to cloud-based telephony, file storage, project management and end-point management systems to increase organisational resilience.

We will build on and leverage these new capabilities in coming years to simplify and streamline our business, improve customer experience and ultimately aim to deliver significant value for shareholders.

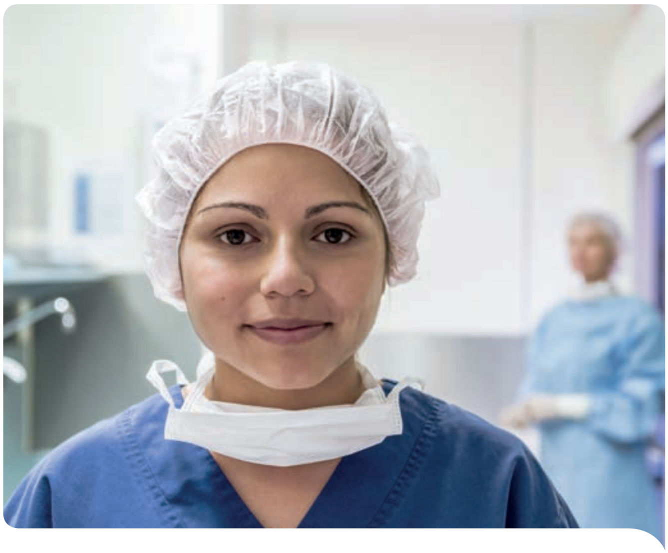
CREATING OPPORTUNITIES depends on continuing to use our knowledge and relationships as teams to do everything we can for all those we represent. The pursuit of excellence is part of who we are. Growth is the reward for pursuing those possibilities through the challenges of a year like the one we've just had.

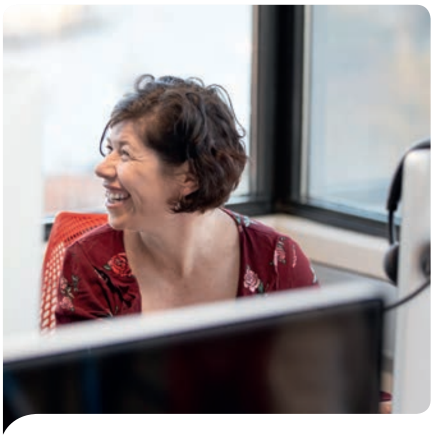
At Smartgroup, we simplify salary packaging, fleet management and a range of other employee management services for organisations across Australia.

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

Our role as trusted partner to organisations

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 their employees across a range of sectors. Our services include salary packaging and novated leasing and also extend to fleet management, payroll and workforce optimisation. Irrespective of whether we are working with an individual or an organisation, all of our services enable access to financial benefits and efficiencies.





Smartgroup has long-standing relationships with some of Australia's largest and most prominent employers. These trusted relationships underpin Smartgroup's ability to educate and promote benefits to each client's employees. The relationship with clients typically extends over multiple years – for some, over a decade. We are deeply proud of all of these relationships. We partner closely with our clients to implement attractive benefits programs, ensuring that our success is tied to the success of each client.

This year, like last year, has been challenging. Many of our clients are at the forefront of the pandemic. Health, aged and disability care, education and government are changing work practices, and their workforces require support and flexibility. Smartgroup has listened to and understood these needs and has responded positively, ensuring that we continue to optimise our service to our clients through enhanced communications and improving our channels for customer engagement.

Not-for-profit sector

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

Healthcare

COVID-19 has continued to put healthcare under pressure to help keep Australians safe. Some of Australia's largest healthcare providers (public and not-for-profit) trust us 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. These 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.

Corporate

We manage the employee salary packaging and novated leasing programs, fleet requirements and employee payroll arrangements of around 1,000 corporate organisations.

Health, aged and disability care, education and government are changing work practices, and their workforces require support and flexibility. Smartgroup has listened to and understood these needs and has responded positively, ensuring that we continue to optimise our service to our clients.

Government

We continue to work with local, state and federal government departments and agencies 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.

Education

We work with a full range of public, private and faith-based educational institutions, managing benefits for teachers, administrators and support personnel in individual schools, universities, state education departments and dioceses. We're proud that we continue to help tens of thousands of teachers, education administrators and other school staff with their salary packaging requirements.

We are uniquely placed to deliver awareness and education about benefits

Over the last several years, we have acquired multiple salary packaging and fleet businesses. These acquisitions have helped us build a large client base of around 3,700 employers. We estimate that, within our client base, we are able to reach up to 1.5 million employees who in turn own around 1.2 million cars. We want to ensure that each and every one of our customers understands and can easily utilise the benefits that we offer to improve their lifestyle and financial wellness.

Natasha Mavros
Recruitment Advisor
Workskil Australia

Can you show me an effortless way to save?

Natasha Mavros is a recruitment adviser for Workskil Australia – a charity and not for profit entity that supports Australians across New South Wales (NSW), South Australia, Western Australia and Victoria to achieve sustained economic and social self-reliance.

Natasha has been salary packaging through Smartgroup for over seven years and says it's something she actively recommends to new recruits because it reduces the amount of tax they will need to pay and therefore means they have more take-home pay overall.

"I would definitely recommend salary packaging," says Natasha. "Over my time working with Workskil Australia, I've managed to save just over $30,000."

"Smartgroup are very good at communicating, and they offer great customer service. Most people won't recognise how many options they have until they speak with a professional who can explain how it all works in detail."

Natasha says that, when she first started at Workskil, she set up her salary packaging so that the funds went straight onto a debit card. That changed when she started building her own house. By arranging for the funds to go directly into her account, she was able to funnel the savings directly into her mortgage.

"If an organisation offers it to their employees, my advice is that you should definitely look into it. I'm very grateful that I've been able to save so much money over the years."

Perhaps not surprisingly, salary packaging is very popular at Workskil. "Everyone in our team uses salary packaging, and people use it for a range of things. Some put it towards their mortgage repayments, like I do, but others use it for everyday spending, meals and entertainment or for weekly rent payments. Our HR department sends out regular culture surveys, and we've found that our internal staff love the salary packaging benefits – it's definitely a plus."

Continued growth

Our financial performance highlights for the year ended 31 December 2021.

NPATA[1]

2020
$65.2m

$69.5m

↑ 7%

Statutory NPAT

2020
$41.3m

$58.8m

↑ 42%

Revenue

2020
$216.3m

$221.8m

↑ 3%

EBITDA[2]

2020
$95.4m

$103.0m

↑ 8%

The 2021 financials are presented on an adjusted basis and have been reconciled to the statutory 2021 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.

Operating cash flow[3]

2020
115%

113%

-2pts

Dividends declared[4]

2020
43.5cps

72.0cps

66%

Net cash/(debt)[5]

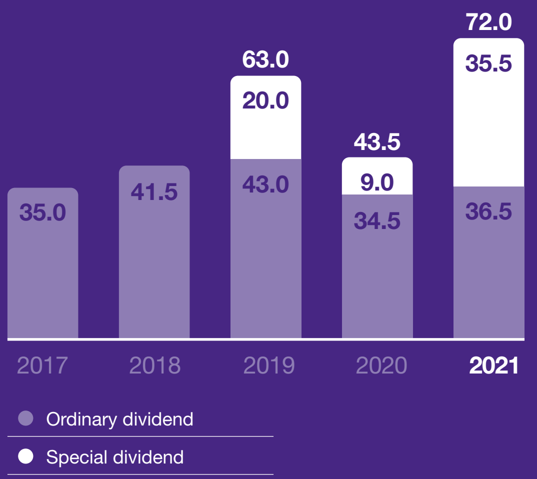
2020
$2.5m

$3.6m

44%

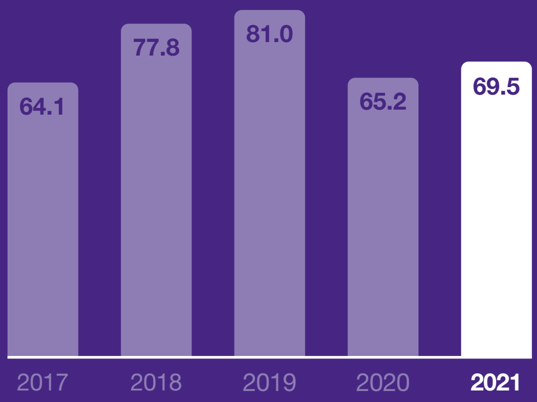
Dividends per share declared (fully franked)

Cents per share



After-tax profits (NPATA)

$ million



3. Operating cash flow excludes receipts and payments from customers' salary packaging accounts and significant non-operating items. Stated as a percentage of NPATA.
4. 2020 includes a 9.0cps special dividend declared on 24 February 2021. On the same date, a 5.5cps special dividend was declared in respect of the 2021 year. In addition, 2021 includes a 30.0 cps special dividend declared on 17 February 2022.
5. Net debt is cash and cash equivalents less corporate borrowings adjusted to exclude capitalised borrowing costs and vehicle borrowings.

Stronger. Together

Smartgroup is pleased to report an improved operating and financial performance for 2021. This is a tribute to the resilience, strong leadership and customer focus of our people, despite a challenging trading environment for significant periods of the year.

Michael Carapiet
Chairman

Lockdowns affected our two largest markets – NSW and Victoria – with Australian Capital Territory (ACT) also impacted. With so many of our clients being Federal and State Government entities, health and aged care providers and charities and not-for-profit organisations, we recognised that the challenges for our clients far exceeded those faced by us, and we sought to ensure that our service levels remained strong throughout the year.

Improved results

Revenue of $221.8 million represents growth of 3% on last year's result. Operating Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) also increased by 8% to $103.0 million. Net Profit After Tax and Amortisation (NPATA) grew by 7% to $69.5 million, with Statutory Net Profit After Tax up 42% to $58.8 million. Disciplined cost management has also generated a strong EBITDA margin of 46% for the year. There is more detail regarding these results in the Managing Director and CEO's Report.

Delays in the global vehicle supply chain affected the settlement timeframes for novated leasing vehicles, resulting in a large pipeline of future deliveries as we head into 2022. Whilst these supply chain issues are likely to remain an ongoing issue, investors should note that, when motor vehicle manufacturers are able to increase production and deliveries return to more normal levels, there is a significant revenue and earnings pipeline that is already established and will provide a strong lift to Smartgroup's future earnings.

The Board is pleased to announce a fully franked final ordinary dividend of 19.0 cents per share. As the business has no net debt and surplus franking credits, the Board has also declared a fully franked special dividend of 30.0 cents per share for the year ended 31 December 2021.

Towards a Smart Future

Our Smart Future program will play an important role in ensuring that Smartgroup remains the trusted partner for Australian employers to deliver benefits to their employees. Smart Future has three strategic pillars:

- Deliver great customer experiences for our clients and their employees.
- Invest in our digital capabilities.
- Simplify and streamline our operations to reduce complexity and risk.

Corporate activity

In September 2021, Smartgroup received an unsolicited, conditional, non-binding, indicative proposal from a consortium comprising TPG Global, LLC. and Potentia Capital to acquire 100% of the shares in Smartgroup at $10.35 per share.

Smartgroup agreed to provide the consortium with a period of due diligence, but the proposal ultimately did not proceed. The Board remains confident in Smartgroup's near-term and medium-term prospects.

A focus on people and sustainability

In late 2021, Smartgroup welcomed Anne McDonald as a Non-Executive Director. Anne brings a wealth of finance, auditing, risk management and governance experience to our Board.

Smartgroup was recognised as an Inclusive Employer by Diversity Council Australia and is one of only 48 Australian employers who have received such recognition. This is the third year in a row that Smartgroup has been recognised by Diversity Council Australia.

We also retained the Workplace Gender Equality Agency citation for the second year, evidencing our commitment to enhanced gender equality in our workplace. Participation and recognition of women at Smartgroup continues to exceed Australian benchmarks. We are proud to have equal representation of women at the executive, senior management and all employee levels and, with Anne McDonald's appointment, the gender diversity at Board level has also improved.

Our commitment to promoting and valuing diversity and difference is something we are very proud of.

This year, the Board established an ESG Committee to provide Smartgroup with even greater leadership and governance to help further drive and channel our initiatives in the areas of corporate responsibility, ethical practices and sustainability.

Smartgroup is well progressed on the adoption of a formal Sustainability Strategy, incorporating broad stakeholder engagement, carbon footprint mapping and sustainability targets.

We delivered our first Modern Slavery Statement in 2021, where we reaffirmed our commitment to zero tolerance of modern slavery in any form.

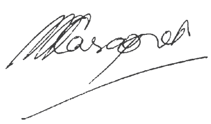
The Smartgroup Foundation also continued into its third year, supporting a record 22 charitable projects.

Looking ahead

Inevitably, 2022 will bring its own challenges, but we are confident that we have the people and the focus to continue to meet these challenges and grow stronger.

Our loyal client relationships, our inclusive and human-focused culture, our service ethos and high-quality products are all advantages we expect to make the most of as we look to accelerate the growth of our business throughout 2022 and beyond.

On behalf of the Board, I would like to thank our clients and shareholders for their ongoing support. I would also like to thank my fellow Non-Executive Directors for their continued commitment and guidance during another difficult trading year and extend the Board's appreciation to Tim and our entire Smartgroup team for their hard work and strong focus throughout 2021.



Michael Carapiet
Chairman

Smart Future aims to increase client and customer satisfaction, grow our revenues from a broader client base, continue to streamline our operating efficiencies and increase the engagement of our people.

Encouraging growth this year

Tim Looi
Managing Director
and CEO

2021 delivered another pleasing performance as Smartgroup and our team members remained flexible and resilient over the course of the year to deliver exceptional client and customer experiences and strong business outcomes.

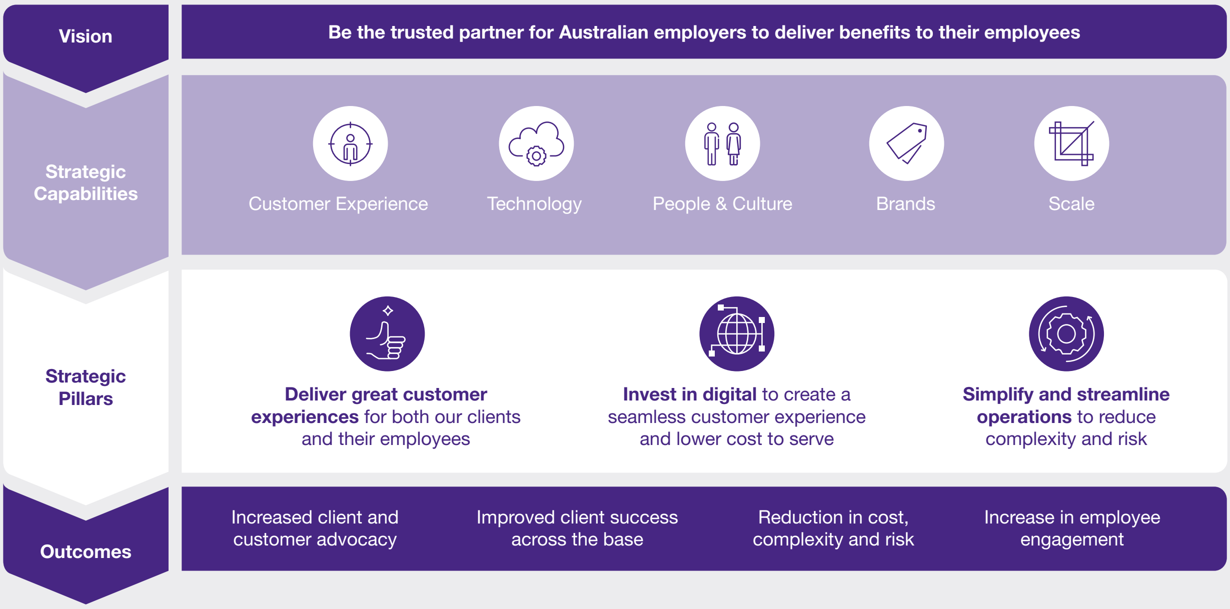
Our business model continued to show resilience in the face of ongoing challenging economic conditions. Our people proved their dedication to each other and to our clients and customers, often going above and beyond to ensure those we work with received the support they needed.

Throughout this period, we have been successful in our renewal of key client contracts – all key client contracts expiring in 2021 were renewed or extended, with the new contracts having terms of up to seven years. We also continued to generate improvements from within our existing business, achieving growth in packages, vehicle orders and settlements, as well as customer engagement and team member engagement.

Over the 12 months, our business has achieved some noteworthy milestones. Our digital investment began to realise outcomes, with digital leasing leads increasing over 10% and improved engagement with our digital tools. Conversions for novated leasing leads to vehicle orders have also improved year on year, and we achieved strong record months for vehicle orders in early 2021.

Smart Future

Smart Future is our program to drive organic growth and to solidify our position as the trusted partner for Australian employers to deliver benefits to their employees. It will generate growth through better customer experiences, an uplift in digital capabilities and simplification of our operations.



We were proud to achieve an 8-point improvement in our service and sales customer satisfaction (as measured by Net Promoter Scores) with strong improvements in our not-for-profit customer base as well as novated leasing.

These milestones were achieved during a year where the majority of our workforce worked remotely. I am expecting that, during this year, we will be transitioning back to incorporating more face-to-face time in the office environment for team members. This will ensure that collaboration and group work, team member support and training are optimised and can only improve on what we have achieved to date.

During 2021 we announced our investment in Smart Future, our program to drive organic growth and to solidify our position as the trusted partner for Australian employers to deliver benefits to their employees. This program will drive growth through an improvement in customer experience, a capability uplift in digital and the simplification of our operations.

Customer experience

We have long recognised great service as a key requirement to increasing uptake of our products and services. Delivery of great customer experience will increase client and customer advocacy and promote referrals as well as cross sales. We have made improvements to the customer interaction channels with positive results flowing through in higher levels of engagement and uptake of services.

3,700
employer clients

377,500
employee customers

Digital investment

With over 3,700 clients and over 377,500 customers across government, health, not-for-profits and corporates, investing in digital capabilities is imperative. We are investing in digital tools and capabilities to improve, enhance and support the customer experience as well as to lower cost to serve through improved self-serve channels. A new digital experience platform was implemented and over the next 12 months, we will be looking to relaunch websites and portals as well as introduce new digital customer engagement tools. Further, we will progressively re-design and roll out our customer relationship management (CRM) tool to ensure it better supports customer interactions.

Simplification

After acquiring multiple salary packaging and fleet businesses over several years, our team members have been focused on integration of these businesses. We are progressively moving from multiple salary packaging brands and platforms to a target state of three. To date, approximately 149,000 salary packaging cards as well as 78% of clients and 74% of customers have transitioned. This has brought about more consistency in servicing as well as enabling customers to access a broader benefits suite.

Our goal is to provide a great customer experience enabled by technology and delivered by engaged team members to continue to be the trusted partner for our clients and in turn, grow and build scale within our business.

Strategic pillars

Customer experience	Re-design client and customer portals	Re-design websites and apps	Leverage common CRM across group
Streamline operations	Establish data practice and common data platform	Improve core systems in packaging, leasing and fleet	Invest further in business automation
Technology foundations	Continue migration to cloud-based software	Implement new digital experience platform	Enhance core API capabilities

Financial results

In 2021, we recorded revenues of $221.8 million, EBITDA of $103.0 million and NPATA of $69.5 million. Revenue grew by 3%, with EBITDA and NPATA growth at 8% and 7% respectively. EBITDA margin rose 2 percentage points to 46%.

Although on-site sales activities remained restricted due to COVID-19 outbreaks, we saw strong organic growth in our salary packaging customer numbers, up 5% to 377,500, and our fleet vehicles under management, up 2% to 25,400. Approximately 8,500 of our additional salary packages were introduced from a new health sector client onboarded in April.

Novated leasing volume growth of 4% was the primary contributor to the increase in revenue from $216.3 million in 2020 to $221.8 million. Challenges continued in the supply of motor vehicles across Australia and globally, and Smartgroup was not immune to this challenge. This resulted in an unprecedented number of novated lease vehicles that have been ordered but not yet delivered to customers.

By the end of 2021, this pipeline of novated lease vehicle orders was around four times pre-COVID-19 levels, representing a significant amount of delayed revenue of around $12 million. Vehicle supply shortages also saw our current novated leases under management reduce by 3% to 64,700.

While the NSW, Victoria and ACT lockdowns in the second half of the year impacted novated leasing lead, order and settlement volumes, we showed good momentum and resilience to recover quickly when the respective states and territories opened up late in the year.

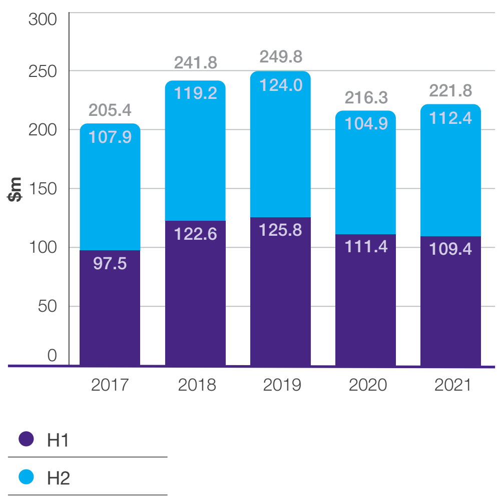
Novated leasing yields were 5% lower than 2020 due to the full-year impact of the previously announced insurance price reductions that came into effect on 1 July 2020 and the implementation of the Treasury Deferred Sales Model for the sale of add-on insurance products, which was effective 5 October 2021.

2021 NPATA includes a small number of individually significant items, including (all stated pre-tax):

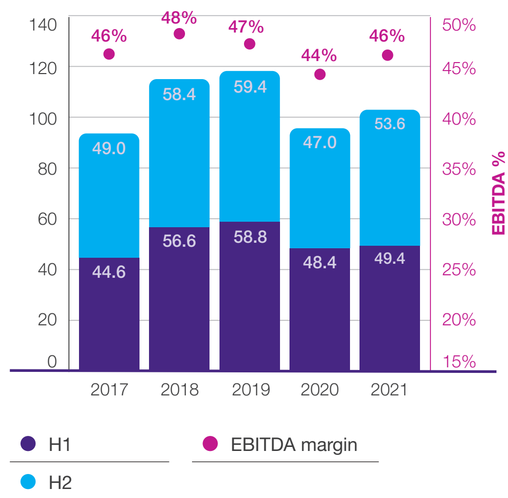
- a $1.2 million one-off revenue item related to novated leasing financier payments; and
- a $0.7 million provision reversal for short-term fleet products, originally taken up at the onset of the COVID-19 economic disruption due to uncertainty regarding counterparty fulfilment.

Operating cash flow generation was again high at 113% of NPATA (2020: 115%), resulting in a net cash position at the end of 2021.

Revenue

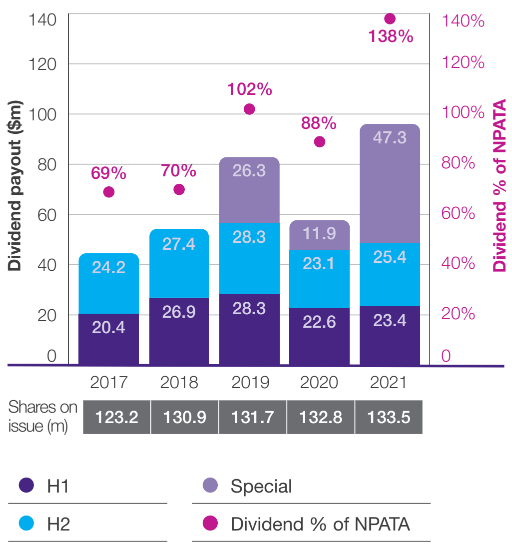


EBITDA

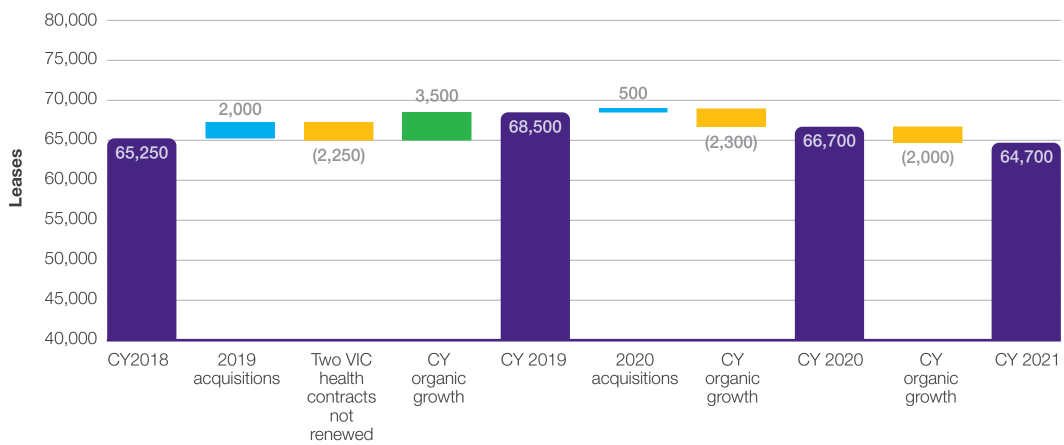


NPATA

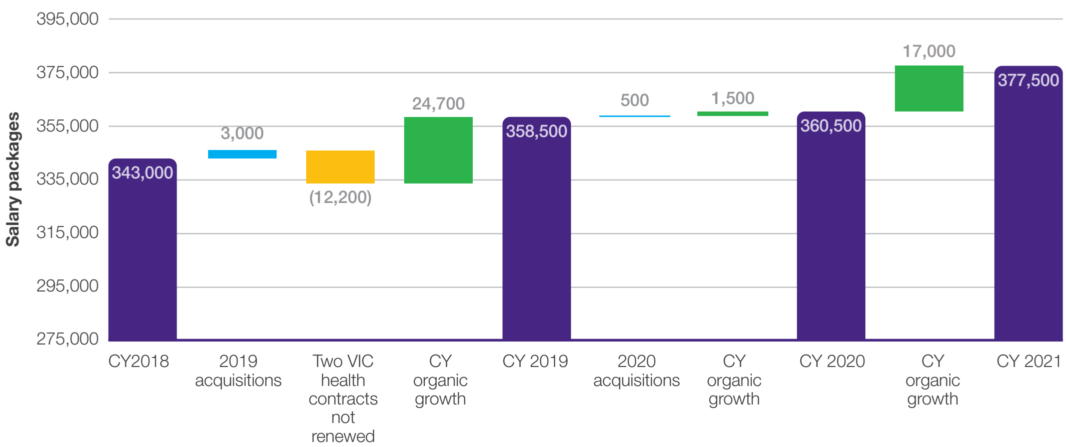
Dividend (fully franked)



Novated leases under management



Salary packaging customers



Although on-site sales activities remained restricted due to COVID-19, we saw strong organic growth in our salary packaging customer numbers, up 5% to 377,500. Approximately 8,500 of our additional salary packages were introduced from a new health sector client onboarded in April.

Regulatory

During the year, we implemented changes to the way we sell Add On Insurances (AOI). In October 2021, we completed the successful implementation of a deferred sales model for our sales of AOI products, with system controls, training and quality assurance processes now in place. This was supplemented by the adoption of a full opt-in sales process for all AOI products ensuring full compliance with the legislation introduced by the government in late 2020.

We are continuing to roll out improvements to our customer journey to improve the customer experience for all products, including AOI, and expect that attachment rates for products will improve as this is embedded and enhanced throughout 2022.

Our clients and customers

Smartgroup has established and developed relationships of many years standing with some of Australia's largest employers. We also have a significant number of medium and smaller sized clients that we continue to engage well with. Through 2021, we successfully increased revenue from clients outside of the top 50 by around 7%.

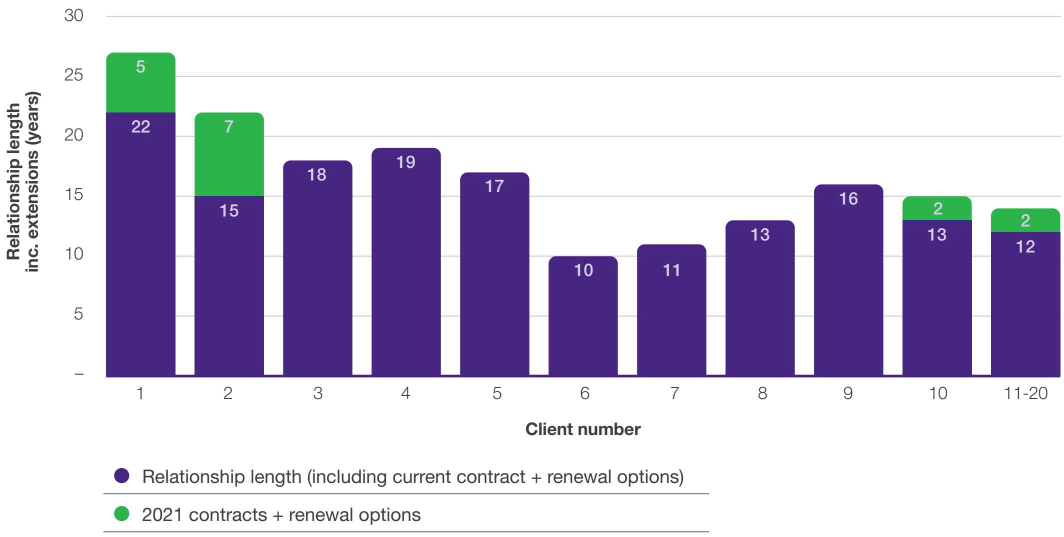
Our people

The diversity, experiences and skills of our people make us the business that we are, and so we're proud to have been recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency and as an Inclusive Employer by Diversity Council Australia. We will continue to support and encourage diversity as a powerful and distinctive part of our culture.

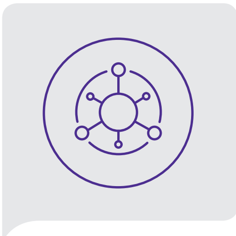
Official accreditation of our Reconciliation Action Plan (RAP) this year will drive our contribution to reconciliation, both internally and in the communities in which we operate.

Capability building at every level was a priority this year, with our new STRIVE program supporting our leaders in particular, to achieve their fullest potential.

Top 20 client revenue profile



We continue to generate high-quality earnings from a diversified and loyal client base. The business has performed well from an operational perspective, and this, together with implementation of our Smart Future strategy, will ensure we are positioned to grow as trading conditions and vehicle supply improve.



Supporting communities

We continue to be involved with communities directly through sponsorships and initiatives as well as through the Smartgroup Foundation. We expanded our partnership with Police-Citizens Youth Clubs (PCYC) Queensland and its very successful Catch Me If You Can program, as well as hosting Australia's Biggest Morning Tea and Beans for Genes Day where we asked our people to donate the cost of a coffee towards finding ways to treat or prevent genetic diseases in children.

Our Smartgroup Foundation also provided funding totalling almost $250,000 for grassroots initiatives run by 22 organisations through two rounds of grants.

Contributing to a sustainable future

Our Carbon Offset Program in partnership with Greenfleet, Carbon Positive Australia and The Nature Conservancy contributed to helping our customers offset 106,127 tonnes of carbon generated by their novated leasing vehicles in 2021, with over $1,966,000 donated. This program saw us invest in a range of important projects, include investing in a blue carbon project at Port Parham, 70 kms North of Adelaide to restore coastal wetland into an effective carbon sink.

As part of our partnership with Carbon Positive Australia, Smartgroup customers who offset the carbon emissions of their novated leased vehicles also contributed to planting native trees at Eurardy Reserve.

We established a formal ESG Board Committee in 2021 and are well progressed on completing our carbon footprint mapping, setting formal carbon targets and rolling out our Sustainability Strategy. We are looking forward to providing further updates on this important work during 2022.

At year end, we can be proud of what we have accomplished. We continue to generate high-quality earnings from a diversified and loyal client base. The business has performed well from an operational perspective, and this, together with the implementation of our Smart Future program, will ensure we are positioned to grow as trading conditions and vehicle supply improve.

A key reason why our client base remains so loyal is the strong levels of service that our teams provide. My thanks to all of you for your hard work this year, to our Board of Directors and executive team members, our clients and customers and, of course, our shareholders for your ongoing support.

Tim Looi
Managing Director and CEO

A culture of connection and cohesion

Our people are our greatest asset and are integral to achieving our Smart Future goals. Investing in our teams and team members to grow capability has been a focus throughout 2021 to support our highly engaged, high-performance culture.

Once again, this year COVID-19 brought stresses and separation that challenged our teams. With resilience and agility, our people rose to those challenges, innovating and delivering services and support to our customers around Australia. We ended the year with 685 full-time equivalent permanent and temporary team members across Australia, with hybrid and remote work arrangements successfully in place.

Connecting our teams

Our COVID-19 response plan was designed to ensure the wellbeing and safety of our team members and to maintain collegiality and collaboration when teams are physically remote from one another. Our Wellbeing Program for 2021 focused on raising awareness around managing mental health. Implementing resilience training, using mental health speakers, sending care packs, holding vaccination information sessions, giving access to digital tools like Smiling Minds and using our all-hands webinars to share best virtual-working strategies equipped Smartgroupers to tackle the frequent changes and challenges presented by the pandemic.

Again this year, our teams found innovative ways to work and thrive together whilst being physically separated. Working from home for extended timeframes was enabled by technology and finding new ways to collaborate and connect. As well as care packs, our events went virtual, with trivia, comedy, DJ sets and some well-known guest speakers helping to keep spirits high.

Our COVID-19 response plan was designed to ensure the wellbeing and safety of our team members and to maintain collegiality and collaboration when teams are physically distanced from one another.

We are very proud that our Reconciliation Action Plan (RAP) received official accreditation by Reconciliation Australia and that Smartgroup was recognised as a member of the RAP network in October 2021.

STRIVE leadership

Capability building at every level of Smartgroup remains our primary people focus. We are passionate about investing in and growing our people in every role and part of our business. Great leadership, in particular, is essential to bring out the best in our people and ensuring they have opportunities to achieve their full potential. For this reason, we introduced STRIVE leadership, an extensive coaching and education program that offers comprehensive Smartgroup-specific training and facilitation in leadership and people management. With our values as the centrepoint and using best-practice people management frameworks and philosophies, this Smartgroup-specific program equips our people managers to be inspirational and effective leaders to positively impact teams and team members.

Promoting great performance in teams and individuals has been a key focus this year. Implementing Discovery Insights personality profiles for all team members has been a huge undertaking. This program was launched to better understand and appreciate our similarities and differences, and to leverage the uniqueness of perspectives and styles within and across teams. This initiative has measurably enhanced teamwork and interpersonal relationships, while reinforcing the importance of diversity and empathy in our workplaces. We firmly believe that valuing and embracing difference is integral to a high-performing organisation, and this starts with self-awareness and respecting others.

Customer experience is a pillar of our Smart Future program. All of our customer-facing teams completed Customer Service Institute of Australia (CSIA) Customer Excellence Training this year, to further enhance our service culture and continuously improve our customer experience. We were very proud to be recognised yet again at the CSIA Australian Service Excellence Awards, with our Smartleasing Vehicle Customer Service team winning the Service Champion award and various team members across the business receiving individual recognition and awards.

Customer experience is a pillar of our Smart Future program. All of our customer-facing teams completed Customer Service Institute of Australia (CSIA) Customer Excellence Training this year, to further enhance our service culture and continuously improve our customer experience.

We pride ourselves on being an inclusive and diverse employer. Our commitment to creating and sustaining a diverse and inclusive culture, where every person feels valued, respected and welcome, is a central tenet of our culture.

Recognised for our diversity and inclusion

We pride ourselves on being an inclusive and diverse employer. Our commitment to creating and sustaining a diverse and inclusive culture, where every person feels valued, respected and welcome, is a central tenet of our culture.

Our diversity focus has not been limited to gender. We embrace diversity in work background, experience, perspectives, education, age, race, ethnicity, physical abilities, religious beliefs, sexual orientation, marital or family status and other real and perceived differences. Our workforce includes gender-balanced teams and over 70 cultures, and we are proud to feature strong representation of women in our senior leadership positions. We are passionate pioneers of gender equality and valuing each team member for their unique contribution.

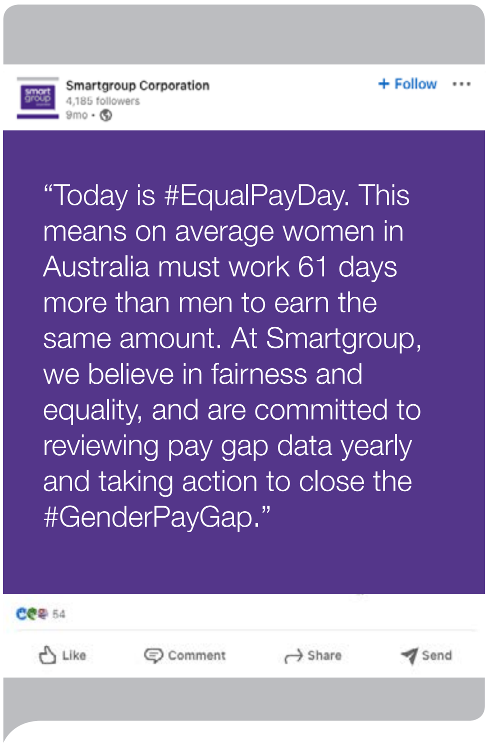
In 2021, we were again recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency. Smartgroup was one of a select group of employers across Australia who met the stringent criteria to achieve this citation. There are seven key focus areas including leadership, accountability and gender pay equity. The citation also assesses the lived experiences of our people within the workplace through a consultation process – further proof that we are indeed practising what we believe.

In 2021, we were also recognised, for the third year in a row, as an Inclusive Employer by Diversity Council Australia. To be awarded this recognition, we had to achieve a number of benchmarks related to recognising and celebrating culture, faith and gender diversity as well as embracing the LGBTQI+ community and challenges associated with mental health in our teams. We are thrilled to be recognised for our commitment to diversity and addressing discrimination in our workplaces and communities.

Speaking up for equality, safety, support and respect

Tim Looi was one of 200+ Australian CEOs this year who vowed to Stand Up For Respect. The pledge requires business leaders to publicly speak out against gender-based and sexual harassment in the workplace and promote safe and inclusive environments for everyone.

We also celebrated Equal Pay Day as we continue to identify and address gender-based pay gaps to ensure a bias-free workplace where contribution is fairly rewarded.



We are proud of the advances we continue to make in setting an example around gender-based issues. Participation and recognition of women at Smartgroup continues to exceed Australian benchmarks, with at least 40% of our executive team comprising women and at least 40% of women team members at all organisational levels. With three female Board members, Smartgroup has close to 40% representation of women at the Non-Executive Director level, and the appointment of a female chair for a Board sub committee shows our determination to progress equality and forge strong gender role models.

Parents and carers represent close to half of all team members. Supporting and valuing all team members through every stage of life, in practical and impactful ways, is important to Smartgroup. We recognise the ongoing and changing challenges of being a parent or carer. We are proud of our inclusive and innovative practices and benefits that support parents and carers. Our parental leave provisions are one of Australia's leading schemes, with 20 weeks' paid leave for all parents regardless of secondary or primary status and superannuation paid while on unpaid parental leave.

In 2021, we launched the Women's Room – a monthly forum for Smartgroup women to share, celebrate and inspire each other on women's issues in the workplace. The feedback and attendance at our sessions has been outstanding, and we are committed to an ongoing dialogue about women in employment and how we work together to address barriers to enable full participation, promotion and progress in the workplace.

CEO Tim Looi also established and leads our Male Champions of Change group to ensure the business is achieving gender equality, advancing more and diverse women in leadership and building respectful and inclusive workplaces. As part of this strategy, men with power and influence step up to stand beside women leaders. Together, they form a high-profile coalition to lead and be accountable for change on gender equality issues in our organisation and wider communities.

Sharing the experiences of others

We first introduced our Diversity Speaks programme in 2019 to inspire and celebrate diversity and difference. In March this year, Cathy Freeman was our guest speaker at International Women's Day, with our team members and clients joining virtually and in person to hear the three-time Olympian and Australian icon speak about her career and pride in being an indigenous role model. Cathy shared her inspiring story of how she became the first Australian Aboriginal woman to win a Commonwealth Games gold medal and how she continues to support First Nations children's education via the Cathy Freeman Foundation.

Former AFL great, Brownlow medallist, four-time All Australian and member of Indigenous Team of the Century Adam Goodes was our guest speaker for NAIDOC week and enthralled clients and team members with his story, and the work he has done in the community post-football promoting indigenous culture and harmonisation, as well as the work with the GO Foundation (Goodes O'Loughlin Foundation) to create a brighter future for First Nations children through education. Smartgroup is proud to support the Uluru treaty.

We have continued our partnership with MAX Employment to enable individuals from disadvantaged or challenging circumstances to access employment. In December, to highlight the importance of ability in the workplace, Sam Bloom, best-selling author, Paralympian and disability advocate, joined us to speak about the importance of disability issues, access and inclusion in workplaces and the community.

Smartgroup was recognised as a member of the RAP network in October 2021.

Participating in indigenous justice

We are very proud that our Reconciliation Action Plan (RAP) received official accreditation by Reconciliation Australia and that Smartgroup was recognised as a member of the RAP network in October 2021. A RAP is a strategic document that supports our business plan and includes practical actions that will drive our contribution to reconciliation, both internally and in the communities in which we work.

Our engagement with reconciliation and Aboriginal and Torres Strait Islander peoples manifests in internal initiatives such as NAIDOC Week celebrations and community partnerships, such as the PCYC Queensland programs.

The artist behind our new iconic First Nations artwork is Jade Kennedy of the Tatti-Tatti/WadiWadi/Muddi-Muddi-West Kulin Nation and Wajak/Kaardjin-Noongar Nation. The artwork represents our reconciliation journey and will be used in all platforms whenever we report on our RAP actions. The artwork proudly welcomes visitors as they enter our Sydney office lobby.

To help support indigenous employment, we continue to advertise employment opportunities in *Koori Mail* – an indigenous owned and operated employment newsletter.

We value our values

Last year, we refreshed our values to reflect our one company, one team culture and to symbolically complete our brand harmonisation strategy. How we work is the foundation of our strong culture, and our values signify and demonstrate the importance we place on the right behaviours delivering great outcomes for our people, customers and business.

This year, we continued to celebrate #onecompany #oneteam and to embed our values of Care, Accountability and Team. With each team developing their own Values Code and annual awards to recognise individual and team behaviours, our values have become the foundation of our culture and “how we do things around here” going forward.

Happy customers

Throughout 2021, and despite the challenges encountered from COVID-19, our commitment to customer excellence remains unwavering and ongoing. We have innovated and implemented service offerings that cater to different customer journeys and supported these with platforms that digitally enable great customer experiences.

Paolo Compagnino
Customer Service Consultant
Smartgroup

Where could my career at Smartgroup take me in the years ahead?

Paolo Compagnino has been a Customer Service Consultant with the Smartfleet team for about 15 months. This year, he won a personal award for accountability after being nominated by his peers for truly living this key Smartgroup value.

Previously, Paolo worked in a law firm as an administrative assistant and later in recruitment, before taking up his present role. His current work involves managing the administration for Smartfleet customers using fuel cards and vehicle e-tags for highway tolls. All up, he administers around 40–50 fuel card accounts, including those for 25 large clients across Australia.

The Smartfleet team that Paolo is part of comprises seven people. All of them are currently working from home, but Paolo says he never feels isolated because there are daily meetings, regular Teams meet-ups and updates and support from the People and Culture and IT teams.

"Smartgroup's big on teamwork, development and care," he says. "There's a great combination of more autonomy and more support than I have had in previous roles. Teamwork is a real priority. You can feel the support."

Speaking about his experiences so far, Paolo says, "Smartgroup has been an outstanding employer since day one. From an engaging onboarding program to the extended training and external courses to broaden my skill set, this is a company that truly cares about career growth and development. I am lucky to be part of a team where no challenge feels too big or overwhelming, as my team members will always put their hands up and go the extra mile to assist when the workload picks up and my team leader actively supports me through new and difficult processes."

Looking ahead, Paolo says he's keen to lean into client-facing roles such as account management or to get involved in procurement. "I knew from my first day of starting my role as a Customer Service Consultant for Smartfleet that there would be a clear career pathway and consistent ongoing support to ensure that my development is taken seriously.

"Smartgroup offers many different pathways in terms of a career," he observes. "Something like account management would combine my experience in administration with working with people at deeper level. That feels very appealing."

Standing alongside our communities

Our philosophy has always focused on supporting not just our clients but also the communities within which they work.

This year, we continued to support community and charity organisations directly through sponsorships and initiatives as well as through the Smartgroup Foundation.

Because so many of the people we work with operate in the public benevolent institutions sector, we actively look for opportunities to align our reputation and initiatives as a good corporate citizen with their interests and objectives. This year, we continued to support community and charity organisations directly through sponsorships and initiatives as well as through the Smartgroup Foundation.

COVID-19 has impacted a wide range of communal activities, and there were some difficult decisions this year around which programs we would support. We confirmed important partnerships across sports, the arts, and our Aboriginal and Torres Strait Islander programs, including our partnership with Australia's largest arts company, Opera Australia, and its musical theatre events and school programs, but reluctantly decided to discontinue our sponsorships of the Super W competition and the Queensland Reds.

Our partnership with PCYC

We were proud to extend our partnership with Police-Citizens Youth Clubs (PCYC) Queensland and the work it does through critical community initiatives such as the Catch Me If You Can program, aimed at fostering stronger connections and relationships between Aboriginal and Torres Strait Islanders, at-risk youth and the Queensland Police Service.

Catch Me If You Can restarted in October 2020 and has since expanded into new areas including Cairns, Edmonton, South Burnett and Logan. The program includes sporting activities, mentoring workshops and leadership development and has been shown to generate noticeable improvements in behaviour, level of communication and school attendance.

We intended to support PCYC's biggest event of the year – the Bunburra beach football tournament – which brings together more than 200 young Aboriginal and Torres Strait Islander players, but it was postponed to 2022 because of COVID-19.

Smartgroup for STEPtember
Move together for cerebral palsy

$15,263

Siblings Luke and Sarah Minton
for the Kokoda Foundation using
their MAD Days

$2,739

Ongoing commitments

We continue to support and explore ways to be involved with the community. Make a Difference (MAD) days, for example, are two paid days per year when Smartgroup people can lend a hand to our environment, a local community or a charity close to their heart. Siblings Luke and Sarah Minton used their MAD days to embark on a 96km Kokoda Challenge hike that raised $2,739 for Kokoda Youth Foundation.

In September, we stepped up with STEPtember for cerebral palsy, raising $15,263.

We supported International Day of People with Disability to show our commitment to supporting and celebrating differences, diversity and disabilities in our team members and community.

We supported the UN Women National Committee Australia and hosted tables at UN Women's International Women's Day lunch in Brisbane. We also offered scholarships for further education through the Smartsalary Epworth Scholarship, which funds valuable career development of talented employees of the organisations we work with.

Another continuing initiative was the AccessPay Training and Development Scholarship (Anglicare WA) to support Anglicare's staff in remote communities to be able to access educational opportunities.

New ways of getting involved

New initiatives this year included hosting Australia's Biggest Morning Tea in our Sydney, Adelaide, Perth, Melbourne and Brisbane offices to help the Cancer Council raise much needed funds for vital cancer research, support services, prevention programs and advocacy.

We also decided to do our own version of Jeans for Genes Day called Beans for Genes Day where we asked our people to donate the cost of a coffee to Jeans for Genes. This new initiative supported our client the Children's Medical Research Institute, which is dedicated to finding ways to treat or prevent genetic diseases to create a brighter future for all children.

We continue to support and explore ways to be involved with the community.

We asked our people to donate the cost of a coffee to Jeans for Genes, supporting our client the Children's Medical Research Institute.

Established in 2019, Smartgroup Foundation receives an annual grant from Smartgroup Corporation to support charities with Deductible-Gift-Recipient (DGR) status.

We currently have six areas of focus, chosen by our team members:

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

Grant recipients differ every year. This year we provided funding for projects run by 22 organisations through two rounds of grants. The projects chosen are all grassroots initiatives that improve our communities within the areas nominated by our team members. Each project must meet the selection criteria required for approval and is assessed through a structured approval process.

22
organisations

Organisation	The project we supported
Brightside Farm Sanctuary	Funding to support the building of kennels and shelter for animals in Tasmania's Huon Valley.
Brotherhood of St Laurence	This project was a sponsorship for the Fitzroy Breakfast Club, which provides children with a nourishing meal every weekday before school and helps to improve school attendance and learning engagement.
Cancer Patients Foundation	Look Good Feel Better – a program providing an outlet for people with cancer going through treatment. Funding helps support home-delivered confidence kits and virtual workshops to deliver skincare, makeup, wigs and headwear along with guided information.
Cottage by the Sea Queenscliff Inc.	This project sponsored a four-day Take a Break camp for disadvantaged children from the Mirabel Foundation. Children may be at risk due to dysfunction within their family caused by poverty, cultural disadvantage, family breakdown, domestic violence or mental trauma. The aim of the Take a Break program is to provide fun and learning in an idyllic seaside location for primary school children in need of respite.
Foster Families South West Inc.	Foetal Alcohol Spectrum Disorder (FASD) training sessions with PATCHES. The training gives carers the skills and understanding of FASD they need to work with at-risk communities and individuals.
Geelong Food Relief Centre Inc.	Weekly purchase of nutritious food for the Geelong Food Banks. The program ensures children have food in their lunchbox and provides the essential hygiene products that impart dignity.
Karrkad Kanjdji Trust	This project addresses the protection of vulnerable native species in West Arnhem Land. Warddeken Indigenous rangers undertake ecological monitoring and use the information generated to target their land management efforts to control threats.
Kids Under Cover	This organisation works towards preventing youth homelessness in South Australia. The funding helped provide a two-bedroom studio for two young people at risk of homelessness in Onkaparinga, South Australia.
Life's Little Treasures Foundation	Funding supports the continuation of two NICU Connections online support group sessions every week for 12 months. These sessions include NICU Connections in Hospital, for those with baby/ies in hospital, and NICU Connections at Home, for those who have eventually been able to take their baby/ies home. Funding also helped support the pilot of a third group specifically for fathers.
Little Wings	Support for the Medical Wings program, which flies paediatric medical specialists to regional areas to provide routine pop-up clinics for children and training for local medical staff.
Miracle Babies Foundation Ltd	This funding supported the Nurture Time program at Royal Hospital for Women, which provides in-hospital support for premature babies and their families, facilitated by caring volunteers who themselves have experienced the birth of a premature or sick newborn.
Orygen	Orygen, in collaboration with young people, created and piloted an art-based therapy program called NinjaART at headspace Werribee as a 'soft entry' for teenagers to do some artwork, have some food and have a chat about their mental health.

Organisation	The project we supported
Pancare Foundation	Changing the lives of rural and regional patients with incurable cancer. Pancare is embarking on a health education program, starting with GPs, by producing 500 state-of-the art, current information packs about upper gastrointestinal cancers.
Rural and Remote Mental Health Limited	Funding sponsored the Deadly Thinking program, which is a social and emotional wellbeing and suicide prevention workshop designed by and for Aboriginal and Torres Strait Islander people, to be delivered to their communities.
Stewart House	This project sponsored 16 children aged 7–14 from regional remote NSW public schools attending a respite program at Stewart House. This project addresses their physical health and emotional and social wellbeing needs.
The Humour Foundation	Clown Doctors work in partnership with medical and health professionals to divert children and young people during painful procedures, help calm and distract in emergency department settings, encourage positivity and resilience during physio and occupational therapy and generally improve outcomes in what is often a stressful, anguished environment. Funding helped maintain the existing program at Sydney Children's Hospital, Randwick.
The Kidzwish Foundation	The Kidzwish Sibling Support Program targets the brothers and sisters, aged 5–18 years in families who have a child living with a disability or chronic Illness. The program provides social and emotional support, fun and respite for these young carers.
The Pyjama Foundation	Children in the foster care system are in the lowest pool of educational levels in Australia. The Love of Learning Program trains committed community volunteers to mentor a foster child in the foster home on a weekly basis.
Top Blokes Foundation	The Top Blokes Mentoring Program strengthens the mental health and emotional resilience of teenage boys while improving their engagement and perception within the wider community. Across six months, 14–17-year-old males in high schools participate in weekly interactive workshops.
Treasure Boxes Inc.	The Safe Start program supports vulnerable babies born into crisis or extreme disadvantage, by providing their families with essential material aid to keep their baby healthy and ensure they have a safe start to life. Funding helped provide 700 Treasure Boxes.
World Animal Protection	This project helps build the resilience and capacity of eight communities in high-risk bushfire areas in northern NSW communities so they are better prepared to protect pets, farm animals and wildlife in future bushfire events.
Women's Legal Service Queensland	Funding supported the Women's Legal Service Queensland Client Emergency Relief Fund to help provide its clients with urgent and essential items when they have made the decision to leave a violent partner. The funding provides women and children at risk with the means and opportunity to leave, breaking the cycle of violence.

Bronwyn Sheehan
The Pyjama Foundation

How does Smartgroup work with The Pyjama Foundation to foster a powerful love of learning?

In 2004, Bronwyn Sheehan saw the disadvantages faced by children in the foster care system and established The Pyjama Foundation to do something to address how kids' learning was suffering.

The Foundation's Love of Learning Program works on children's learning, life skills and self-confidence so that their life outcomes improve. The Pyjama Angels are volunteers who work with the children who need support. The need is huge: 93% of foster children aged 7 read below the average level, 75% of children in care do not finish school and 50% of homeless people have come from a care background.

Pyjama Angels are matched with a child to spend an hour each week with them. The focus is learning activities like reading books together, playing educational games and helping out with their homework. Acting as an extra support person, a Pyjama Angel brings some fun and encourages a love of learning. It's not just about providing academic support either. It's about nurturing a meaningful relationship.

So far, Smartgroup Foundation's financial assistance has allowed The Pyjama Foundation to give 10 children living in foster care a positive and consistent adult role model.

"Thanks to the generosity of organisations like Smartgroup Foundation, we are able to change the life direction of these children and give them a fair chance at achieving their dreams," says Bronwyn. "Our Pyjama Angels do an amazing job of making each child feel special. They bring fun and laughter into a child's life, they communicate with them and make them feel safe. As a result, children that have been tremendously disadvantaged build the confidence and trust they need to re-engage with learning."

Contributing to a sustainable future

For Smartgroup, sustainability is not just about the environment and social responsibility, it is about the integration of sustainable thinking into all our decisions, business processes and relationships. It is part of the way we do business and essential to our ongoing success. We aim to continuously optimise our operations, avoid harm to the environment and find innovative and timely improvement solutions.

ESG sub-Committee established

In 2021, we continued our journey towards improving our sustainability governance and framework with the establishment of a formal Environmental, Social and Governance (ESG) Board sub-Committee, which reports to the full Smartgroup Board. The purpose of this Board Committee, as set out in its Charter, is to consider and make recommendations to the Board on the social, environmental and ethical impact of our business activities, major corporate responsibility initiatives and changes in policy and our communications with stakeholders about our corporate responsibility and sustainability policies.

In 2021, our Carbon Offset Program donated over $1,966,000 to our environmental partners Greenfleet, Carbon Positive Australia and The Nature Conservancy.

Four key goals achieved

In 2021, we achieved four key goals on our path to implementation of a robust Sustainability Strategy:

- The appointment of an external advisor to assist with the development of our Sustainability Strategy.
- Significant progress on a carbon footprint analysis, which will provide meaningful data to assist us to better understand the carbon impact of our operations and ultimately provide the base for the setting of carbon targets.
- Commencement of an internal and external stakeholder engagement project to better understand what our key stakeholders want us to achieve in our ESG work.
- A detailed desktop review and risk analysis to better understand our risks and the mitigating steps we can take within the ESG space.

Sustainability in leasing and fleet management

Novated leasing and fleet management provide our clients and customers with convenient and cost-effective ways to own and operate vehicles. The vehicles are selected and owned by our clients and customers, and we have limited ability to direct these purchase decisions.

However, we recognise that we have a unique ability to help contribute to lowering Australia's carbon load, particularly around our novated lease management offering, and we continue to do this through our innovative Carbon Offset Program and other measures.

We also recognise that we are yet to fully understand our impact on the environment, and this will be a key focus area for us in 2022. A key part of our Sustainability Strategy will be examining the ways in which we engage with clients and customers and the products we offer, to seek to identify meaningful ways that we can reduce our direct and indirect impact on the environment.

Our partnership with Greenfleet

In 2021, our Carbon Offset Program donated over $795,000 to our environmental partner Greenfleet, which will contribute to approximately 53,000 tonnes of carbon being sequestered over the life of the forests planted. Our partnership with Greenfleet extends to a number of important ongoing initiatives and site projects such as Anam Talamh on Bundjalung Country (restoring a critically endangered lowland rainforest), Corymbia Farm in West Gippsland (protecting the rare Giant Gippsland Earthworm made famous by Sir David Attenborough), Koala Crossing in South East Queensland (improving biodiversity and creating habitat for threatened native species), as well as Kosciuszko National Park in NSW (reforesting more than 250 hectares of the national park with native species and working with the Traditional Owners to help preserve Indigenous artefacts discovered during site work).

We were pleased to also organise two Smartgroup and Greenfleet Tree Planting Days last year. Our NSW and Queensland team members volunteered to help plant over 2,700 trees in April and May. In NSW, working together with Sutherland Shire Council, we revegetated an area of ecological importance called Bonna Point Reserve, where the new trees will help provide habitat for endangered shorebirds in the region. In Queensland, our team planted trees at Aroona, a working cattle property that is also being revegetated with native species to restore biodiversity and build wildlife habitat.

The Nature Conservancy

Last year, we expanded our environmental partnership program to include The Nature Conservancy, a global conservation organisation dedicated to conserving the lands and waters on which all life depends. Specifically, we have been working with them on a project involving 'blue carbon' and the restoration of Adelaide coastal wetlands.

The process by which carbon is removed from the atmosphere and captured in trees, plants and soils is known as carbon sequestration. It's a natural climate solution that can help fight climate change. Coastal wetlands, which include mangrove forests, saltmarshes and seagrass meadows, are powerful natural climate solutions. They absorb and store carbon at a much greater rate than forests and grasslands and, if undisturbed, they are the only ecosystem that can continuously store carbon in soil for millennia. This type of carbon sequestration is known as blue carbon because it takes place in marine ecosystems.

The Nature Conservancy is at the forefront of blue carbon in Australia. We are one of the first Australian companies to invest in a blue carbon project involving the restoration of coastal wetlands to form effective carbon sinks.

The potential for this project is extraordinary. Restoration of a typical 360ha coastal wetland could result in the capture of 9,000 tonnes of carbon. That's equivalent to taking 7,000 cars off our roads for a year.

Looking after our environment and actively contributing to the communities in which we work and live is essential to our ongoing business success. We aim to continuously optimise our operations, avoid harm to the environment and find innovative and timely improvement solutions.

We are one of the first Australian companies to invest in a blue carbon project to restore coastal wetlands in Adelaide… Restoration of a typical 360ha coastal wetland could result in the capture of 9,000 tonnes of carbon.

We recognise that we have a unique opportunity to help contribute to lowering Australia's carbon load.

The project site adjoins the Adelaide International Bird Sanctuary National Park – Winaityinaityi Pangkara, a critically important habitat for many Australian and migratory birds. Over 15,000 shorebirds travel here for up to six months each year. They fly in from breeding grounds in China, Siberia and East Asia.

By expanding the habitat available to these birds, the project strengthens global conservation efforts along one of the world's three great migratory bird flight paths. Restoration activities to capture blue carbon involve removing man-made barriers such as roads or bund walls to allow the natural flow of tidal water back into previously dry areas. This in turn enables the assisted regeneration of saltmarsh and mangrove vegetation. Other restoration work being considered includes pest plant and animal control and revegetation to accelerate plant growth.

Biodiversity and associated blue carbon gains will be monitored to demonstrate that wetland restoration has win-win outcomes for people and nature.

The largest of all the world's shorebirds, the Eastern Curlew. © Martin Hale

Carbon Positive Australia

Our other major partnership commitment involves an important restoration project in the Eurardy Reserve in Western Australia with Carbon Positive Australia, where 1,350ha of previously cleared bushland is being restored to its former natural glory.

As we reported last year, 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.

As part of our partnership, Smartgroup customers who offset the carbon emissions of their novated leased vehicles also contribute to planting native trees at Eurardy Reserve.

Recycling tyres

Australia has become the first country in the world to ban exports of unprocessed waste to other countries. That ban on waste exports includes tyres. Since 2018, we've partnered with Tyre Stewardship Australia (TSA), an Australia Competition and Consumer Commission-accredited recycling program, to ensure that tyres collected in Australia are responsibly managed at the end of their life. Our tyre partners are either direct members of TSA, use accredited recyclers/collectors or are accredited retail chains.

Responding to modern slavery risks

As an organisation with a zero-tolerance approach to modern slavery in any form within our business, we welcomed the introduction of the Modern Slavery Act and recognise the important role we can play in ensuring ethical business practices in both our own operations and those of our suppliers. Smartgroup was proud to deliver its first Modern Slavery Statement in June 2021, covering the period from 1 January 2020 to 31 December 2020.

Most of our annual supplier spend focuses on facilities, IT, contractors and temporary staff, consulting and specialist advice, business development and marketing. These agreements are overseen by the relevant executive and by our Procurement Manager and Finance team. Our Group Procurement Policy aims 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.

We are committed to continually reviewing and improving our practices to ensure we are taking all appropriate steps to reduce the risk of modern slavery and contributing to global efforts to eradicate all forms of modern slavery. Our Group Finance team includes a dedicated Group Procurement Manager who is responsible for driving and managing our response to modern slavery risks.

In 2020, we reviewed our operations and supply chains and undertook a comprehensive risk assessment to identify areas at risk of modern slavery practices. The risk assessment process undertaken by the Group Risk team involved categorising the suppliers into different groups based on factors such as industry sector, type of product and services and geographic location and then assessing each supplier against recognised modern slavery risk factors to determine which suppliers are at a high, medium and low risk of modern slavery practices. This risk assessment process was continued in 2021, with due diligence steps embedded into our onboarding for new suppliers to assess their modern slavery risk and compliance.

Overall, Smartgroup's operations and supply chains are at a low risk of modern slavery practices given that:

- we provide employee management services to employers throughout Australia and do not manufacture any goods;
- our operations are based in Australia, which is a low-risk region in the world, and we have a high level of direct control over our business operations;
- all our staff are employed or engaged in Australia under applicable Australian employment and workplace relations laws;
- we have a dedicated People and Culture team and robust policies and procedures in place to ensure compliance with relevant employment, workplace relations and workplace health and safety laws as well as best practice in regard to our personnel; and
- the vast majority of our suppliers are based in Australia.

We have also undertaken a range of other steps this year to reduce our modern slavery risks. These include:

- an additional assessment of the risks relating to outsourcing of IT services;
- updating our Group Procurement Policy to include a requirement for Group Legal to review all supplier contracts and proposed terms and conditions before they are signed to ensure compliance with the Modern Slavery Act;
- mandatory e-module training on the Modern Slavery Act and our response to modern slavery risks;
- a review of supplier contractual undertakings;
- a risk assessment process for new suppliers that requires the Group Procurement Manager to conduct the risk assessment process developed by the Group Risk team for each new supplier who is being onboarded; and
- a new whistleblowing platform that will assist us with assessing the effectiveness of our response to modern slavery risks by enabling our staff (including contractors) to report on potential modern slavery issues/breaches.

We have reviewed our operations and supply chains and undertaken a comprehensive risk assessment to identify areas at risk of modern slavery practices … Overall, Smartgroup's operations and supply chains are at a low risk of modern slavery practices.

Seabin Foundation

The Seabin Project is about implementing a 'whole-solution' approach to the issue of ocean pollution, using education, science, technology and community activation. The world's marinas, ports and yacht clubs are the perfect place to start helping clean our oceans. With no huge open ocean swells or storms, these relatively controlled environments provide the perfect locations for Seabin installations.

The Seabin V5 is a revolution in ocean cleaning technology, helping to create cleaner oceans with healthier marine life by collecting up to 1 tonne of debris per bin per year. Two Seabin units sponsored by us in 2020 have now found a home at D'albora Marinas in Rushcutters Bay. A plaque has been installed nearby with Smartgroup branding.

In July, we helped raise awareness for Plastic Free July by collaborating with Seabin for a virtual STEM (Science, Technology Engineering, and Mathematics) workshop demonstrating how a Seabin works.

Fleet efficiency initiatives

We are committed to facilitating the efficient use of vehicles in workplaces. While the vehicles we allocate through our fleet business travel many millions of kilometres collectively every year, we contribute to a reduction in our clients' environmental footprints through smart vehicle allocation (Pool Vehicle Booking), car sharing via our partnership with DriveMyCar and Telematics by Smartfleet, a partnership with FleetComplete to offer telematics to clients.

Travel

Once again, air travel was significantly lower this year because of COVID-19 restrictions and our increasing use of video conferencing technology. Flights generated 23.85 tonnes of carbon dioxide, which is 34.10 tonnes less than in 2020. Once again, we offset 100% of the annual carbon emissions from work-related air travel.

Reducing our energy consumption

We again engaged BidEnergy to measure our electricity usage and emissions for our offices around Australia as we continued to look for ways to reduce our electricity usage and carbon emissions.

Environmental management day to day

Improving our digital capabilities and our online offering has enabled us to further reduce the waste created by paper forms and documents and therefore lessen the amount of paper and by-products used to print. We have a relationship with eWaste, a certified electronics recycler, to recycle all redundant and end of life IT equipment throughout our business and also continue to separate waste and encourage recycling in each of our offices nationally.

Looking ahead

Our updated Corporate Sustainability Scorecard for 2021 features four years' worth of data in a range of key areas. Six trends are worth noting:

- We were very pleased to see our employee engagement score improve to 61% in 2021, particularly in the context of the continuing COVID-19 related challenges, including lockdowns and remote working.
- Our risk culture score continued to improve, rising from 66% in 2018 to 84% in 2021 – reflecting a continued improvement in risk awareness, values and behaviours across our team members.
- A record number of males and females took parental leave in 2021, with many of them benefiting from our market-leading paid parental leave scheme.
- We are proud to have a gender balanced workforce at the levels of executive, senior management and all employees. The Board continued to work towards its target of 40/40/20 (to be achieved by the end of December 2023) with the appointment of a further female Director in 2021.
- We are progressing with our carbon footprint work, but we are yet to fully understand our direct and indirect impact to the environment. We hope to be in a position to report on our Scope 1, Scope 2 and Scope 3 emissions following the completion of this work in 2022.
- Our emissions from travel, electricity and printing again dropped in 2021 as the continuing impacts of COVID-19-related lockdowns restricted our travel and access to office sites.

Our key goals for 2022 are to complete our carbon footprint and stakeholder engagement projects, adopt formal sustainability targets across a variety of areas, establish a Sustainability Committee led by Green Champions from all areas of our business and formally adopt a Board-endorsed Sustainability Strategy with a clear pathway to achieving our sustainability goals.

Corporate sustainability scorecard

	2021	2020	2019	2018
People				
Headcount	685	697	762	752
Full-time equivalents (FTEs) (excluding temps)	673	630	689	695
Number of permanent employees	632	605	661	670
Permanent employees who are female (%)	54%	54%	51%	50%
Number of full-time permanent employees	576	547	594	605
Full-time employees who are female (%)	51%	50%	47%	46%
Number of part-time permanent employees	56	58	67	65
Part-time employees who are female (%)	88%	88%	90%	83%
Number of fixed-term/temp/casual employees	53	92	100	82
Fixed-term/temp/casual employees who are female (%)	53%	52%	55%	60%
Employee engagement score (%)	61%	54%	52%	55%
Employee participation in the engagement survey	79%	69%	79%	76%
Eligible employees receiving annual performance reviews (%)	100%	100%	100%	100%
Team members eligible to participate in training and development (%)	100%	100%	100%	100%
Safety incidents per FTE (total)	<0.01 (5)	<0.01 (2)	0.07 (45)	0.08 (59)
Lost-time injury frequency rate (injuries/million hours worked)	0.8	1.6	3.2	2.8
Absenteeism (%)	2%	2%	2%	2%
Risk culture score (risk awareness, values and behaviours) (%)	84%	80%	74%	66%
Parental leave*				
Number of employees who took parental leave	F 50 M 33	F 18 M 18	F 31 M 20	F 40 M 11
Number of employees who returned to work after leave	F 45 M 33	F 13 M 17	F 21 M 19	F 28 M 5
Employee share ownership				
Employee share plan participation rate (% of eligible employees)	53%	49%	54%	63%
Number of employee shareholders (via share plan)	376	325	422	422
Employee gender diversity				
Board	F 33% M 67%	F 25% M 75%	F 25% M 75%	F 14% M 86%
Executive	F 50% M 50%	F 50% M 50%	F 43% M 57%	F 38% M 62%
Senior management	F 53% M 47%	F 46% M 54%	F 47% M 53%	F 46% M 54%
All employees	F 54% M 46%	F 53% M 47%	F 51% M 49%	F 51% M 49%
Environment				
Electricity – total consumption (kWh)	368,235	402,922	557,707	690,207
Electricity (tonnes CO_2-e per FTE)	0.38	0.50	0.65	0.78
Air travel (tonnes CO_2 per FTE)	0.04	0.09	0.66	1.00
Land travel (tonnes CO_2-e per FTE)	0.04	0.13	0.25	0.31
Printed material (tonnes CO_2-e total)	0.55	0.79	2.44	2.07
Customers				
Net Promoter Score (average score) – Smartgroup**	46	38	–	–
Customer complaints (as a percentage of total customers)	0.29%	0.32%	0.74%	1.02%

* Parental leave in 2021 includes both primary and secondary carer's leave. Prior years reporting includes primary carer's leave only.
** Average NPS for Smartsalary, Smartleasing, AccessPay and Advantage.

Key wins for 2021

- Formation of the Board Environmental, Social and Governance Committee

- Lodgement of our first Modern Slavery Statement

- Recognition for the second year as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency and for the third year as an Inclusive Employer by Diversity Council Australia

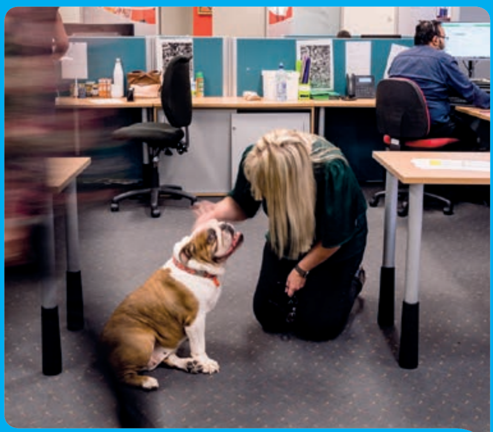
- Equal representation of men and women at the executive and senior management levels
- Appointment of a further female Director and appointment of a female board committee Chair

- A record 22 grants made by the Smartgroup Foundation to worthwhile community projects

- Contributing to approximately 106,127 tonnes of carbon being sequestered from the environment through trees planted by our Carbon Offset Program partners

Yvonne Timson
COO, Community Vision

How can Community Vision compete successfully to attract the best care?



Community Vision provides aged care, disability and family day care services in Western Australia. The organisation has been running for 21 years, and Smartgroup currently provide salary packaging services to nearly all their staff.

COO Yvonne Timson says she worked with AccessPay, a company that Smartgroup later acquired, at her previous organisation. That company had done its own salary packaging but brought in AccessPay to help it achieve the best results for staff.

"What impressed me then, and still does now, is the extent to which Smartgroup understands the dynamics of the not-for-profit sector," says Yvonne. "Not only do they have outstanding expertise in this area, they also know how to make it accessible for our staff. In fact, we often get them involved pre-employment to help people coming to Community Vision to understand the benefits and how they can enhance their overall package."

Yvonne says Smartgroup is very good at keeping people informed and educated about any changes in the salary packaging benefits landscape.

Community Vision itself has some 1,500 customers and is committed to helping people live their lives their way. The organisation celebrates diversity across its staff and customer communities and is always looking for innovative ways to make customers' lives better.

"One example of this is our shared virtual reality platform that enables people to complete experiences that they had only dreamed of having. Through the multimodal virtual reality incorporating the art therapy, we've been able to take people on the Ghan or to Gaudi's Cathedral or to New Zealand. Up to 10 people can do this at once, and it's enabled people to enjoy places that they had given up hope of ever seeing for themselves."

Smartgroup helps Community Vision stay competitive for talent, says Yvonne. "Smartgroup's commitment to our sector is plain to see. We can't compete dollar for dollar with the private sector, but through our partnership with Smartgroup, we can attract great staff who help us meet the needs of our customers. That makes a big difference on so many levels."

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 https://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, social and governance risks; and
- setting the risk appetite within which the Board expects management to operate.

A Risk Management Policy (available at https://ir.smartgroup.com.au/Investors/?page=Corporate-Governance) and a Risk Management Framework are in place to facilitate the identification, assessment, management and reporting of risks in accordance with the risk appetite and tolerances set by the Board. Accountability for risk management is structured as:

- management is responsible for managing the risks for their respective areas;
- 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 policy and framework.

The Board regularly discusses the economic, environmental, social and governance 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 Audit and Risk Committee.

Additional information in relation to risk management can be found throughout the Annual Report and in the Corporate Governance Statement.

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 new private car market The success of Smartgroup's novated leasing business is driven by a buoyant Australian new private car market. With some exceptions, new car sales have been in decline in recent years. There are ongoing uncertainties around the impact of COVID-19 on customer demand and vehicle supply and consequently the new car sales market.	• We continue to promote the advantages of novated leasing to customers who wish to acquire a car. • Where existing customers do not wish to acquire another car, Smartgroup is focused 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 continually invest in our digital assets and human capital to educate customers on the benefits of novated leasing and drive business growth.
Regulatory environment The salary packaging and novated leasing industry has been subject to regulatory scrutiny following the Hayne Royal Commission. There have been new regulatory requirements and proposals to address a perception of customer detriment from the sale of certain add-on insurance products. The National Automotive Leasing and Salary Packaging Association (NALSPA) is also implementing a new Industry Code of Practice with additional disclosure obligations. These changes may impact on Smartgroup's operations and the demand for some of our products.	• 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 enhance our processes to comply with them. • We have successfully implemented processes to comply with the new deferred sales model, Design & Distribution Obligations and Anti-Hawking Regime for add-on insurance products.

Risks and opportunities	How we respond
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 some of Smartgroup's business 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 continually explore growth opportunities aligned to our core business but outside the scope of FBT legislation.
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 strategically strengthen our resilience to evolving cyber threats. • A number of policies govern the management of information security across Smartgroup. • The Smartgroup 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 resiliency Similar to other companies, Smartgroup is exposed to the risk of business disruption caused by failure of IT systems (including cyber attacks), loss of key suppliers, key team members and offices. Any systemic failure or sustained interruption could impair Smartgroup's operations and customer service levels and client retention.	• The business resilience and IT disaster recovery plans guide Smartgroup's response to major incidents and our recovery plans. • We periodically test our ability to respond effectively to interruptions. Our response to COVID-19 has proven our ability to operate effectively with all team members working remotely. • 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 and team members). 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.	• Our Project Management Office and Change Management teams have been strengthened to ensure successful project delivery. • The project management and prioritisation framework guide the initiation, approval and prioritisation 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 is 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, funding, 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 diversify our exposure to key suppliers where appropriate to reduce the risk of single-supplier dependency.
Funding Smartgroup depends on financiers to provide funding for our novated leasing customers. Any loss of access to funding, material changes to the terms of funding for our customers or change of a major financier could adversely affect Smartgroup's ability to attract or retain novated leasing customers.	• We have formal contractual agreements to govern our funding arrangements with financiers. Multi-year contractual agreements ensure continued access of funding at competitive terms. • Smartgroup has relationships and established funding arrangements with multiple financiers.

Risks and opportunities	How we respond
Workplace health and safety Smartgroup is committed to providing a safe and healthy environment for its 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 & Safety 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 safety, health and wellbeing of our team members during COVID-19. We have regular communication with team members to promote awareness on 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 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. • We have established a Customer Advocate role to provide a stronger customer voice within Smartgroup.
Competition The salary packaging and novated leasing industry is subject to increasing competition in respect of pricing, products and services and lower-cost digital 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 the failure of Smartgroup to respond to changes in market conditions, customer demands or technology advancement, with possible consequences for client retention and profitability.	• Our Smart Future program aims to transform our business operations to be more customer centric and digitally enabled by: – delivering great customer experiences for both our clients and their employees; – investing in digital to create a seamless customer experience and lower cost to serve; and – simplifying and streamlining operations to reduce complexity and risk. • We are focused on how we engage with our clients and customers and improve our understanding of their needs and expectations so that products and services can be tailored and delivered accordingly.
Sustainability Smartgroup recognises that our long-term success relies upon the governance and sustainability of our business. Whilst Smartgroup has a relatively small direct environmental footprint (team members' travel, energy usage and office materials consumption), our actions could deliver negative environmental outcomes.	• Refer to pages 38 - 43. • In 2022, Smartgroup will continue its work towards the adoption of a formal Sustainability Strategy, which will seek to identify meaningful ways that we can reduce our direct and indirect impact on the environment.
Climate change Smartgroup is exposed to climate change risks associated with customer 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. • The new Board Environment, Social and Governance (ESG) Committee provides oversight on the social, environmental and ethical impact of our business activities. • Refer to pages 38 - 43.
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 was issued in June 2021. • Refer to page 41.

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 2021.

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
- Gavin Bell
- Andrew Bolam
- Carolyn Colley
- Deborah Homewood
- Timothy Looi
- Anne McDonald (appointed 14 December 2021)
- 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, payroll administration and workforce optimisation services.

Dividends

Dividends paid during the financial year were as follows:

Consolidated	2021 $000	2020 $000
Final ordinary dividend for the year ended 31 December 2020 of 17.5 cents (2019: 21.5 cents) per ordinary share	23,100	28,272
Final special dividend in respect of the year ended 31 December 2020 of 9.0 cents per ordinary share	11,880	–
Interim special dividend in respect of the year ended 31 December 2021 of 5.5 cents per ordinary share	7,260	–
Interim ordinary dividend for the year ended 31 December 2021 of 17.5 cents (2020: 17.0 cents) per ordinary share	23,370	22,579
Total	**65,610**	**50,851**

On 17 February 2022, the Directors declared a fully franked final ordinary dividend for the year ending 31 December 2021 of 19.0 cents per share. The final dividend will be paid on 23 March 2022 to shareholders registered on 9 March 2022 resulting in a total distribution of $25,365,000.

On 17 February 2022, the Directors also declared a fully franked special dividend of 30.0 cents per share in respect of the year ended 31 December 2021. The special dividend will be paid on 23 March 2022 to shareholders registered on 9 March 2022 with an expected total distribution of $40,050,000.

The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2021 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 $58,813,000 (2020: $41,325,000). 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

There were no 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 2021 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's Report on page 18.

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.

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 Administration Holdings Limited (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. Michael has also served on several listed, State and Commonwealth Government boards including Southern Cross Media, SAS Trustee Corporation, 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 Audit and Risk Committee, Human Resources and Remuneration Committee and IT and Innovation Committee.

Interests in shares: 2,381,412

Interests in options: None

Timothy Looi
Managing Director and CEO

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: 1,205,621

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' 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 and gas), Usaha Tegas Sdn Bhd (diversified investment), Bumi Armada Berhad (offshore oil and 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 Audit and Risk Committee and IT and Innovation Committee

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 (Queensland) 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 Environment, Social and Governance Committee, Human Resources and Remuneration Committee and IT and Innovation Committee

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: Chair of Environment, Social and Governance Committee and member of Audit and Risk Committee and IT and Innovation Committee

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: Chair of Human Resources and Remuneration Committee and member of Audit and Risk Committee and Environment, Social and Governance Committee

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. He is also a member of the Investment Committee of the River Capital Growth Fund, a privately owned fund manager with portfolio investments in the listed equities space, principally in Australia. 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: Chair of Audit and Risk Committee and member of Human Resources and Remuneration Committee

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 an Independent Non-Executive Director of CountPlus Ltd (ASX: CUP), OnePath Custodians Ltd and Oasis Fund Management Ltd (IOOF's superannuation businesses) and ASX's Clearing and Settlement Boards and is also a Director of Milford Asset Management (a New Zealand-based company) and Chartered Accountants Australia and New Zealand.

Former directorships (last three years): None

Special responsibilities: Chair of IT and Innovation Committee and member of Human Resources and Remuneration Committee

Interests in shares: 7,000

Interests in options: None

Anne McDonald
Non-Executive Director

Qualifications: Anne is a Chartered Accountant and a graduate of the Australian Institute of Company Directors and holds a Bachelor of Economics from the University of Sydney.

Experience and expertise: Anne has over 35 years' business experience in finance, accounting, auditing, risk management and governance. She is an experienced Director and has pursued a full-time career as a Non-Executive Director since 2006, having previously been a partner at Ernst & Young for 15 years. Anne is a Non-Executive Director of St Vincent's Health Australia Limited and Transport Asset Holding Entity of New South Wales where she chairs the Audit and Risk Committees. Anne is also a Non-Executive Director of Link Administration Holdings Limited, where she is a member of the Audit Committee and the Human Resources and Remuneration Committee.

Former directorships (last three years): Anne was previously a Non-Executive Director of Spark Infrastructure Group and GPT Group, Chair of Specialty Fashion Group (now City Chic) and Chair of WaterNSW.

Special responsibilities: None

Interests in shares: None

Interests in options: None

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 NSW 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 2021 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		Environment, Social and Governance Committee	
	H[1]	A[1]	H	A	H	A	H	A	H	A
Michael Carapiet	14	14	4	4	3	3	3	3	–	–
Gavin Bell	14	14	4	4	3	3	–	–	1	1
Andrew Bolam	14	14	4	4	–	–	3	3	–	–
Carolyn Colley	14	14	–	–	3	3	3	3	–	–
Deborah Homewood	14	14	–	–	3	3	3	3	1	1
Timothy Looi	14	14	–	–	–	–	–	–	–	–
Anne McDonald[2]	1	1	–	–	–	–	–	–	–	–
John Prendiville	14	14	4	4	3	3	–	–	–	–
Ian Watt	14	14	4	4	–	–	3	3	1	1

1. **H** represents the number of meetings held during the time the Director held office or was a member of the relevant committee.
A represents the numbers of those meetings attended by the Director.
2. Appointed as a Director on 14 December 2021.

During the year, the Board also formed a special-purpose sub-Committee to address certain matters relating to the non-binding indicative proposal to acquire 100% of the shares in the Company from a consortium comprising TPG Global, LLC and Potentia Capital, which was announced to the ASX on 29 September 2021. That sub-Committee held seven formal meetings, each of which was attended by all members of the sub-Committee.

The Non-Executive Directors who participated in this sub-Committee were paid special fees for this role. The fee for Michael Carapiet was $17,233, and for John Prendiville and Gavin Bell, the fee was $8,616.

Remuneration report

Introduction from the Chair of the Human Resources and Remuneration Committee

In 2021, although Smartgroup and its employees continued to be affected in a number of ways by the COVID-19 pandemic, we were able to revert to a remuneration framework similar to that followed in 2019 and previous years without the modifications that were made in 2020 in response to the particular challenges presented by the onset of the pandemic.

Under that framework, which is described in more detail later in the remuneration report:

- remuneration for Executive key management personnel (KMP) is structured so that it includes an appropriate balance between a fixed component and a performance-based component (comprising a combination of short-term and long-term incentives), such that a significant part of the Executive KMP's total remuneration is at risk; and
- a proportion of Executive KMP short-term incentives are payable based on the achievement of certain Group NPATA targets, with the balance payable based on the achievement of other non-financial key performance indicators (KPIs) provided that the overall Group NPATA targets have been achieved.

Details of the specific NPATA targets and non-financial KPIs approved by the Board for 2021 and the extent to which they were achieved are set out later in the remuneration report.

The aggregate amount of short-term incentive payments paid to Executive KMP in respect of 2021, based on the extent to which the approved KPIs were achieved, was $447,530.

Other key remuneration decisions and outcomes for 2021 affecting KMP were as follows:

- No changes were made to Executive KMP fixed remuneration during 2021. However, during the year, the Human Resources and Remuneration Committee engaged an external remuneration consultant to carry out an executive remuneration benchmarking review, and following this review, increases to the fixed remuneration of several Executive KMP will be made in 2022.
- The work performed by the remuneration consultant does not meet the definition of remuneration recommendation within the Corporations Act 2021.
- None of the long-term incentive shares issued to Executive KMP in 2019 vested in 2021, as earnings per share and relative total shareholder return thresholds were not achieved.
- Anthony Dijanosic, who was appointed as Chief Financial Officer on 5 May 2021, is included as a member of KMP from that date.
- The Chief Legal Officer position held by Sophie MacIntosh is no longer considered a KMP role from 1 January 2021.

Further details of these decisions and outcomes are set out later in the remuneration report. The Board believes that the 2021 remuneration outcomes fairly reflect the performance of the Company and Executive KMP in the context of the continuing challenges presented by the COVID-19 pandemic.

We thank our shareholders for their support and welcome feedback on our remuneration report.

Gavin Bell
Chair of the Human Resources and Remuneration Committee

About this report

The remuneration report describes the remuneration arrangements for the KMP of the Group for the year ended 31 December 2021. The remuneration report has been prepared in accordance with the requirements of section 300A of the Corporations Act 2001 and has been audited.

Who is covered by the report

The names and titles of the KMP during the year ended 31 December 2021 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
Anne McDonald	Non-Executive Director	Part year – started 14 December 2021
John Prendiville	Non-Executive Director	Full year
Ian Watt	Non-Executive Director	Full year
Executive KMP		
Timothy Looi	Managing Director and CEO	Full year
Anthony Dijanosic	Chief Financial Officer (CFO)	Part year – started 5 May 2021
Tony Forward	Chief Information Officer (CIO)	Part year – ceased 27 August 2021
Sarah Haas	Chief Operating Officer (COO)	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.

As described in the 2020 remuneration report, in 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. In 2021, despite the ongoing impact of COVID-19, Smartgroup was able to revert to a remuneration framework similar to that followed in 2019 and previous years.

Components of Executive KMP remuneration

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

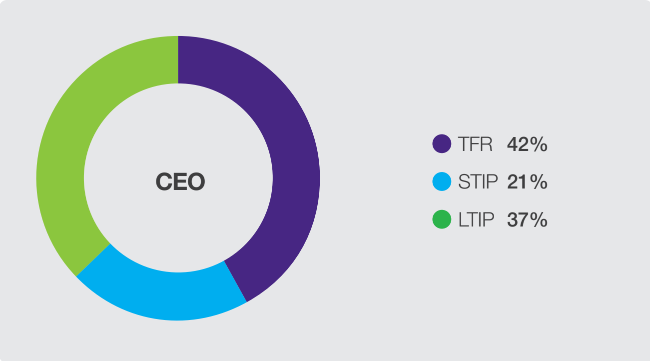
The executive remuneration and reward framework consists of four components:

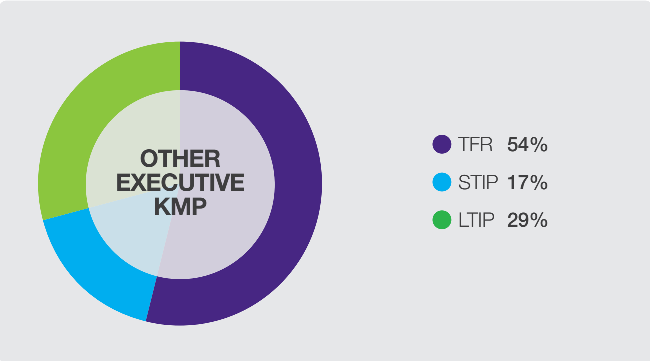
- Total fixed remuneration (TFR) comprising base salary, superannuation and non-monetary benefits.
- Short-term performance incentives (STI).
- Long-term performance incentives (LTI).
- Other statutory entitlements such as long-service leave.

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 the year ended 31 December 2021 for:

- Tim Looi, as Managing Director and CEO; and
- other Executive KMP.





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.

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 TFR. Payments under the STIP depend on the achievement of a range of financial and non-financial KPIs and objectives, 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. Shareholders approved the future issue of shares under the plan as an exception to ASX Listing Rule 7.1 at the Annual General Meetings held in May 2018 and May 2021.

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 Annual General Meeting.

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 performance conditions are not met and the shares do not vest for any other reason, the shares are bought back 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.

2021 Executive KMP remuneration structure

Total fixed remuneration

Effective 1 January 2021, the fixed remuneration for Sarah Haas, the Chief Operating Officer, increased from $400,000 to $440,000. There were no other changes made to Executive KMP fixed remuneration during 2021. However, during the year, the HRRC engaged an external remuneration consultant to carry out an executive remuneration benchmarking review, and following this review, increases to the fixed remuneration of several Executive KMP will be made in 2022.

Short-term incentives

Target cash payments

Participants in the STIP have a target cash payment set every year as a percentage of their TFR. In 2021, this target was 51% of TFR for Tim Looi as Managing Director and CEO (2020: 51%), and an average of 31% for the other Executive KMP (2020: 26%).

KPIs and conditions to payment of STI

Under the 2021 framework:

- 27%-40% of each Executive KMP's short-term incentive target amount is payable on the achievement of target Group NPATA of $68.5 million;
- an additional amount of up to 50% of the Executive KMP short-term incentive target amount is payable for Group NPATA outperformance on the basis of an additional 10% of target amount for each $1.5 million of additional NPATA achieved above $68.5 million, and a further 10% is payable for Group NPATA in excess of $74.5 million;
- if the target Group NPATA of $68.5 million is achieved, a further payment of up to 30% of the Executive KMP short-term incentive target amount may become payable based on the achievement of non-financial Group-based KPIs, and a separate further payment of up to 30% of target amount may become payable based on the achievement of non-financial function-based KPIs;
- all short-term incentive payments are subject to risk management measures being satisfactorily actioned and are subject to a reduction if the Executive KMP does not satisfactorily demonstrate the Company's values based on independent peer review and CEO approval; and
- any short-term incentive amount above 100% of target amount is subject to a 12-month deferral and only becomes payable if the Executive KMP remains in employment at the end of that period or has left employment as a "good leaver" during that period.

Details of the specific KPIs approved by the Board for 2021 and the extent to which they were achieved are set out in Table 3 on page 58.

Board discretion

In addition to the specific conditions to payment of STI amounts referred to above, all payments under the STIP are subject to Board discretion.

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 2021, the LTIP grant to the Managing Director and CEO was 88% of TFR (2020: 88%) and the LTIP grant to other Executive KMP was 54% of TFR (2020: 55%) 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 2021 LTIP grant:

- 431,655 shares were issued to the Managing Director and CEO and 129,497 shares were issued to the Chief Financial Officer at an issue price of $6.9854 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 2021 AGM; and
- a total of 417,267 shares were issued to other continuing Executive KMP at an issue price of $6.8164 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 declared dividends.

Vesting of shares

Vesting of 75% of the shares issued under the 2021 LTIP grant is subject to an earnings per share performance hurdle where earnings per share (EPS) is calculated based on the Company's reported NPATA. Vesting of the other 25% of the shares issued under the 2021 LTIP grant is subject to a total shareholder return (TSR) hurdle. The performance hurdles are described in more detail below. Shares issued under the 2021 LTIP grant will vest on 31 December 2023 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 2021 LTIP grant.

The EPS performance hurdle is based on achievement of a compound annual growth rate (CAGR) in the Company's EPS (based on NPATA) from the 2020 EPS of $0.491 (calculated on the basis of reported 2020 NPATA of $65.2 million and 132.8 million shares on issue) to the EPS for the financial year ending on 31 December 2023, 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 2021 LTIP grant				
Measure	**Vesting period**	**EPS CAGR**	**EPS target**	**Shares subject to vesting**
EPS CAGR (based on NPATA)	The period of three years ending 31 December 2023*	Below 5.0%		Nil
		5.0%	$0.568	50%
		Between 5.0% and 10.0%		Straight line between 50% and 100%
		10.0% or greater	$0.653	100% (capped)

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

In the current environment, the Board considers that the 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 2021 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 its TSR over the performance measurement period, being the three-year period starting on 1 January 2021 and ending on 31 December 2023. 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 2021 (the performance measurement period start date) and the 20 trading days up to and including 31 December 2023 (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 companies in the S&P/ASX 200 Index, as set out in the table below. Whilst the Company ceased to be in the S&P/ASX 200 Index during the 2021 year, the Board considers that the index remains an appropriate comparator group.

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 and, due to previous inclusion in the S&P/ASX 200 Index, it is an appropriate measure.

Table 2: Relative TSR performance hurdle

TSR performance hurdle – applies to a maximum of 25% of the total number of shares issued under the 2021 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 2023*	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.

Fair value

The shares granted as part of the LTIP are accounted for as options. The fair value of the shares used for grant allocation purposes was calculated using Monte Carlo simulations. Refer to page 117 for further details on the calculation of the fair value. The fair value is separate to the issue price, which is based on the 20-day VWAP immediately prior to the issuance of the shares.

2021 Executive KMP remuneration outcomes

STI – achievement of KPIs and financial outcomes

The Company reported 2021 Group NPATA of $69.5 million, which exceeds the target Group NPATA of $68.5 million. Accordingly:

- 27%-40% of the Executive KMP's short-term incentive target amount is payable for achievement of the target Group NPATA; and
- the gateway for short-term incentive payments for achievement of non-financial KPIs has been met.

The table below shows the non-financial KPIs approved by the Board under the STIP for 2021 for Executive KMP and the Board's assessment of the extent to which those KPIs were achieved. In addition to this assessment, the Board has determined that.

Table 3: 2021 non-financial KPIs and achievement

KPI	Relevant executive	How it is measured	Weighting	Actual achievement	
1. Profit	All	Delivery of target NPATA of $68.5m	27%-40%	CEO CFO COO	108% 108% 108%
2. Engage workforce	All	Achieve target engagement score of 65% (min. threshold of 60% for partial achievement)	7%-10%	CEO CFO COO	20% 20% 20%
3. Customer and digital	All	Achieve Customer NPS of 40; Achieve Client NPS of 50; Reduce manual service interactions by 5%; Rollout sales customer journey and operating model	11%-23%	CEO CFO COO	50% 50% 64%
4. Improve core operations	All	Delivery of Smart Future projects, execution of data strategy, revenue growth from broader client base	20%-40%	CEO CFO COO	50% 52% 67%
5. Improve risk and compliance governance processes and frameworks	All	Remediation of risk actions, succession planning and leadership development	3%-8%	CEO CFO COO	50% 80% 80%

Under the STIP for the year ended 31 December 2021, a total of $262,500 will be paid to the Managing Director and CEO and a total of $185,030 to other Executive KMP.

The table below shows the actual STI outcome for each Executive KMP for the year ended 31 December 2021 in absolute terms and as a percentage of their target STI opportunity under the STI arrangements approved by the Board.

Table 4: 2021 STIP outcomes

Name of executive	STI amount	Percentage of target STI
Timothy Looi	$262,500	75%
Anthony Dijanosic	$68,530	78%
Tony Forward[1]	–	0%
Sarah Haas	$116,500	78%

1. Tony Forward ceased to be KMP from 27 August 2021 and, as such, is not eligible for STI.

LTI – vesting of shares subject of 2019 grant under the LTIP

Shares issued under the 2019 LTIP grant had a vesting period ending on 31 December 2021. The vesting of these shares was subject to the achievement of an EPS hurdle (based on NPATA) and a TSR hurdle.

Shares subject to EPS hurdle

The EPS hurdle applied to 75% of the shares issued under the 2019 LTIP grant. It was based on the CAGR in the Company's EPS (based on NPATA) from the pro-forma 2018 EPS of $0.594. As at 31 December 2021, EPS (based on NPATA) was $0.521, which represents a CAGR of -4% from the pro-forma 2018 EPS. This result means that none of the shares issued under the 2019 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 2019 LTIP grant. The Company's TSR performance was measured to be in the 24th percentile of the S&P/ASX 200 Index. This result means that none of the shares issued under the 2019 LTIP grant that are subject to the TSR hurdle have vested.

The Company engaged Grant Thornton to provide external verification of the above calculations.

Link between 2021 Executive KMP remuneration outcomes and 2021 financial performance

In considering the Group's performance, the benefit to shareholders and appropriate remuneration for 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

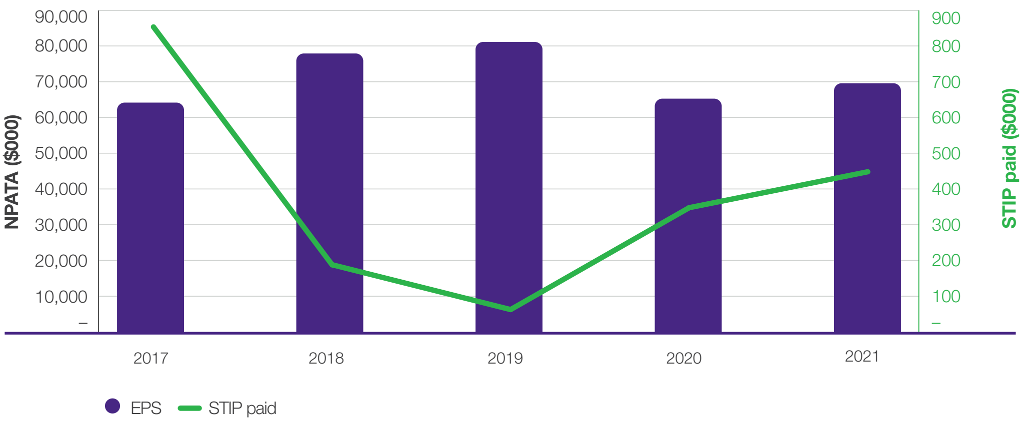
Index	2017	2018	2019	2020	2021
NPATA ($m)	64.1	77.8[2]	81.0	65.2	69.5
EPS (cents)	52.0	59.4[2]	61.5	50.3	52.1
Ordinary dividends declared in respect of the financial year – per share (cents)	35.0	41.5	43.0	34.5	36.5
Special dividends declared in respect of the financial year – per share (cents)	–	–	20.0	9.0	35.5
Share price – year end ($)	10.85	8.88	6.94	6.89	7.75
Three-year TSR performance compared to index[1] (percentile) (%)	100%	87%	71%	33%	24%

1. The relevant comparator index for 2017 and 2018 was the S&P/ASX Small Ordinaries Index. The relevant comparator index for 2019 to 2021 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 2021 was in the fourth 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 2021 and the preceding four financial years.

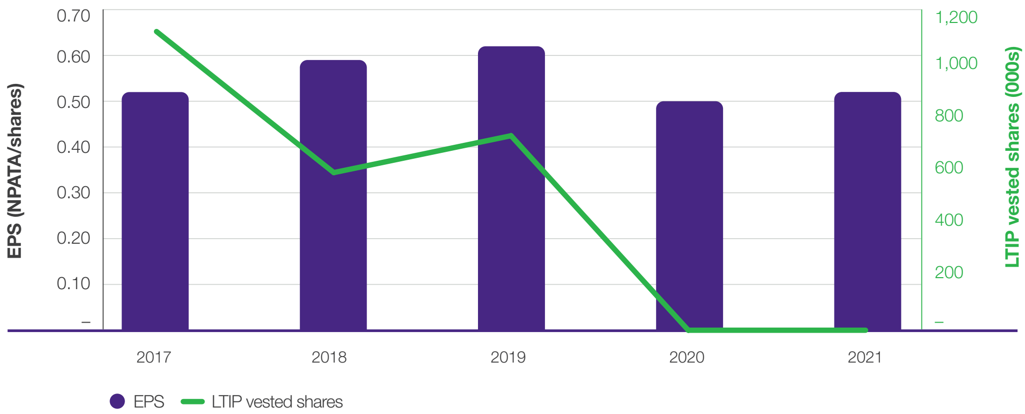
Table 6: Relationship between the Group's performance and STIP outcomes



The graph below illustrates the relationship between the Group's performance and LTIP awards in respect of the financial year ended 31 December 2021 and the preceding four financial years.

As explained above, the LTIP has two hurdles, the most significant being the growth in EPS (based on NPATA). For the year ended 31 December 2021, the three-year EPS CAGR was below the EPS threshold and none of the shares issued under the 2019 LTIP grant were vested. For the year ended 31 December 2020, the three-year CAGR in EPS was below the EPS threshold and none of the shares issued under the 2018 LTIP grant were vested. For the year ended 31 December 2019, the three-year CAGR in EPS was 14% and 83% of the shares issued under the 2017 LTIP grant were vested. For each of the two previous financial years, the growth in EPS 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 Chairs of each of the Environment, Social and Governance Committee, the Human Resources and Remuneration Committee and 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, other than the committee fees associated with the special-purpose sub-Committee to address certain matters relating to the non-binding indicative proposal to acquire 100% of the shares in the Company from a consortium comprising TPG Global, LLC and Potentia Capital.

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.

Detailed remuneration disclosures

Statutory remuneration details for 2021 and 2020

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 54. The amounts disclosed as cash salary and fees in the 2020 remuneration information in Table 9 are net of temporary reductions in Executive KMP fixed remuneration and Non-Executive Director fees implemented in 2020 and which were described in more detail in the 2020 remuneration report.

Table 8: 2021 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	245,667	–	23,992	–	–	269,659
Gavin Bell	145,333	–	14,202	–	–	159,535
Andrew Bolam	122,500	–	11,944	–	–	134,444
Carolyn Colley	125,000	–	12,200	–	–	137,200
Deborah Homewood	125,000	–	12,200	–	–	137,200
John Prendiville	142,833	–	13,946	–	–	156,779
Ian Watt	137,500	–	13,419	–	–	150,919
Anne McDonald[3]	5,072	–	507	–	–	5,579
Executive Directors						
Timothy Looi	657,369	262,500	22,631	61,435	386,928	1,390,863
Other Executive KMP						
Tony Forward[4]	247,844	–	14,775	23,069	113,736	399,424
Sarah Haas[5]	417,369	191,500	22,631	38,974	73,349	743,823
Anthony Dijanosic[6]	220,963	68,530	15,166	20,790	49,764	375,213
Total	**2,592,450**	**522,530**	**177,613**	**144,268**	**623,777**	**4,060,638**

1. The amounts disclosed in this column represent the accrued leave expense for the period.
2. Net LTIP expense 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. Anne McDonald was appointed as a Non-Executive Director with effect from 14 December 2021.
4. Tony Forward ceased to be KMP on 27 August 2021.
5. Sarah Haas' bonus includes a one-off bonus payment of $75,000 as disclosed in the 2020 Annual Report.
6. Anthony Dijanosic became a member of the KMP on 5 May 2021. The amounts in this table comprise all remuneration paid to Mr Dijanosic from that date onwards and do not include any remuneration paid to Mr Dijanosic before that date.

Table 9: 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	(149,069)	550,248
Timothy Looi[4]	576,261	178,664	21,370	61,611	174,901	1,012,807
Other Executive KMP						
Tony Forward[5]	328,119	46,148	19,598	32,310	78,257	504,432
Sarah Haas	359,702	71,750	21,370	35,406	50,840	539,068
Sophie MacIntosh[6]	321,702	51,750	21,370	31,662	(2,758)	423,726
Nigel Underwood[7]	254,940	–	16,098	23,410	–	294,448
Total	**3,454,363**	**348,312**	**191,324**	**192,986**	**152,171**	**4,339,156**

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. The amortisation approach for the performance rights has been amended to include the service period when the award was earned. While the amortisation period has changed, there is no change to the overall performance rights fair value being amortised. The 2020 values have been restated to align with the current year presentation.
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 include 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. Sophie MacIntosh ceased being a KMP on 1 January 2021.
7. 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 4 December 2020 and include an end-of-service payment of $19,476.

Other transactions with KMP

$4,518 in cost reimbursements were paid to KMP in 2021 (2020: $7,463).

Table 10: Cost reimbursements to KMP

Reimbursements to key management personnel	2021 $	2020 $
Non-Executive Directors		
Michael Carapiet	100	–
Gavin Bell	–	–
Andrew Bolam	834	–
Carolyn Colley	–	–
Deborah Homewood	–	–
Anne McDonald	–	–
John Prendiville	–	–
Ian Watt	2,547	1,186
Executive Directors		
Deven Billimoria	–	–
Timothy Looi	–	4,392
Other Executive KMP		
Anthony Dijanosic	295	–
Tony Forward	–	400
Sarah Haas	742	–
Sophie MacIntosh	–	–
Nigel Underwood	–	1,485
Total	**4,518**	**7,463**

There were no other transactions with KMP 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 11: Proportion of remuneration

	Fixed remuneration		At risk – STIP		At risk – LTIP	
	2021	2020	2021	2020	2021	2020
Non-Executive Directors						
Michael Carapiet	100%	100%	–	–	–	–
Gavin Bell	100%	100%	–	–	–	–
Andrew Bolam	100%	100%	–	–	–	–
Carolyn Colley	100%	100%	–	–	–	–
Deborah Homewood	100%	100%	–	–	–	–
Anne McDonald[1]	100%	–	–	–	–	–
John Prendiville	100%	100%	–	–	–	–
Ian Watt	100%	100%	–	–	–	–
Executive Directors						
Deven Billimoria[2]	–	127%	–	0%	–	(27%)
Timothy Looi[3]	53%	65%	19%	18%	28%	17%
Other Executive KMP						
Anthony Dijanosic[4]	69%	–	18%	–	13%	–
Tony Forward[5]	72%	74%	–	9%	28%	17%
Sarah Haas	64%	78%	26%	13%	10%	9%
Sophie MacIntosh[6]	–	89%	–	12%	–	(1%)
Nigel Underwood[7]	–	100%	–	0%	–	0%

1. Anne McDonald was appointed as a Non-Executive Director with effect from 14 December 2021.
2. Deven Billimoria retired as an Executive Director on 28 February 2020.
3. 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 comprise all remuneration paid to Mr Looi from 1 January 2020 to 31 December 2020 in both roles.
4. Anthony Dijanosic became a member of the KMP on 5 May 2021. The amounts in this table comprise all remuneration paid to Mr Dijanosic from that date onwards and do not include any remuneration paid to Mr Dijanosic before that date.
5. 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 2021.
6. Sophie MacIntosh ceased being a KMP on 1 January 2021.
7. 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 include all remuneration paid to Mr Underwood from 6 April 2020 to 4 December 2020 and includes an end of service payment of $19,476.

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 and 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.

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, the enforceability of which 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 2021 nor 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 2021. Details of the performance conditions attaching to these shares are disclosed in Tables 1 and 2 on page 57 of this remuneration report.

Table 12: Terms of the shares granted under the LTIP with performance periods ending in the future

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
8 March 2021	Three years to 31 December 2023	1 January 2024	7 March 2026	$7.00	977,887	$1.78	$1,737,999	To be determined
12 May 2021	Three years to 31 December 2023	1 January 2024	11 May 2026	$6.97	561,152	$1.75	$981,174	To be determined
3 March 2020	Three years to 31 December 2022	1 January 2023	3 March 2025	$6.67	981,075	$1.25	$1,226,344	To be determined
10 June 2020	Three years to 31 December 2022	1 January 2023	11 June 2025	$6.20	670,392	$1.40	$938,549	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 2019 that have a vesting period ending on 31 December 2021.

Table 13: LTIP shares with a vesting period ending on 31 December 2021

Grant date	Performance period	Exercise date	Expiry date	Exercise price	Number of non-forfeited shares[1]	Fair value price at grant date	Performance achieved	Number of shares vested at 31 December 2021[2]	% vested at 31 December 2021[2]
20 March 2019	Three years to 31 December 2021	1 January 2022	19 March 2024	$8.55	655,666	$1.35	0%	–	0%
13 May 2019	Three years to 31 December 2021	1 January 2022	12 May 2024	$8.20	–	$1.65	0%	–	0%

1. Prior to performance determination by the Board.
2. As determined by the Board on 10 February 2022.

The following table sets out details of shares granted to Executive KMP under the LTIP in 2021 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 2021.

Table 14: 2021 LTIP grants to KMP and vesting profile of long-term incentives granted as remuneration

Name	Balance at start of year – unvested	Granted as compensation	Vested in year	Forfeited[1]	Balance at end of year – unvested	Balance at end of year – vested but exercisable	Exercised in year	Balance at end of year – vested and unvested
Timothy Looi	862,216	431,655	–	(191,824)	1,102,047	103,574	–	1,205,621
Anthony Dijanosic[2]	–	129,497	–	–	129,497	–	–	129,497
Tony Forward	204,537	143,885	–	–	348,422	–	–	348,422
Sarah Haas	336,672	143,885	–	(113,208)	367,349	–	–	367,349
Total KMP	**1,403,425**	**848,922**	**–**	**(305,032)**	**1,947,315**	**103,574**	**–**	**2,050,889**

1. Shares forfeited relate to the LTIP granted on 20 March 2019, which did not vest.
2. Anthony Dijanosic became a member of the KMP on 5 May 2021.

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 2021.

Table 15: Director and Executive KMP shareholdings

	Balance at start of year including exercised LTIP	Received on the exercise of options	Additions	Disposals	Balance at end of year
Non-Executive Directors					
Michael Carapiet	2,381,412	–	–	–	2,381,412
Gavin Bell	77,650	–	–	–	77,650
Andrew Bolam	257,760	–	–	–	257,760
Carolyn Colley	7,000	–	–	–	7,000
Deborah Homewood	6,618	–	–	–	6,618
Anne McDonald[1]	–	–	–	–	–
John Prendiville	675,000	–	–	–	675,000
Ian Watt	106,522	–	–	–	106,522
Executive Director					
Timothy Looi[2]	77,242	–	–	–	77,242
Other Executive KMP					
Anthony Dijanosic[3]	–	–	23,545	–	23,545
Tony Forward[4]	–	–	–	–	–
Sarah Haas	–	–	–	–	–
Total	**3,589,204**	**–**	**23,545**	**–**	**3,612,749**

1. Anne McDonald was appointed as a Non-Executive Director with effect from 14 December 2021.
2. Timothy Looi's shareholdings include 4,000 shares held by related parties.
3. Anthony Dijanosic became a member of the KMP on 5 May 2021.
4. Tony Forward ceased to be KMP on 27 August 2021.

This concludes the remuneration report, which has been audited.

Other disclosures

Shares under option

As at 31 December 2021, there were 1,947,315 unvested shares held by employees under the LTIP (being shares issued under the 2020 and 2021 LTIP grants). The LTIP shares are legally held by the employees. However, employees 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

No ordinary shares of Smartgroup Corporation Ltd were issued on the exercise of options during the year ended 31 December 2021 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 37 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 37 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

17 February 2022
Sydney

Auditor's Independence Declaration

As lead auditor for the audit of Smartgroup Corporation Ltd for the year ended 31 December 2021, 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
17 February 2022

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Reconciliation of Statutory Results to Adjusted Results

For the year ended 31 December 2021

$m	2021 statutory results	Non-IFRS adjustment measures	Add back: Merger and acquisition costs	Add back: Sale of Smartequity	2021 adjusted
Revenue	221.8	–	–	–	221.8
Operating EBITDA	**100.7**	**–**	**2.1**	**0.2**	**103.0**
Joint venture contribution	0.3	–	–	–	0.3
Segment note EBITDA	**101.0**	**–**	**2.1**	**0.2**	**103.3**
Depreciation expense	(3.4)	–	–	–	(3.4)
Amortisation expense	(9.3)	–	–	–	(9.3)
Loss on revaluation of asset held for sale	(1.4)	–	–	1.4	–
Net finance costs	(1.7)	–	–	–	(1.7)
PBT	**85.2**	**–**	**2.1**	**1.6**	**88.9**
Income tax expense	(26.4)	–	(0.6)	(0.1)	(27.1)
NPAT	**58.8**	**–**	**1.5**	**1.5**	**61.8**
Add back: Amortisation of acquired intangibles	–	5.8	–	–	5.8
Cash tax benefit	–	1.9	–	–	1.9
NPATA	**58.8**	**7.7**	**1.5**	**1.5**	**69.5**
Shares on issue (millions)					133.5
NPATA per share (cps)					**52.1**

Financial Statements

Financial Report 2021 Smartgroup Corporation Ltd
31 December 2021 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 2021

Consolidated	Note	2021 $'000	2020 $'000
Revenue	7	221,798	216,332
Share of profits from joint venture accounted for using the equity method		248	45
Expenses			
Product costs		(5,980)	(5,970)
Employee benefits expense		(80,823)	(80,299)
Administration and corporate expenses		(28,360)	(29,009)
Occupancy expenses	8	(1,358)	(1,439)
Advertising and marketing expenses		(1,507)	(1,843)
Depreciation expense	8	(3,355)	(3,173)
Amortisation of acquired intangible assets	8	(8,269)	(21,089)
Amortisation of contract rights and internally developed intangibles	8	(1,049)	(1,024)
Other expenses		(762)	(2,769)
Operating profit		**90,583**	**69,762**
Impairment of joint venture investment	23	–	(5,118)
Loss on revaluation of an asset held for sale	26	(1,434)	–
Loss on sale of business	26	(154)	–
Finance costs	8	(1,674)	(3,113)
Merger and acquisition transaction costs		(2,149)	(11)
Profit before income tax expense		**85,172**	**61,520**
Income tax expense	9	(26,359)	(20,195)
Profit after income tax expense		**58,813**	**41,325**
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		114	26
Other comprehensive income, net of tax		**114**	**26**
Total comprehensive income		**58,927**	**41,351**

		Cents	Cents
Basic earnings per share	16	45.4	31.9
Diluted earnings per share	16	45.4	31.9

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 2021

Consolidated	Note	2021 $'000	2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	32,453	27,368
Restricted cash and cash equivalents	36	41,196	48,111
Trade and other receivables	18	23,947	15,881
Income tax receivable	9	–	851
Other current assets	20	3,579	1,869
Total current assets		**101,175**	**94,080**
Non-current assets			
Investments accounted for using the equity method	23	575	827
Derivative financial instruments	21	153	–
Deferred tax assets	9	12,722	12,247
Right-of-use assets	38	5,592	9,143
Property and equipment	32	4,380	1,742
Intangible assets	6	283,666	290,402
Total non-current assets		**307,088**	**314,361**
Total assets		**408,263**	**408,441**
LIABILITIES			
Current liabilities			
Trade and other payables	33	38,203	29,892
Customer salary packaging liability	36	41,196	48,111
Income tax payable	9	4,540	–
Provisions	34	13,459	13,989
Lease liabilities	38	3,536	3,738
Other current liabilities	22	6,259	5,782
Total current liabilities		**107,193**	**101,512**
Non-current liabilities			
Provisions	35	1,838	2,596
Derivative financial instruments	21	–	47
Lease liabilities	38	4,322	8,678
Borrowings	11	28,680	24,673
Total non-current liabilities		**34,840**	**35,994**
Total liabilities		**142,033**	**137,506**
Net assets		**266,230**	**270,935**
EQUITY			
Issued capital	12	262,976	262,522
Reserves	13	10,414	8,776
Accumulated losses		(7,160)	(363)
Equity attributable to the owners of Smartgroup Corporation Ltd		**266,230**	**270,935**
Total equity		**266,230**	**270,935**

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 2021

Consolidated	Note	Share capital $'000	Reserves $'000	Retained earnings/ (Accumulated losses) $'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	12	3,407	–	–	3,407
Share-based payments	13	–	315	–	315
Dividends provided for or paid	15	–	–	(50,851)	(50,851)
Balance at 31 December 2020		**262,522**	**8,776**	**(363)**	**270,935**

Consolidated	Note	Share capital $'000	Reserves $'000	Retained earnings/ (Accumulated losses) $'000	Total equity $'000
Balance at 1 January 2021		**262,522**	**8,776**	**(363)**	**270,935**
Profit for the year		–	–	58,813	58,813
Other comprehensive income		–	114	–	114
Total comprehensive income for the year		**–**	**114**	**58,813**	**58,927**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	12	454	–	–	454
Share-based payments	13	–	1,524	–	1,524
Dividends provided for or paid	15	–	–	(65,610)	(65,610)
Balance at 31 December 2021		**262,976**	**10,414**	**(7,160)**	**266,230**

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 2021

Consolidated	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers		252,507	254,641
Payments to suppliers and employees		(151,339)	(151,438)
Transaction costs relating to mergers and acquisitions		(2,370)	(19)
Interest received from cash held on behalf of customers		22	884
Interest and transaction costs paid on borrowings		(633)	(1,972)
Interest paid on lease liabilities	38	(760)	(1,006)
Income taxes paid		(21,613)	(26,557)
Net cash inflow from operating activities excluding salary packaging receipts and payments		**75,814**	**74,533**
Receipts in restricted cash		2,440,559	2,455,979
Payments of customer salary packaging liability		(2,447,474)	(2,473,270)
Net cash inflow from operating activities		**68,899**	**57,242**
Cash flows from investing activities			
Payments for intangibles	6	(4,313)	–
Payments for property, plant and equipment	32	(3,611)	(1,153)
Dividends received from joint venture	23	500	500
Proceeds from sale of business	26	175	–
Interest received		5	423
Capitalised contract rights	6	–	(611)
Net cash outflow from investing activities		**(7,244)**	**(841)**
Cash flows from financing activities			
Repayment of borrowings	11	(10,000)	(73,748)
Proceeds from borrowings	11	14,000	38,000
Dividends paid	15	(65,610)	(50,851)
Proceeds from long term incentive plan		1,478	3,392
Principal repayments on lease liabilities	38	(3,353)	(2,756)
Net cash outflow from financing activities		**(63,485)**	**(85,963)**
Net increase in cash and cash equivalents		**(1,830)**	**(29,562)**
Cash and cash equivalents at the beginning of the year		27,368	39,639
Restricted cash and cash equivalents at the beginning of the year		48,111	65,402
Cash and cash equivalents at the end of the financial year		32,453	27,368
Restricted cash and cash equivalents at the end of the financial year		41,196	48,111
Cash and cash equivalents at the end of the year		**73,649**	**75,479**

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 2021

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 17 February 2022. 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 25.

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 2021, the Group had net current liabilities of $6,018,000 due to payment of special dividends of $19,140,000 in March 2021 and the repayment of non-current borrowings, specifically $10,000,000 of its revolving loan facility which was not due until July 2024 but was repaid in June 2021. Had this not have been repaid early, the Group would not have been in a net current liability position.

The Group has prepared projected cash flows 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 cash flows to enable it to pay its debts as and when they fall due.

Further, the Group currently has undrawn debt facilities of $16,100,000 that may be drawn for operational liquidity purposes, with these facilities maturing on 1 July 2024. 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 39 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 2021:

AASB 2020-8 Amendments to AASs – Interest Rate Benchmark Reform – Phase 2

The following new or amended Accounting Standards not yet mandatory for the current reporting period have also been adopted:

AASB 2021-5 Amendments to AASs – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
AASB 2021-2 Amendments to AASB 108 – Definition of Accounting Estimates
AASB 2020-1 Amendments to AASs – Classification of Liabilities as Current or Non–current

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 3. Significant accounting policies (continued)

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2021 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.

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.

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 6 and note 39. 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.

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, the inputs to these estimates were stress-tested, with the carrying values re-evaluated.

Operations provision

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

Note 5. 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, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 5. Operating segments (continued)

Operating segment information

Consolidated - 2021	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations / Corporate $'000	Total $'000
Revenue					
Products, services and commissions	123,977	–	155	–	124,132
Management and administrative fees	62,618	8,052	5,096	–	75,766
Performance fees and rebates	17,282	3,815	803	–	21,900
Inter-segment sales	242	3,901	27,408	(31,551)	–
Total revenue	204,119	15,768	33,462	(31,551)	221,798
Segment results (EBITDA)	**110,094**	**11,376**	**7,578**	**(28,195)**	**100,953**
Depreciation					(3,355)
Amortisation					(9,318)
Loss on revaluation of an asset held for sale					(1,434)
Finance costs					(1,674)
Profit before income tax expense					**85,172**
Income tax expense					(26,359)
Profit after income tax expense					**58,813**
Assets					
Total segment assets	110,291	24,413	32,609	240,950	408,263
Total assets					**408,263**
Liabilities					
Total segment liabilities	63,654	13,325	26,458	38,596	142,033
Total liabilities					**142,033**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 5. Operating segments (continued)

Operating segment information (continued)

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**

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 2021

Note 6. Non-current assets — intangible assets

Consolidated	2021 $'000	2020 $'000
Goodwill - at cost	272,664	274,395
Goodwill	**272,664**	**274,395**
Customer contracts and relationships - at cost	63,609	65,109
Less: Accumulated amortisation	(61,380)	(58,725)
Customer contracts and relationships	**2,229**	**6,384**
Acquired software and websites - at cost	77,915	77,915
Less: Accumulated amortisation	(77,395)	(73,281)
Acquired software and websites	**520**	**4,634**
Contract rights - at cost	5,168	5,168
Less: Accumulated amortisation	(2,516)	(1,483)
Contract rights	**2,652**	**3,685**
Brand names and logos - at cost	1,304	1,304
Brand names and logos	**1,304**	**1,304**
Internally developed software and websites - at cost	4,313	–
Less: Accumulated amortisation	(16)	–
Internally developed software and websites	**4,297**	**–**
Intangible assets	**283,666**	**290,402**

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	Acquired software and websites $'000	Contract rights $'000	Brand names and logos $'000	Internally developed software and websites	Total $'000
Balance at 1 January 2020	**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**
Additions[2]	–	–	–	–	–	4,313	4,313
Disposals[3]	(1,731)	–	–	–	–	–	(1,731)
Amortisation expense	–	(4,155)	(4,114)	(1,033)	–	(16)	(9,318)
Balance at 31 December 2021	**272,664**	**2,229**	**520**	**2,652**	**1,304**	**4,297**	**283,666**

[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.

[2] $1,546,000 of research and development completed on internally developed software and websites was expensed in 2021 (2020: nil).

[3] Disposal of goodwill relates to Smartequity. See note 26 for further details.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 6. Non-current assets — intangible assets (continued)

Impairment testing

The Group monitors its business through its 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.

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

Goodwill	2021 $'000	2020 $'000
CGU 1: Outsourced Administration	151,169	149,029
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	76,039	79,910
Goodwill	**272,664**	**274,395**

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

Brand names and logos	2021 $'000	2020 $'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:

Pre-tax discount rates	2021	2020
CGU 1: Outsourced Administration	12.2%	17.5%
CGU 2: Vehicle Services	12.5%	20.0%
CGU 3: SDGS	12.4%	20.4%
CGU 4: Autopia	11.7%	23.9%
CGU 5: PBI	11.6%	18.3%

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.

Decreases in the pre-tax discount rates calculated from 2020 to 2021 are largely the result of revisiting the risk premia, including with reference to analyst reports.

A projected terminal growth rate of 1.4% (2020: 1.4%) has been used for all CGUs in line with the terminal growth rate using 2019 pre-Covid-19 GDP growth. Management has taken the same approach in 2021 by applying a consistent 1.4% growth rate to reflect the long term growth normalised for the pandemic.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 6. Non-current assets — intangible assets (continued)

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 2021, 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.

Based on scenario analysis, for CGUs 1 to 5, a pre-tax discount rate in excess of 35.2% would be required to result in an impairment. Reasonably expected transactional volume reductions for these CGUs would not result in an impairment.

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 websites including capitalised development costs

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 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.

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 2021

Note 7. Revenue

Consolidated	2021 $'000	2020 $'000
Products, services and commissions	124,132	124,772
Management and administration fees	75,766	70,217
Performance fees and rebates	21,900	21,343
Revenue	**221,798**	**216,332**

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 5.

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.

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.

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.

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 6.

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 18 as trade receivables and contract assets, respectively, and income received in advance is disclosed in note 22 as contract liabilities.

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 2021

Note 8. Expenses

Consolidated	2021 $'000	2020 $'000
Depreciation		
Office equipment	208	188
Computer equipment	472	325
Furniture, fixtures and fittings	56	66
Leased motor vehicles	63	5
Leasehold improvements	174	140
Right-of-use assets	2,382	2,449
Total depreciation	**3,355**	**3,173**
Amortisation		
Customer contracts and relationships	4,155	8,644
Acquired software and websites	4,114	11,221
Accelerated software and website amortisation	–	1,224
Total amortisation of acquired intangible assets	**8,269**	**21,089**
Amortisation		
Contract rights	1,033	1,024
Internally developed software and websites	16	–
Total amortisation of contract rights and internally developed intangibles	**1,049**	**1,024**
Total depreciation and amortisation	**12,673**	**25,286**
Finance costs		
Interest and finance charges paid/payable	919	2,530
Interest on lease liabilities	760	1,006
Finance income	(5)	(423)
Total finance costs	**1,674**	**3,113**
Occupancy costs		
Short-term lease rent expense	122	–
Lease termination costs	(22)	11
Other occupancy related costs	1,258	1,428
Total occupancy costs	**1,358**	**1,439**
Superannuation expense		
Defined contribution superannuation expense	6,020	5,702
Share-based payments expense		
Share-based payments expense	622	466

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 9. Income tax

Income tax expense

Consolidated	2021 $'000	2020 $'000
Current tax	27,005	24,255
Deferred tax - origination and reversal of temporary differences	(646)	(4,060)
Aggregate income tax expense	**26,359**	**20,195**
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	**(646)**	**(4,060)**

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

Consolidated	2021 $'000	2020 $'000
Profit before income tax expense	**85,172**	**61,520**
Tax at the statutory tax rate of 30%	25,552	18,456
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of joint venture investment	–	1,535
Loss on revaluation of asset held for sale	430	–
Loss on sale of business	(21)	–
Intangible assets	310	124
Non-deductible expenses	32	17
Share-based payments	186	140
Share of profits — joint venture	(107)	(19)
Sundry items	(87)	(17)
	26,295	**20,236**
Prior year tax claims not recognised now recouped	58	(53)
Prior year temporary differences not recognised now recognised	6	12
Income tax expense	**26,359**	**20,195**

Amounts recognised directly in equity

Consolidated	2021 $'000	2020 $'000
Amounts charged/(credited) directly to equity:		
Deferred tax assets	**(171)**	**(146)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 9. Income tax (continued)

Deferred tax assets

Consolidated	2021 $'000	2020 $'000
Deferred tax assets comprises of temporary differences attributable to:		
Impairment of receivables	132	74
Employee benefits	2,733	2,505
Accruals and other provisions	6,456	6,838
Property and equipment	(1,030)	162
Revenue received in advance	1,390	1,677
Acquisition and issuance costs	3,435	2,050
Leased property and equipment – assets	(1,678)	(2,744)
Leased property and equipment – liabilities	2,358	3,725
Intangible assets	(549)	(1,394)
Prepayments	(183)	(190)
Accrued revenue	(398)	(717)
Derivative financial instruments	(46)	14
Back-to-back leased vehicles	(307)	–
Other current liabilities	363	–
Sundry items	(24)	6
Total temporary differences	**12,652**	**12,006**
Amounts recognised in equity:		
Derivative financial instruments	(51)	(2)
Share issue transaction costs	121	243
Total recognised in equity	**70**	**241**
Net deferred tax assets	**12,722**	**12,247**

Movements:

Consolidated	2021 $'000	2020 $'000
Opening balance	12,247	8,333
Credited to profit or loss	646	4,060
Credited/(charged) to equity	(171)	(146)
Closing balance	**12,722**	**12,247**

Income tax payable/(receivable)

Consolidated	2021 $'000	2020 $'000
Income tax payable/(receivable)	**4,540**	**(851)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 9. 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 2021

Note 10. Current assets — cash and cash equivalents

Consolidated	2021 $'000	2020 $'000
Cash at bank and in hand	32,453	27,368
Cash and cash equivalents	**32,453**	**27,368**

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 11. Non-current liabilities — borrowings

Consolidated	2021 $'000	2020 $'000
Bank loan	28,900	24,900
Borrowing costs and interest at amortised cost	(220)	(227)
Borrowings	**28,680**	**24,673**

Refer to note 17 for further information on financial instruments.

Total secured liabilities

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

Consolidated	2021 $'000	2020 $'000
Bank loan	**28,900**	**24,900**

As at 31 December 2021, the following facilities were available to the Group:

- A revolving facility of $45,000,000;
- A letter of credit facility of $5,000,000; 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 banking facilities mature on 1 July 2024.

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 (2020: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 11. Non-current liabilities — borrowings (continued)

Financing arrangements

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

Consolidated	2021 $'000	2020 $'000
Total facilities		
Bank loan	45,000	45,252
Letter of credit facility	5,000	4,000
	50,000	**49,252**
Used at the reporting date		
Bank loan	28,900	24,900
Letter of credit facility	3,572	3,572
	32,472	**28,472**
Unused at the reporting date		
Bank loan	16,100	20,352
Letter of credit facility	1,428	428
	17,528	**20,780**

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 2021

Note 12. Equity — issued capital

	2021 Shares	2020 Shares	2021 $'000	2020 $'000
Ordinary shares — fully paid	133,498,979	132,820,695	287,036	283,516
Less: Shares associated with the loan funded share plan (LFSP)	(3,891,444)	(3,303,160)	(24,060)	(20,994)
Issued Capital	**129,607,535**	**129,517,535**	**262,976**	**262,522**

Movements in ordinary share capital

Details	Date	Shares	Total $'000
Opening balance	1 January 2020	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**
Shares issued for LFSP	12 March 2021	977,887	6,666
	19 May 2021	561,152	3,920
Buy-back of forfeited LFSP shares	10 March 2021	(817,755)	(6,658)
	22 November 2021	(43,000)	(287)
Deferred tax directly recognised in equity			(121)
Balance	**31 December 2021**	**133,498,979**	**287,036**

Movements in the loan funded share plan

Details	Date	Shares	Total $'000
Opening balance	1 January 2020	(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)**
LFSP shares exercised	1 June 2021	23,333	149
	6 October 2021	66,667	426
Shares issued for LFSP	12 March 2021	(977,887)	(6,666)
	19 May 2021	(561,152)	(3,920)
Buy-back of forfeited LFSP shares	10 March 2021	817,755	6,658
	22 November 2021	43,000	287
Balance	**31 December 2021**	**(3,891,444)**	**(24,060)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 12. 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 8 March 2021, loan funded shares were granted to the management team under the LFSP based on the closing share price on 5 March 2021 (ex-dividend), and at the Annual General Meeting on 12 May 2021, the 2021 LFSP grant to the CEO and CFO was approved, with shares being granted based on the closing share price on 11 May 2021. The shares vest on 31 December 2023.

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 2021, the Group recorded $6,945,000 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. 860,755 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 2020 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 2021

Note 13. Equity — reserves

	2021 $'000	2020 $'000
Cash flow hedge reserve	119	5
Share-based payments reserve	9,856	8,686
Other reserves	439	85
Reserves	**10,414**	**8,776**

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 2020	(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**
Movements in hedges	162	–	–	162
Deferred tax	(48)	–	–	(48)
Transfer from share-based payments reserve to other reserves	–	(354)	354	–
Share-based payments	–	3,369	–	3,369
LFSP exercised	–	(575)	–	(575)
LFSP forfeited	–	(1,270)	–	(1,270)
Balance at 31 December 2021	**119**	**9,856**	**439**	**10,414**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 14. Share-based payments

Loan funded share plan (LFSP)

The LFSP is a long term incentive plan for the senior management team. Refer to note 12 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 summaries 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
2021								
17 March 2017	31 December 2019	$6.39	–	–	–	–	–	103,574
20 March 2019	31 December 2021	$8.55	655,666	–	–	(655,666)	–	–
3 March 2020	31 December 2022	$6.67	1,245,905	–	–	(264,830)	981,075	–
10 June 2020	31 December 2022	$6.20	835,243	–	–	(164,851)	670,392	–
8 March 2021	31 December 2023	$7.00	–	977,887	–	(43,000)	934,887	–
12 May 2021	31 December 2023	$6.97	–	561,152	–	–	561,152	–
			2,736,814	**1,539,039**	**–**	**(1,128,347)**	**3,147,506**	103,574
Weighted average exercise price			$6.98	$6.99	–	$7.71	$6.72	$6.39
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	$6.67	–	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	$6.48	$6.43	$9.47	$6.98	$6.39

The weighted average share price during the financial year was $7.27 (2020: $5.91).

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 3.6 years (2020: 3.9 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
8 March 2021	31 December 2023	$6.39	$7.00	42.80%	5.50%	0.80%	$1.78
12 May 2021	31 December 2023	$6.84	$6.97	42.80%	5.50%	0.71%	$1.75

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 15. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

Consolidated	2021 $'000	2020 $'000
Final ordinary dividend for the year ended 31 December 2020 of 17.5 cents (2019: 21.5 cents) per ordinary share	23,100	28,272
Special dividend for the year ended 31 December 2020 of 9.0 cents per ordinary share	11,880	–
Special interim dividend for the year ended 31 December 2021 of 5.5 cents per ordinary share	7,260	–
Interim ordinary dividend for the year ended 31 December 2021 of 17.5 cents (2020: 17.0 cents) per ordinary share	23,370	22,579
Dividends paid	**65,610**	**50,851**

On 17 February 2022, the Directors declared a fully franked ordinary dividend of 19.0 cents per ordinary share. The final dividend will be paid on 23 March 2022 to shareholders registered on 9 March 2022 with an expected total distribution of $25,365,000.

On 17 February 2022, the Directors also declared a fully franked special dividend of 30.0 cents per share in respect of the year ended 31 December 2021. The special dividend will be paid on 23 March 2022 to shareholders registered on 9 March 2022 with an expected total distribution of $40,050,000.

The final ordinary and special 2021 dividends had not been declared at the reporting date and therefore are not reflected in the consolidated financial statements.

Franking credits

Consolidated	2021 $'000	2020 $'000
Franking credits available at the reporting date based on a tax rate of 30%	24,103	30,074
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%	4,540	260
Franking credits available for subsequent financial years based on a tax rate of 30%	**28,643**	**30,334**

Accounting policy for dividends

Dividends are recognised as a liability in the period in which they are declared.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 16. Earnings per share

Consolidated	2021 $'000	2020 $'000
Profit after income tax attributable to the owners of Smartgroup Corporation Ltd	**58,813**	**41,325**

Consolidated	2021 Number	2020 Number
Weighted average ordinary shares used in calculating basic earnings per share	129,517,535	129,455,817
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	18,834	–
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**129,536,369**	**129,455,817**

Consolidated	2021 Cents	2020 Cents
Basic earnings per share	45.4	31.9
Diluted earnings per share	45.4	31.9

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 17. 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.

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:

	2021		2020	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank loans	1.81%	28,900	2.07%	24,900
Cash and cash equivalents	0.00%	(32,453)	0.49%	(27,368)
Restricted cash and cash equivalents	0.00%	(41,196)	0.60%	(48,111)
Interest rate swaps (notional principal amount)	0.07%	(13,000)	0.31%	(15,500)
Net exposure to cash flow interest rate risk		**(57,749)**		**(66,079)**

Sensitivity

An increase in interest rates of 100 (2020: 100) basis points would have a favourable effect on profit before tax and equity of $580,000 (2020: $660,000) 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 $230,000 (2020: $228,000).

Derivatives interest rate swap

The Group has entered into interest rate swap contracts with notional/principal value as at 31 December 2021 of $13,000,000 (2020: $15,500,000). The interest rate contracts hedge the Group's risk against an increase in variable interest rates. The weighted average fixed rate is 0.95% (2020: 0.96%).

Sensitivity – derivative valuation

An increase in interest rates of 100 (2020:100) basis points would have a favourable effect on derivative financial instruments value and total equity by $470,000 (2020: $257,000) while a decrease in interest rates to nil would have an adverse effect on the derivative financial instruments value and total equity by $94,000 (2020: $10,000).

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Note 17. Financial instruments (continued)

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, forward-looking information has also been considered in reassessing the expected credit loss rate, with specific provisions totalling $364,000 (2020: $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. The credit loss rates are based on a 3-year rolling average between 0.0% - 1.3% (2020: 0.2% - 3.5%) and derived using counterparty-specific information.

The Group has additionally provided $276,000 (2020: $977,000) in relation to counterparty arrangements with motor vehicle dealerships, given significant volatility with vehicle supply and changes in manufacturer-dealership arrangements. This provision is reflected in Current Liabilities - Provisions within the Consolidated Statement of Financial Position.

The following table provides information about the exposure to credit risk and ECL for trade receivables as at 31 December 2021:

31 December 2021	Gross carrying amount ($'000)	Expected credit loss allowance ($'000)	Specific loss allowance ($'000)	Total loss allowance ($'000)	Weighted-average loss rate
Grade 1 (Financiers and supply chain partners)	533	–	(142)	(142)	26.64%
Grade 2 (Employer/Corporate)	4,610	(38)	(169)	(207)	4.48%
Grade 3 (Dealers)	2,900	(37)	(53)	(90)	3.10%
Total expected credit loss exposure	**8,043**	**(75)**	**(364)**	**(439)**	

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.

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For the year ended 31 December 2021

Note 17. Financial instruments (continued)

Financing arrangements

The Group had access to undrawn borrowing facilities at the reporting date. Refer to note 11 for the breakdown.

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 2021					
Non-interest bearing					
Trade payables	8,095	–	–	–	8,095
Customer salary packaging liability	41,196	–	–	–	41,196
Interest bearing - variable					
Bank loans	512	409	29,114	–	30,035
Lease liabilities	3,536	4,148	8,750	–	16,434
Total non-derivatives	**53,339**	**4,557**	**37,864**	**–**	**95,760**
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**

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 2021

Note 18. Current assets – trade and other receivables

Consolidated	2021 $'000	2020 $'000
Trade receivables	8,043	7,601
Less: Allowance for expected credit losses	(439)	(248)
	7,604	**7,353**
Contract assets	10,745	7,346
Other receivables	5,598	1,182
	16,343	**8,528**
Total trade and other receivables	**23,947**	**15,881**

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 allowance for expected credit losses. Trade receivables are generally due for settlement between 14 and 30 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 predominantly consist of accrued revenues with funds held in restricted cash accounts, with a corresponding customer salary packaging liability balance. These are unbilled transactions for commission-based revenue, with no associated 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 allowance for expected credit losses.

Note 19. 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
2021				
Assets				
Interest rate swap contracts - cash flow hedges	–	153	–	153
Total assets	**–**	**153**	**–**	**153**
2020				
Liabilities				
Interest rate swap contracts - cash flow hedges	–	(47)	–	(47)
Total liabilities	**–**	**(47)**	**–**	**(47)**

There were no transfers between levels during the financial year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 19. Fair value measurement (continued)

Fair value hierarchy (continued)

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.

Note 20. Current assets — other current assets

Consolidated	2021 $'000	2020 $'000
Prepayments	2,511	1,815
Other current assets	46	54
Back-to-back leased vehicles	1,022	–
Other current assets	**3,579**	**1,869**

A financial liability is secured against each back-to-back leased vehicle and reflected in note 22. The lease liability is measured at amortised cost, extinguished on lease termination, and therefore, also on a term of less than 12 months.

Lease rental income and expense on motor vehicles is recognised in profit or loss on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 21. Derivative financial instruments

Consolidated	2021 $'000	2020 $'000
Non-current assets		
Derivative financial instruments	153	–
Total non-current derivative financial instrument assets	**153**	**–**
Non-current liabilities		
Derivative financial instruments	–	47
Total non-current derivative financial instrument liabilities	**–**	**47**

Refer to note 19 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 22. Current liabilities — other current liabilities

Consolidated	2021 $'000	2020 $'000
Leased vehicle borrowings	1,555	–
Contract liabilities	4,704	5,782
Other current liabilities	**6,259**	**5,782**

Note 23. Non-current assets — investments accounted for using the equity method

Consolidated	2021 $'000	2020 $'000
Investment in joint venture - Health-e Workforce Solutions Pty Ltd	**575**	**827**

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 23. 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	2021 %	2020 %
Health-e Workforce Solutions Pty Ltd	Australia	50	50

Consolidated	2021 $'000	2020 $'000
Summarised statement of financial position		
Current assets	2,243	2,587
Non-current assets	43	54
Total assets	**2,286**	**2,641**
Current liabilities	806	656
Total liabilities	**806**	**656**
Net assets	**1,480**	**1,985**
Summarised statement of profit or loss and other comprehensive income		
Revenue	2,454	2,720
Amortisation expense	–	(572)
Other expenses	(1,746)	(2,021)
Profit before income tax	**708**	**127**
Income tax expense	(213)	(38)
Profit after income tax	**495**	**89**
Other comprehensive income	–	–
Total comprehensive income	**495**	**89**
Reconciliation of the Group's carrying amount		
Opening carrying amount	827	6,400
Dividends received	(500)	(500)
Share of profit after income tax expense	248	45
Impairment of joint venture investment	–	(5,118)
Closing carrying amount	**575**	**827**

Contingent liabilities

Share of contingent liabilities relating to joint venture as at 31 December 2021 was $nil (2020: $nil).

Commitments

Share of commitments relating to joint venture as at 31 December 2021 was $nil (2020: $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 2021

Note 24. Related party transactions

Parent entities

Smartgroup Corporation Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 26.

Joint ventures

Interests in joint ventures are set out in note 23.

Key management personnel compensation

Disclosures relating to key management personnel are set out in note 27 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

$4,518 in cost reimbursements were paid to key management personnel in 2021 (2020: $7,463).

Loans to/from related parties

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

Note 25. 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

	2021 $'000	2020 $'000
Profit after income tax expense	101,511	48,371
Total comprehensive income	**101,511**	**48,371**

Statement of financial position

	2021 $'000	2020 $'000
Current assets	524,710	415,287
Total assets	**613,988**	**504,316**
Current liabilities	242,131	174,257
Total liabilities	**270,710**	**199,030**
Issued capital	261,975	261,522
Reserves		
Hedging reserve - cash flow hedges	119	5
Share-based payments reserve	9,482	8,312
Other reserves	439	85
Retained earnings	71,263	35,362
Total equity	**343,278**	**305,286**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 25. Parent entity financial information (continued)

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 30 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 2021 of $1,509,000 (2020: $1,509,000).

Capital commitments - Property and equipment

The parent entity had no capital commitments for property and equipment as at 31 December 2021 and 31 December 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 3 and note 39, 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.

Note 26. 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	2021 %	2020 %
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
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
Smartequity EIS Pty Ltd*	Australia	–	100
Smartequity Pty Ltd*	Australia	–	100

* On 29 October 2021, the shares in Smartequity Pty Ltd and Smartequity EIS Pty Ltd (collectively, 'Smartequity'), wholly owned subsidiaries of Smartgroup Corporation Ltd were sold for total consideration of $672,000. A net loss on disposal of $154,000 was recognised. Prior to disposal and on classification of the Smartequity assets as held for sale at 30 June 2021, a loss of $1,434,000 was recognised on revaluation of Smartequity at the lower of its carrying amount and fair value less costs to sell. This has been disclosed as a 'loss on revaluation of a non-current asset held for sale' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 27. 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	2021 $	2020 $
Short-term employee benefits	3,114,980	3,183,677
Post-employment benefits	177,613	191,324
Long-term benefits	144,268	192,986
Termination benefits	–	618,998
Share-based payments	623,777	152,171
Compensation	**4,060,638**	**4,339,156**

Comparative amounts have been revised to align to current year presentation. The revisions relate to changes in interpretation as to the appropriate period over which to expense the fair value of grants.

Note 28. Contingent liabilities

The Group had contingent liabilities at 31 December 2021 of $3,605,000 (2020: $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 2021 of $500,000 (2020: $500,000).

Note 29. Events occurring after the reporting period

No 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 30. 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'.

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

	2021 $'000	2020 $'000
Consolidated Statement of Profit or Loss and Other Comprehensive Income		
Revenue	218,461	212,460
Product costs	(5,980)	(5,970)
Employee benefits expense	(78,354)	(77,573)
Administration and corporate expenses	(28,367)	(28,798)
Occupancy expenses	(1,365)	(1,428)
Advertising and marketing expenses	(1,507)	(1,843)
Amortisation of acquired intangibles	(6,899)	(19,084)
Amortisation of contract rights and internally developed intangibles	(1,038)	(1,013)
Depreciation expense	(3,353)	(3,162)
Other expenses	(4,876)	(1,825)
Operating profit before income tax expense	**86,722**	**71,764**
Finance costs	(1,674)	(3,113)
Loss on sale of business	(154)	–
Impairment of joint venture investment	–	(5,118)
Profit before income tax expense	**84,894**	**63,533**
Income tax expense	(25,168)	(20,857)
Profit after income tax expense	**59,726**	**42,676**
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	114	26
Total comprehensive income for the year	**59,840**	**42,702**

	2021 $'000	2020 $'000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**(7,016)**	**1,159**
Profit after income tax expense	59,726	42,676
Dividends paid	(65,610)	(50,851)
Retained earnings at the end of the financial year	**(12,900)**	**(7,016)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 30. Deed of cross guarantee (continued)

Consolidated Statement of Financial Position

	2021 $'000	2020 $'000
Current assets		
Cash and cash equivalents	31,405	26,148
Restricted cash and cash equivalents	41,196	47,776
Trade and other receivables	27,301	20,217
Income tax receivable	2,557	2,071
Other current assets	–	1,869
Total current assets	**102,459**	**98,081**
Non-current assets		
Investments accounted for using the equity method	28,494	28,546
Derivative financial instruments	153	–
Deferred tax assets	12,219	11,548
Property and equipment	4,378	1,739
Intangible assets	257,022	260,692
Right-of-use assets	5,592	9,143
Total-non-current assets	**307,858**	**311,668**
Total assets	**410,317**	**409,749**
Current liabilities		
Trade and other payables	51,061	40,678
Customer salary packaging liability	41,196	47,776
Lease liabilities	3,536	3,738
Income tax payable	2,248	–
Provisions	13,148	12,774
Other current liabilities	4,028	5,136
Total current liabilities	**115,217**	**110,102**
Non-current liabilities		
Provisions	1,837	2,596
Derivative financial instruments	–	47
Borrowings	28,680	24,673
Lease liabilities	4,322	8,678
Total non-current liabilities	**34,839**	**35,994**
Total liabilities	**150,056**	**146,096**
Net assets	**260,261**	**263,653**
Equity		
Share capital	262,747	261,893
Reserves	10,414	8,776
Retained earnings	(12,900)	(7,016)
Total equity	**260,261**	**263,653**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 31. 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	2021 $'000	2020 $'000
Profit for the year	**58,813**	**41,325**
Adjustments for		
Share of profits — joint ventures	(248)	(45)
Share-based payments	622	466
Fair value change to derivative financial instruments	200	(69)
Interest received — disclosed under investing activities	(5)	(423)
Amortisation of interest and borrowing costs	122	150
Loss on sale of non-current assets	–	48
Loss on revaluation of an asset held for sale	1,434	–
Loss/(gain) on sale of business	(67)	–
Depreciation	3,355	3,173
Amortisation	9,318	22,113
Impairment of joint venture investment	–	5,118
Loss on revaluation of financial liabilities	–	127
Onerous lease costs	–	11
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(8,393)	9,492
Decrease/(increase) in net deferred tax assets	(475)	(4,195)
Decrease/(increase) in other current assets	(1,710)	1,282
Increase/(decrease) in trade and other payables	8,367	(5,384)
Increase/(decrease) in provision for income tax	5,392	(2,325)
Increase/(decrease) in provisions and other liabilities	(911)	3,669
	75,814	**74,533**
Decrease in customer salary packaging liability	(6,915)	(17,291)
Net cash from operating activities	**68,899**	**57,242**

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 2020	**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**
Proceeds from borrowings (net of transaction costs)	14,000
Borrowing costs	(115)
Repayments of borrowings	(10,000)
Amortisation of borrowing costs (non-cash)	122
Balance as at 31 December 2021	**28,680**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 32. Non-current assets — property and equipment

Consolidated	2021 $'000	2020 $'000
Computer equipment		
At cost	5,911	7,055
Accumulated depreciation	(5,169)	(6,313)
Computer equipment	**742**	**742**
Furniture, fixtures and fittings		
At cost	1,272	1,265
Accumulated depreciation	(1,149)	(1,093)
Furniture, fixtures and fittings	**123**	**172**
Office equipment		
At cost	1,604	1,707
Accumulated depreciation	(1,318)	(1,478)
Office equipment	**286**	**229**
Leasehold improvements		
At cost	4,977	5,066
Accumulated depreciation	(4,523)	(4,478)
Leasehold improvements	**454**	**588**
Leased motor vehicles		
At cost	2,849	22
Accumulated depreciation	(74)	(11)
Leased motor vehicles	**2,775**	**11**
Property and equipment	**4,380**	**1,742**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 32. 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	Leased motor vehicles $'000	Total $'000
Year ended 31 December 2021						
Opening net book amount	742	172	229	588	11	1,742
Additions	472	7	265	40	2,827	3,611
Depreciation expense (note 8)	(472)	(56)	(208)	(174)	(63)	(973)
Closing net book amount	**742**	**123**	**286**	**454**	**2,775**	**4,380**
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 8)	(325)	(66)	(188)	(140)	(5)	(724)
Closing net book amount	**742**	**172**	**229**	**588**	**11**	**1,742**

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
- Leased motor vehicles — Period of lease
- 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 2021

Note 33. Current liabilities — trade and other payables

Consolidated	2021 $'000	2020 $'000
Trade payables	8,095	4,416
Accrued expenses	20,455	16,821
Other payables and accruals	9,653	8,655
Trade and other payables	**38,203**	**29,892**

Refer to note 17 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 34. Current liabilities — provisions

Consolidated	2021 $'000	2020 $'000
Employee benefits	8,004	6,714
Operations provision	5,455	7,275
Provisions – current	**13,459**	**13,989**

Employee benefits

The provision for employee benefits relates to the Group's liability for annual leave and long service leave. Refer to note 39 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	2021 $'000	2020 $'000
Employee benefits obligation expected to be settled after 12 months	**4,006**	**4,222**

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 2021

Note 35. Non-current liabilities — provisions

Consolidated	2021 $'000	2020 $'000
Employee benefits	993	1,092
Make good provision	454	1,041
Operations provision	391	463
Provisions – non-current	**1,838**	**2,596**

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 34) and non-current) during the financial year, other than employee benefits, are set out below:

Consolidated 2021	Make good provision $'000	Operations provision $'000
Carrying amount at start of year	463	8,316
Charged/(credited) to profit or loss	–	–
– additional provisions recognised/(de-recognised)	(9)	(2,470)
Carrying amount at end of year	**454**	**5,846**

Note 36. 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 2021 $'000	31 December 2020 $'000
Restricted cash and cash equivalents	41,196	48,111
Customer salary packaging liability	(41,196)	(48,111)

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 2021, the Group has recognised finance revenue of $11,000 (31 December 2020: $231,000) from restricted cash.

Refer to note 17 for interest rate sensitivity analysis on restricted cash balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 36. Cash held on behalf of customers and associated liabilities (continued)

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

	2021		2020	
	Weighted average interest rate	$'000	Weighted average interest rate	$'000
Accounts established by the Group as cash held on behalf of customers	0.01%	135,224	0.56%	131,817
Accounts established by customers directly	0.00%	82,658	0.01%	87,863
Cash held on behalf of customers		**217,882**		**219,680**

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 2021, the Group has recognised interest revenue of $18,000 (31 December 2020: $648,000) from those accounts established by the Group as cash held on behalf of customers, and $4,000 (31 December 2020: $5,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

Note 37. Remuneration of auditors

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

Consolidated	2021 $	2020 $
Audit and review of financial statements	561,000	575,600
Total remuneration for audit and other assurance services	**561,000**	**575,600**
Other assurance services		
Risk and governance	–	22,683
Total remuneration for other services	**–**	**22,683**
PricewaterhouseCoopers	**561,000**	**598,283**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 38. 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 2020	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**
Additions	51	–	51
Depreciation charge for the year	(2,284)	(98)	(2,382)
Remeasurement of leases	(1,220)	–	(1,220)
Balance at 31 December 2021	**5,452**	**140**	**5,592**

Lease liabilities (current and non-current)

Consolidated	2021 $'000	2020 $'000
Balance at 1 January	12,416	15,172
Additions	51	–
Interest incurred	760	1,006
Interest paid on lease liabilities	(760)	(1,006)
Payments of lease liabilities	(3,353)	(2,756)
Remeasurement and surrender of leases	(1,256)	–
Balance at 31 December	**7,858**	**12,416**

Maturity analysis - contractual undiscounted cashflows

At 31 December 2021	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	**3,536**	**4,148**	**8,750**	**–**	**16,434**

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	2021 $'000	2020 $'000
Interest on lease liabilities (included in finance costs)	(760)	(1,006)
Expense relating to short-term leases (included in other expenses)	(122)	–

Amounts recognised in the statement of cash flows

Consolidated	2021 $'000	2020 $'000
Total cash outflow for leases	**(4,113)**	**(3,762)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

Note 38. 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 2021

Note 39. 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 2021 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 17)

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 2021

Note 39. Additional significant accounting policies (continued)

(c) Financial instruments (Note 17) (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 34)

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 34 and 35)

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 8)

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

Share-based payments (Note 14)

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 Monte Carlo option pricing simulations 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 2021

Note 39. Additional significant accounting policies (continued)

(d) Employee benefits (continued)

Share-based payments (Note 14) (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.

(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 2021

In the Directors' opinion:

(a) the financial statements and notes set out on pages 72 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 2021 and of its performance for the financial year ended on that date, and

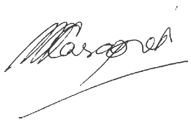
(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 30 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 30.

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
17 February 2022
Sydney

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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 2021 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 2021
- 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 significant accounting policies and other explanatory information
- 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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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.

The Group provides outsourced administration (primarily salary packaging administration and novated leasing), vehicle services (fleet management) and software, distribution and services to a wide range of government, health and corporate customers across Australia. The Group has a substantially centralised finance function.

Materiality

- For the purpose of our audit we used overall Group materiality of $4.25 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.

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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 its accounting processes and controls and the industry in which it operates.

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 6 - 274.0 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 ongoing disruption arising from the COVID-19 pandemic. 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	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

Key audit matter	How our audit addressed the key audit matter
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.	• 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 Australian Accounting Standards • together with PwC valuation experts, we tested the methodology, 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 • we tested the mathematical accuracy of the models • 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 $266.2 million as at 31 December 2021 to its market capitalisation of $1,034.6 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 36 - $41.2 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	We performed the following audit procedures, amongst others: • we tested the operating effectiveness of the Group's relevant key controls over the reconciliation of trust bank accounts to bank statements and authorisation of payments from trust accounts • we examined evidence of reconciliations between the bank statements and the trial balance for a sample of bank accounts as at year end • we obtained confirmations directly from banks of the balances at year end

Key audit matter	*How our audit addressed the key audit matter*
volume of accounts and employees under management (EUM).	• 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 reasonableness 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 2021, 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.

pwc

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.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 53 to 67 of the directors' report for the year ended 31 December 2021.

In our opinion, the remuneration report of Smartgroup Corporation Ltd for the year ended 31 December 2021 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

PricewaterhouseCoopers

Joe Sheeran

Joe Sheeran
Partner

Sydney
17 February 2022

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 31 January 2022.

Substantial Shareholders

As at 31 January 2022, 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.	9,116,918	6.83%
First Sentier Investors Holdings Pty Limited	9,116,918	6.83%
Commonwealth Bank of Australia	6,690,424	5.01%
Superannuation and Investments HoldCo Pty Ltd	6,693,405	5.01%
Comet Asia Holdings II Pte. Ltd., Comet Asia Holdings I Pte. Ltd., KKR Asia III Fund Investments Pte. Ltd. and KKR Asian Fund III L.P.	6,693,405	5.01%

Class of shares and voting rights

At 31 January 2022, there were 9,651 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 31 January 2022:

Size of holding	Number of holders	Total shares held	Percentage of total shares
1 – 1,000	4,890	2,147,376	1.61%
1,001 – 5,000	3,471	8,811,556	6.60%
5,001 – 10,000	764	5,681,082	4.26%
10,001 – 100,000	475	11,137,357	8.34%
100,001 and over	51	105,721,608	79.19%
Total shareholders	**9,651**	**133,498,979**	**100.00%**

Twenty largest shareholders of ordinary shares as at 31 January 2022:

Name	Number of ordinary shares	Percentage of ordinary shares
HSBC Custody Nominees (Australia) Limited	27,937,701	**20.93**
J P Morgan Nominees Australia Pty Limited	23,128,800	**17.33**
Citicorp Nominees Pty Limited	16,660,277	**12.48**
National Nominees Limited	8,275,074	**6.20**
BNP Paribas Noms Pty Ltd	4,212,032	**3.16**
BNP Paribas Nominees Pty Ltd	3,135,286	**2.35**
CS Third Nominees Pty Limited	3,120,054	**2.34**
Anacacia Pty Limited	2,411,369	**1.81**
Timothy Looi	1,397,445	**1.05**
Citicorp Nominees Pty Limited	1,367,121	**1.02**
Heatherwood Court Pty Ltd	1,246,001	**0.93**
Gentilly Holdings 2 Pty Limited	807,500	**0.60**
HSBC Custody Nominees (Australia) Limited – A/C 2	744,586	**0.56**
River Capital Pty Ltd	700,000	**0.52**
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	645,293	**0.48**
Point Capital Pty Ltd	625,000	**0.47**
Gentilly Holdings 2 Pty Ltd	564,281	**0.42**
Neweconomy Com AU Nominees Pty Limited	549,640	**0.41**
BNP Paribas Nominees Pty Ltd	521,240	**0.39**
Sarah Haas	480,557	**0.36**
Total	**98,529,257**	**73.81**

Restricted securities or securities subject to voluntary escrow

There are no securities or securities subject to voluntary escrow as at 31 January 2022.

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	2021	2020	2019	2018	2017
Income statement ($m)					
Revenue	221.8	216.3	249.8	241.8	205.4
EBITDA	103.0	95.4	118.2	115.0	93.6
NPAT (statutory)	58.8	41.3	61.4	59.3	41.2
NPATA	69.5	65.2	81.0	77.8	64.1
Statement of financial position ($m)					
Assets	408.3	408.4	472.9	464.0	466.7
Liabilities	142.1	137.5	196.2	171.7	262.0
Net assets	266.2	270.9	276.7	292.3	204.7
Net cash/(debt)	3.6	2.5	(21.0)	(14.6)	(111.1)
Share information					
Ordinary shares (million shares)	133.5	132.8	131.7	130.9	123.2
Dividends per share (cents per share)					
Interim	17.5	17.0	21.5	20.5	16.5
Special	35.5	9.0	20.0	–	–
Final	19.0	17.5	21.5	21.0	18.5
Total dividends	**72.0**	**43.5**	**63.0**	**41.5**	**35.0**
Share price at 31 December ($)	7.75	6.83	6.94	8.88	10.85
NPATA/ordinary shares (cents per share)	52.1	49.1	61.5	59.4	52.0
Ratios					
Ordinary dividend payout ratio	70%	70%	70%	70%	67%
Operating cashflow/NPATA	113%	115%	110%	103%	99%
Net debt/EBITDA	(0.0)	(0.0)	0.2	0.1	1.2
Operational metrics					
FTEs	673	630	689	695	706
Packages	377,500	360,500	358,500	343,000	325,000
Novated leases under management	64,700	66,700	68,500	65,250	62,500

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 https://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
ESG	Environmental, Social and Governance Committee
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 2021
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 2021 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 – 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
RAP	Reconciliation Action Plan
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 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 10-12
102-7	Scale of the operation	Pages 14-15, 20-22 and Financial Report (page 71 onwards)
102-8	Information on employees and other workers	Pages 26-31 and Corporate Governance Statement
102-9	Supply chain	Page 41 and page 47
102-10	Significant changes to the organisation and its supply chain	Nil. There were no such changes in CY2021
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 (pages 18-25)
102-15	Key impacts, risks and opportunities	Pages 38-43, 46-48 and Corporate Governance Statement
GRI 102: 3. Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	Pages 26-30 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 46-48
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. In 2021 and continuing in 2022, we are engaging in a formal stakeholder engagement program to inform and develop our Sustainability Strategy.
102-44	Key topics and concerns raised	The topics and concerns raised depend upon the relevant group and their interests in the Company. Page 46-48 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 2021 comprises the Company and its subsidiaries (the Group). Refer page 71 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 26-45
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 2021
102-50	Reporting period	1 January to 31 December 2021
102-51	Date of most recent report	February 2021
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. BidEnergy engaged to measure our electricity usage and emissions for all Smartgroup offices.
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 43 (Electricity – total consumption (kwh))
302-3	Energy intensity	Page 43 (Electricity (tonnes CO_2-e per FTE))
302-4	Reduction of energy consumption	Pages 38-43
GRI 305: Emissions		
305-1	Direct (Scope 1) GHG emissions	Not applicable
305-2	Energy indirect (Scope 2) GHG emissions	Pages 43
305-3	Other indirect (Scope 3) GHG emissions	Page 38-43 (in part)
305-4	GHG emissions intensity	Page 38-43 (Electricity (tonnes CO_2-e per FTE))
305-5	Reduction of GHG emissions	Page 38-43
GRI 400: Social		
GRI 401: Employment		
401-1	New employee hires and employee turnover	Pages 26-30 and page 43
401-3	Parental leave	Page 43
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 26-30
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
Anne McDonald
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 20, 447 Collins Street
Melbourne, VIC
Australia, 3000
Tel: 02 9921 8888

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

11 May 2022 at 11am. Please refer to the website for further details.

Smartgroup Corporation Ltd
National Head Office
Level 8, 133 Castlereagh Street
Sydney NSW 2000
smartgroup.com.au