ASX Announcement
Appendix 4E and 2022 Annual Report

Release date: 23 February 2023

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

- Appendix 4E, and
- 2022 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 2022

Previous period: For the year ended 31 December 2021

2. Results for announcement to the market

		$'000		$'000
Revenues from ordinary activities	up	2,899	1.3% to	224,697
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	down	32	0.1% to	58,781
Profit for the year attributable to the owners of Smartgroup Corporation Ltd	down	32	0.1% to	58,781

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 31 December 2021 (paid on 23 March 2022)	19.0	19.0
Special dividend for the year ended 31 December 2021 (paid on 23 March 2022)	30.0	30.0
Interim dividend for the year ended 31 December 2022 (paid on 23 September 2022)	17.0	17.0

On 22 February 2023, the Directors declared a fully franked dividend of 15.0 cents per ordinary share. The final dividend will be paid on 23 March 2023 to shareholders registered on 9 March 2023 with an expected total distribution of $19,800,000.

On 22 February 2023, the Directors also declared a fully franked special dividend of 14.0 cents per share, in respect of the year ended 31 December 2022. The special dividend will be paid on 23 March 2023 to shareholders registered on 9 March 2023 with an expected total distribution of $18,480,000.

The total interim, final and special dividends in respect of the year ended 31 December 2022 is 46.0 cents fully franked representing 100% of after tax profits. The expected total distribution is $38,280,000.

The final ordinary and special 2022 dividends had not been declared at the reporting date and therefore are not reflected in the consolidated financial statements.

Comments

The profit for the Group after providing for income tax amounted to $58,781,000 (31 December 2021: $58,813,000).

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(52.37)	(26.78)

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

4. Control gained over entities

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

5. Details of associates and joint venture entities

	Reporting entity's percentage holding		Contribution to profit after tax	
Detail of joint ventures	31 Dec 2022 %	31 Dec 2021 %	31 Dec 2022 $'000	31 Dec 2021 $'000
Health-e Workforce Solutions Pty Ltd	50%	50%	339	248

6. Independent auditor's review

The financial report for the year ended 31 December 2022 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.

Continuing to

DELIVER

smart group corporation

Annual Report
2022

Contents

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Delivering our growth plan

Our Managing Director and CEO Tim Looi's review includes the awards we won, new business wins, performance and financial results, our commitment to Electric Vehicles (EVs), our culture, the gains we're making with sustainability and how we've supported communities.

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A Smart Future is a growing future

Delves into our Smart Future investment program in more detail. Specifically, this section covers how the Program fits into our work with our clients and customers, and the improvements we are making now and in the years ahead.

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Delivering through our people

We regard our culture as a key competitive advantage for Smartgroup. This section examines the range of initiatives we undertook this year to bolster and reinforce our culture including key achievements in gender equality and engaging with First Nations peoples.

34

A Smarter, More Sustainable Tomorrow

We are deeply committed to ESG and to being the best corporate citizen we can. This section summarises how we support the community and the initiatives we've taken to protect the planet. (This year's inaugural Sustainability Report has a lot more detail.)

FOCUSED

on customers and their needs

The key to growing Smartgroup remains our ability to understand and deliver to customers in ways that add value. By better understanding every customer and every demographic and by identifying the differences between customer segments, we are learning how to service our customers' needs more accurately and effectively.

READ MORE > P.22

DIGITAL EVOLUTION

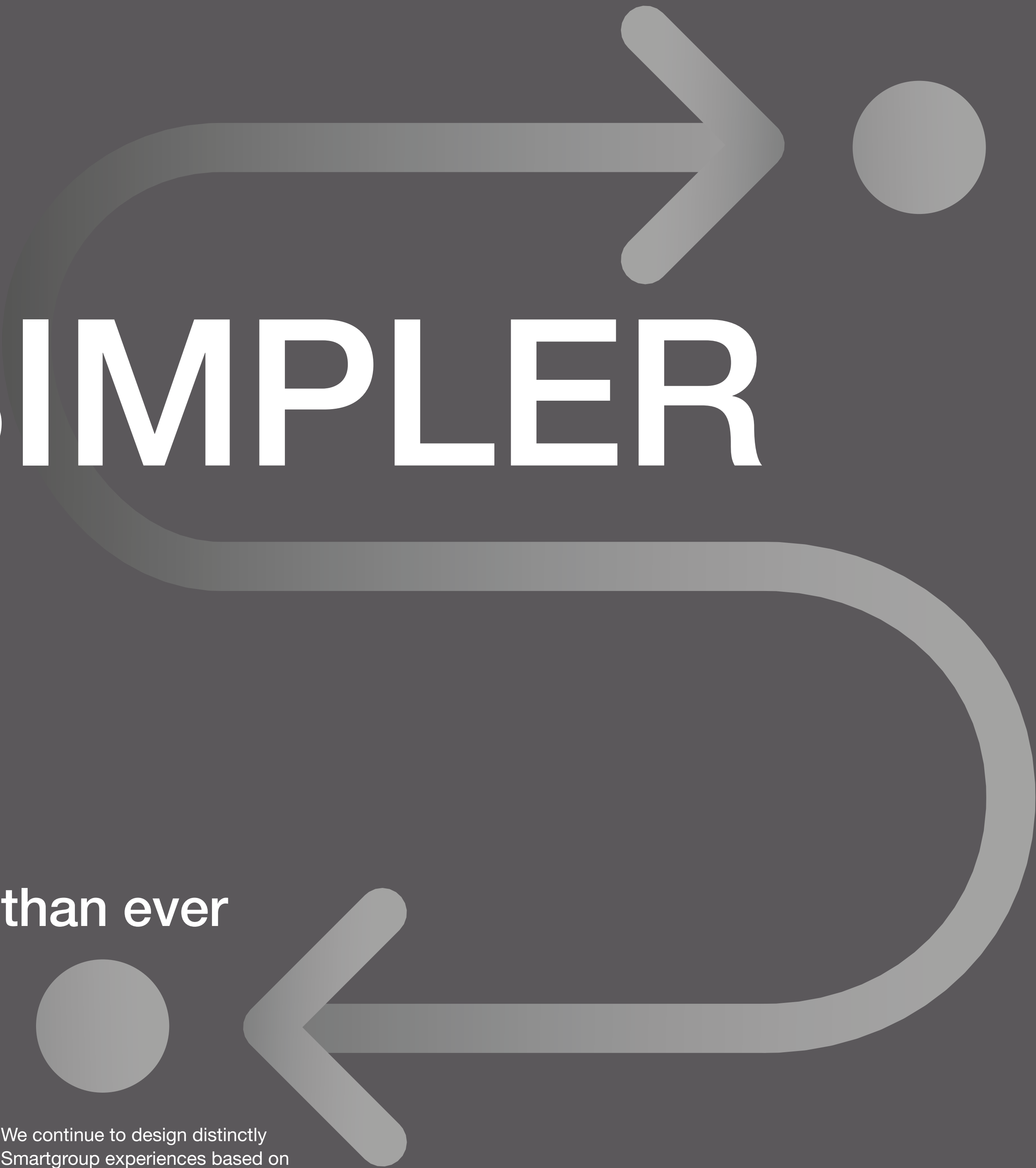
underway

Our ambitious multi-year Smart Future investment program will transform our approach, refocus our resources and enable us to better service more customers.

READ MORE > P.24

SIMPLER

than ever



We continue to design distinctly Smartgroup experiences based on simplified and streamlined ways of working. Challenges this year have not distracted from our longer-term drive to dismantle complexity and pursue organic growth, lower costs, and reduce risk through consistent and simplified customer journeys.

READ MORE > P.26

Smart solutions

Smartgroup is an Australian company listed on the Australian Securities Exchange. We offer salary packaging, novated leasing, fleet, payroll and workforce optimisation services to a range of clients across numerous industries including government, healthcare, not-for-profit, education and corporate. We operate through a portfolio of brands including Smartsalary, Smartleasing, Smartfleet, Smartsalary Payroll Solutions, Autopia, Advantage Salary Packaging, AccessPay, PBI Solutions and Health-e Workforce Solutions.

We work with community workers, nurses, teachers, public servants and many others to help them save money easily and quickly. We are the largest provider of salary packaging to the not-for-profit sector in Australia, having helped tens of thousands of workers with benefits and novated leasing. Some of Australia's largest Government agencies also trust us to administer these aspects of their operation.

Our tailored fleet management solutions help organisations save significantly on their fleet vehicles. Flexible solutions like Pool Vehicle Booking offer a fleet car-sharing system that can cater for varying numbers of vehicles and unpredictable usage patterns.

Our payroll consulting and administration services specialises in aspects like interpreting award conditions, managing complex arrangements and simplifying payroll processes.

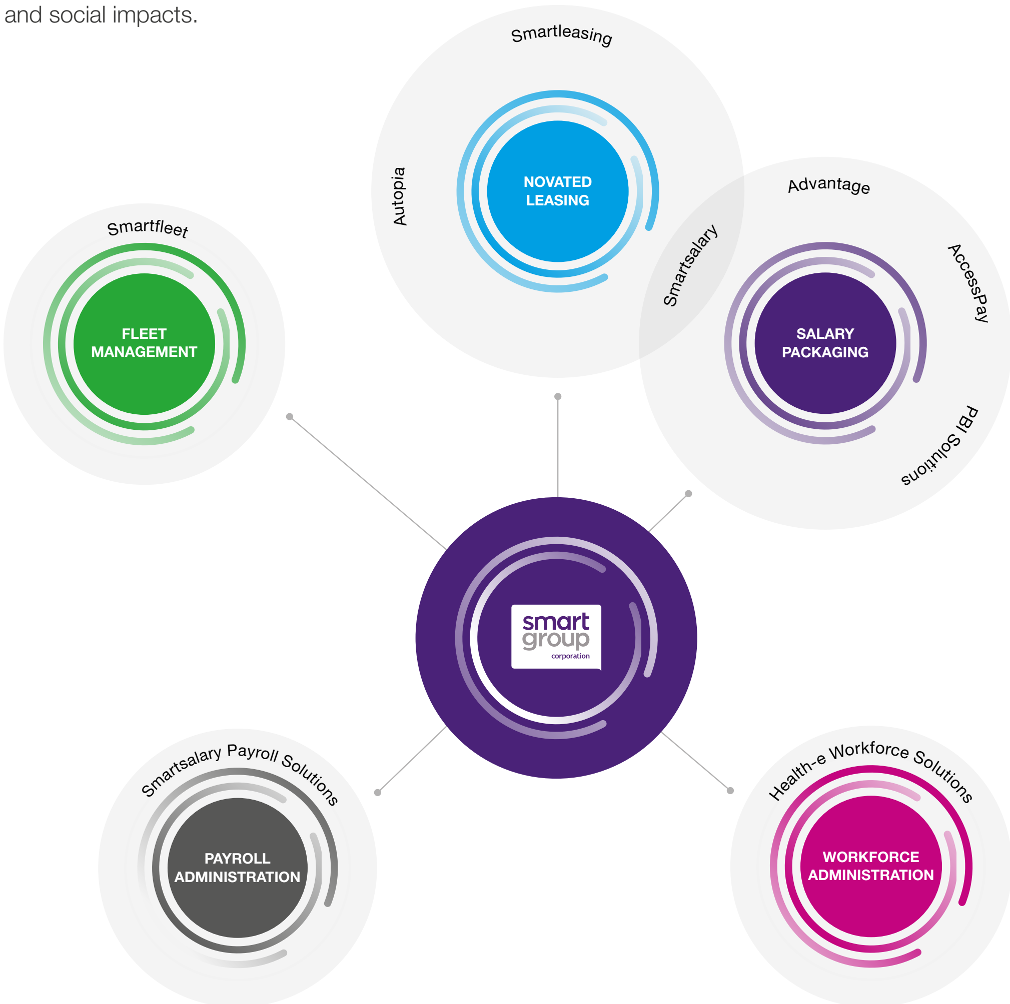
We have helped some of Australia's leading hospitals save millions in staffing costs through workforce modelling and optimisation.

We work with corporate organisations to manage their employee salary packaging and novated leasing programs, fleet and pool vehicles, and complex employee payroll arrangements. We work closely with teachers and education professionals in primary, secondary and tertiary institutions and partner with charities and public benevolent institutions to provide them with a compliant, simple and effective salary packaging and novated leasing benefits program.

Our customer-centric view is our competitive edge. Central to our approach is our commitment to delivering an exceptional experience to our customers; from the calls we take to the industry-leading technology we develop. We continue to look for ways to do more for people who work in our client organisations. We are constantly working to improve our offering full circle, be it the way we design our processes or the services we provide, while considering our environmental and social impacts.

Underpinning our entire operation is our engaged, energised and highly capable workforce. We continually strive for an innovative environment in which our people can excel in their work and contribute to our continuous improvement. We stay close to our customers and empower our people within a culture where they feel valued and can see the tangible results of all their hard work. The knowledge we gain through the strength of these relationships allows us to deliver more for all those we represent.

Our supply chain includes software providers, financiers, vehicle dealerships and manufacturers, insurance and other financial service providers, as well as office premises and the services to support those premises.



Financial performance

Our financial performance summary for the year ended 31 December 2022.

NPATA[1]

$61.2m

2021
$69.5m

↓ 12%

Statutory NPAT

$58.8m

2021
$58.8m

– %

Revenue

$224.7m

2021
$221.8m

↑ 1%

EBITDA[2]

$93.4m

2021
$103.0m

↓ 9%

The 2022 financials are presented on an adjusted basis and have been reconciled to the statutory 2022 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]

117%

2021
113%

Dividends declared[4]

46.0cps

2021
72.0cps

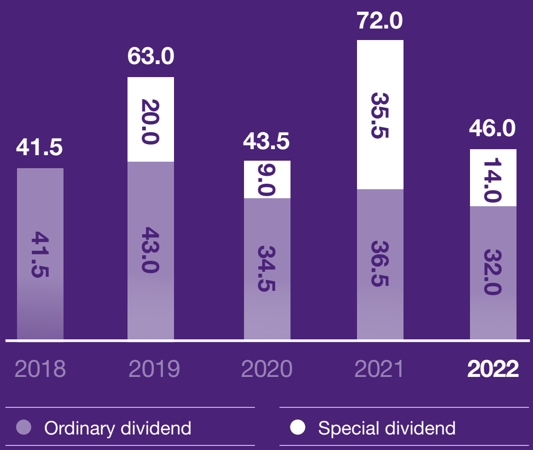
Net debt/(cash)[5]

$27.2m

2021
$3.6m

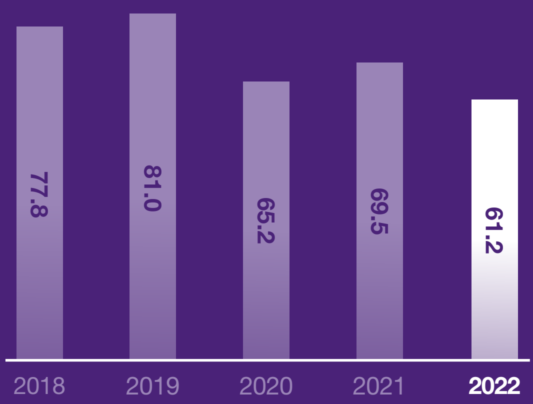
Dividends per share declared (fully franked)[4]

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. 2022 includes a 14.0cps special dividend declared on 22 February 2023.
5. Net debt is cash and cash equivalents less corporate borrowings adjusted to exclude capitalised borrowing costs and vehicle borrowings.

Fundamentally strong

Smartgroup's 2022 financial result has been adversely impacted by the ongoing challenges of a significantly delayed vehicle supply chain and higher operating costs. While we are disappointed that these challenges have led to a weaker financial result, Smartgroup's business fundamentals are sound.

Our 2022 results

We recorded revenues of $224.7 million, EBITDA of $93.4 million and NPATA of $61.2 million. Revenue was in line with 2021, while EBITDA and NPATA were down 9% and 12% respectively. EBITDA margin for 2022 was 42%. Operating cash flow generation remained high at 117% of NPATA, compared with 113% of NPATA in the previous period. There is more detail regarding all of these results in the Managing Director and CEO's report on page 12.

Vehicle enquiries and interest remain high, as shown by the growth in novated leasing leads. The vehicle delivery pipeline also continued to expand to around $19 million of delayed revenue, which is around $15 million above historic levels. Whilst the salary packaging and novated leasing markets remain competitive, we have been pleased with the dedication and engagement demonstrated by our teams in continuing to generate high levels of customer and client satisfaction.

Despite hopes earlier in 2022 that delays in the global vehicle supply chain would normalise by the end of the year, this didn't eventuate. We remain hopeful that motor vehicle manufacturers will be able to increase production and that we will see car deliveries in Australia return to more normal levels sometime during the next financial year. This should release the significant delayed revenue mentioned above and boost Smartgroup's future earnings. This will also help to alleviate some of the pressure on our teams, recognising that we are currently dedicating higher than normal resourcing to managing this pipeline.

We were pleased to secure a number of new large and medium-sized organisations as clients throughout 2022. We renewed or extended the majority of the top 20 contracts that fell due in 2022. We also onboarded 5,700 new packages in Q4 from one medium-sized client and negotiated the onboarding of another 2,200 package client for early 2023. One notable loss was the Department of Education and Training Victoria.

We expect that the introduction of the Australian Government's Electric Car Discount Policy will encourage our customers to consider leasing an electric vehicle (EV) and we have been pleased with the early interest and engagement we have seen from customers following the passing of this legislation. Smartgroup had been developing our EV Market Strategy in anticipation of this new Government Policy. We are confident that we can assist our customers to easily transition to an EV and take advantage of the savings on offer under the Government's Discount Policy.

The Board is pleased to announce a fully franked final ordinary dividend of 15.0 cents per share. In addition, as part of the Directors' ongoing assessment of the Group's capital requirements, the Board has determined that a further return to shareholders is appropriate in the form of a fully franked special dividend of 14.0 cents per share. Combined with the interim dividend of 17.0cps, that brings fully franked dividends for the year to 46.0 cents per share, reflecting a payout ratio of 100% of NPATA.

Smart Future investment program deliverables

Key achievements from the Smart Future investment program included new websites for Smartgroup's client facing brands, a new salary packaging calculator, a customer contact and journey tool and completing most of the development for the car leasing portal launched in February 2023. These tools were all built to help educate our customers and improve their experiences. We were expecting to have made better progress by the end of 2022, but were delayed by a lack of available resources and some implementation difficulties. In 2023, our focus will be on ensuring we optimise the functionality of the digital tools delivered and seeking to maximise the benefits from the investment made to date.

ESG initiatives

In 2021, the Board established an Environmental, Social and Governance (ESG) sub-committee to advance our initiatives in the areas of corporate and social responsibility, community engagement and sustainability. An external agency has helped us understand our carbon footprint and how it has moved over the past three years, and we have used this in developing our first Sustainability Strategy and setting detailed initiatives and targets, including a target of Net Zero from our direct operations by 2030. These actions have been endorsed by the ESG Board sub-committee and received strong support within the business from senior leaders, the Executive Team and clients. We are pleased to also release our first standalone Sustainability Report, aligned with Global Reporting Initiative (GRI) standards, which contains details of our Sustainability Strategy, initiatives and targets and our progress made to date.

Board changes

This year, we farewelled our long-term Director Andrew Bolam, who retired from the Board in August 2022, after his long and valued 10-year contribution to Smartgroup. We were pleased to announce the appointment of John Prendiville as Deputy Chair and the appointment of two new Chairs to Board Committees, with the appointment of Anne McDonald as the Chair of the Audit and Risk Committee and Carolyn Colley as the Chair of the IT and Innovation Committee.

Looking ahead

There is a great deal of speculation that 2023 will be a challenging year economically, with global pressures fuelling inflation and higher costs of living. In such circumstances, our ability to help employees salary package should be even more important. In light of that, we approach 2023 with cautious optimism, recognising the need to consistently improve our service offering and further streamline our operations.

I extend the Board's gratitude to those we work with and everyone who invests in us for their ongoing support. My fellow Non-Executive Directors have demonstrated their constant commitment and valuable guidance during another difficult trading year and for that I thank them. Finally, on behalf of the Board, we wish to thank Tim and our entire Smartgroup team for their efforts throughout a challenging 2022.

Michael Carapiet
Chairman

Delivering our growth plan

Tim Looi
Managing Director and CEO

2022 has been a mixed year for Smartgroup. While we face some short- to medium-term macro-economic and vehicle supply challenges, we have a resilient business model, our operational performance remains strong and we are optimistic for our medium- to long-term growth plans.

Vehicle supply chain disruption, a tight labour market, high inflation and a rapid rise in interest rates all generated headwinds this year. Despite these challenges, the business achieved multiple successes, as we made good progress with our strategy, focused on service excellence and launched digital interaction tools to better engage with our customers.

It has not been an easy year for many of our clients either. Talent shortages, constraints around immigration, increases in the cost of living and other difficulties have made it harder for many to attract the people they need to deliver on significantly higher workloads. Many employers, including those in our key client segments, are reporting higher than usual vacant roles. There are thousands of vacancies across health, not-for-profits and education. When these roles are filled, we will see higher salary packaging customer numbers. Similarly, the heightened awareness of tougher economic times has also, naturally, made customers more aware of the importance of making their pay-packets stretch further through salary packaging.

Our service excellence recognised once again

Great service is vital for supporting our clients in their times of need and increasing uptake of our products and services. Coupled with the delivery of great customer experiences, market-leading service increases client numbers and customer advocacy promotes referrals and fosters cross-sales.

Our key metric for this is our Net Promoter Score (NPS) which is measured at each interaction between our business and our customers. This year, we've seen strong performance gains in our NPS for our core Smartsalary and AccessPay brands, increasing by 2 points, to +48.

Our service excellence was also recognised by Australia's peak customer service body, the Customer Service Institute of Australia (CSIA). In October 2022, Smartgroup had no less than seven finalists across multiple categories in the annual CSIA Australian Service Excellence Awards. Our Vehicle Sales Team was awarded the Customer Service Team of the Year – Medium: a testament to the dedication and care that our team members provide to customers.

NPS FOR OUR CORE SMARTSALARY AND ACCESSPAY BRANDS INCREASED TO

+48

Loyal clients and customers

With c.3,700 employer clients and around 379,000 customers across government, health, not-for-profits and corporates, many of our relationships are long-standing and include Australia's largest employers. We continue to focus on customer experience as a key driver of those relationships. With travel now back on the agenda, it has been possible for customers to carry out site visitations, and to interact with our clients face-to-face once again as many relaxed COVID-19 related restrictions.

Towards the end of the year, we successfully re-tendered the NSW Health salary packaging and novated leasing contract. Various NSW Health districts have been clients of Smartgroup since 2005. We also onboarded several new medium-sized organisations in the second half of 2022.

Unfortunately, following a tender process, the Department of Education and Training Victoria (DET Victoria) chose not to renew their contract with us. While we are of course disappointed that we were not reselected, it has been a pleasure working with DET Victoria and we wish everyone we interacted with the best for the future.

Smart Future advances

We continued to progress our Smart Future investment program. We launched our new Smartsalary website and its salary packaging calculator in the second half of 2022. These significant upgrades enable better and simpler customer experiences and will build long-term success in salary packaging and novated leasing participation. We are already seeing strong customer engagement with the self-education content on the website, with over 8,000 views per month and time on those pages being around double that of the other website pages.

We have recently launched phase 1 of our Car Leasing Portal to a select group of clients. This market-leading solution will enable our customers to compare multiple cars against different financing options and to obtain quotes and submit applications for novated leasing. Phase 1 is a trial and we will be reviewing the engagement levels from customers in comparing financing and car options. Currently, more than half of our interactions with our leasing calculators take place after hours. Our portal will enable our customers to stay engaged in the novated lease process without the need to interact with a consultant.

Finally, the implementation of our Enhanced appointment booking tool, has assisted our Field Education Team to connect and refer potential customers to the channel that best suits them. Adoption of this tool will help to further increase the effectiveness of this sales channel.

We have delivered several key Smart Future digital tools over the last 12 months and we are working on plans for their optimisation in 2023. The website, Car Leasing Portal and enhanced appointment booking tool will all enhance our ability to deliver better customer experiences. The digital nature of these tools is paramount to ensuring we can effectively scale our services to our large base of clients and customers.

TOTAL PACKAGES – 2022

379,000

CUSTOMERS

REVENUE – 2022

$224.7m

INCREASE OF 1%

While we have opportunities to invest in further digital assets, we are tracking the performance of each asset released and continuing to refine their usage as we assess further investments in the program. The technology-intensive nature of the Smart Future investment program, together with the current increased demand for technology resources seen Australia-wide, has meant the cost of the program has increased. With this in mind, we decided to change the program delivery methodology to use more internal resources. While the investment time horizon will now be longer, it will ensure that our Smart Future investment program delivers enduring shareholder value.

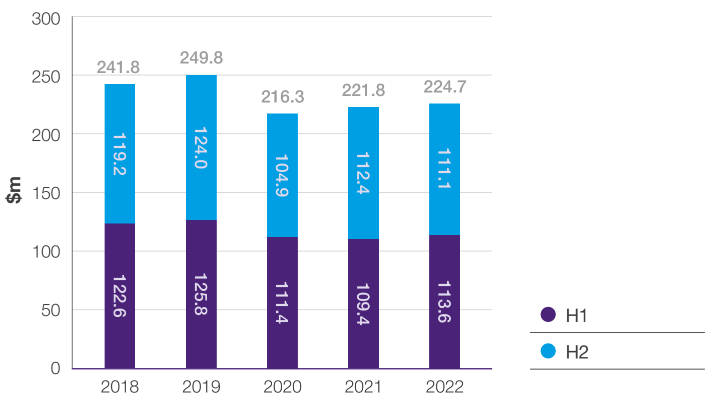
Stable financial results

In 2022, we recorded revenues of $224.7 million, EBITDA of $93.4 million and NPATA of $61.2 million. Revenue was in line with 2021, while EBITDA and NPATA were down 9% and 12% respectively. EBITDA margin for 2022 was 42%. Operating cash flow generation remained high at 117% of NPATA, compared with 113% of NPATA in the previous period.

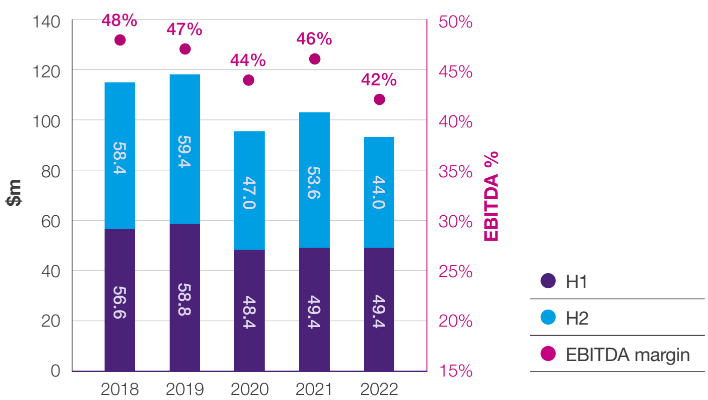
This year's NPATA includes one individually significant item: $1.8 million of one-off revenue items in the first half of the year related to the transition of novated lease funding from St George to alternative financiers. We also received a further large one-off payment from St George that will be recognised as revenue over time. This upfront payment represented $11.6 million of future performance fees in respect of novated lease financing originated with St George prior to the transition of their auto funding book to Angle Finance.

Overall, we ended the year in a small net debt position, following payment of a $39.7m special dividend in March 2022.

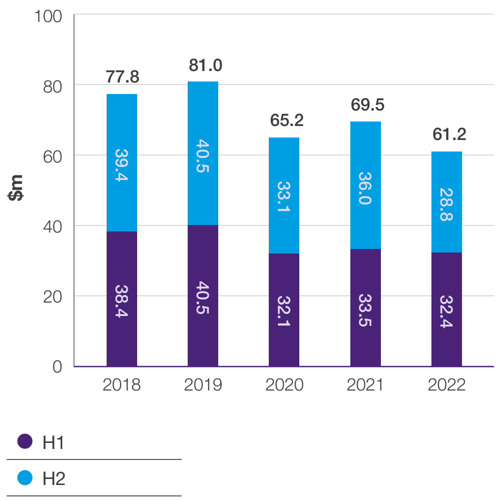
Revenue



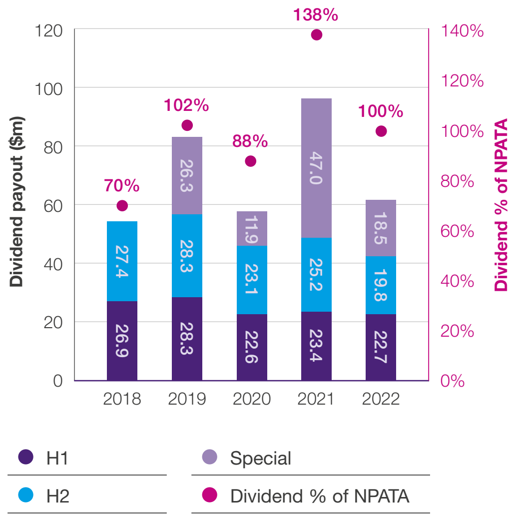
EBITDA



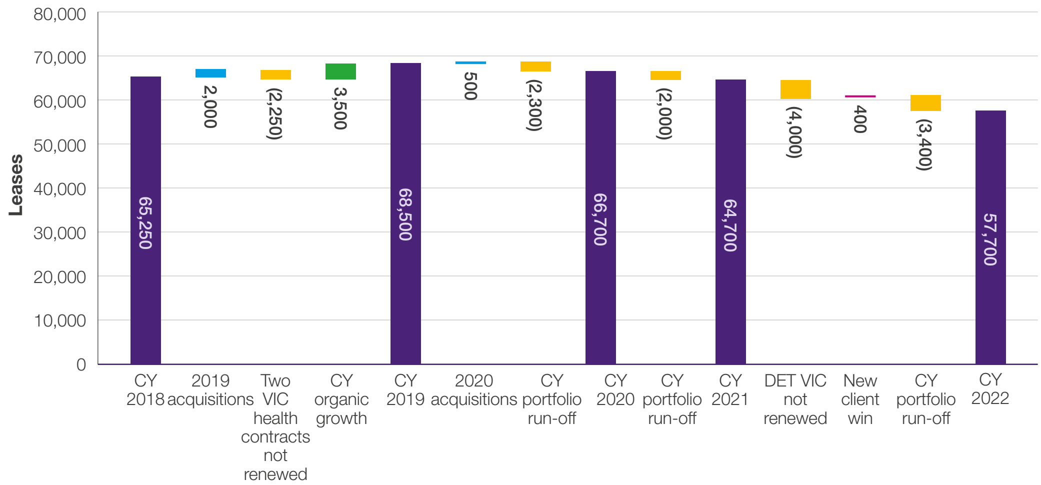
NPATA



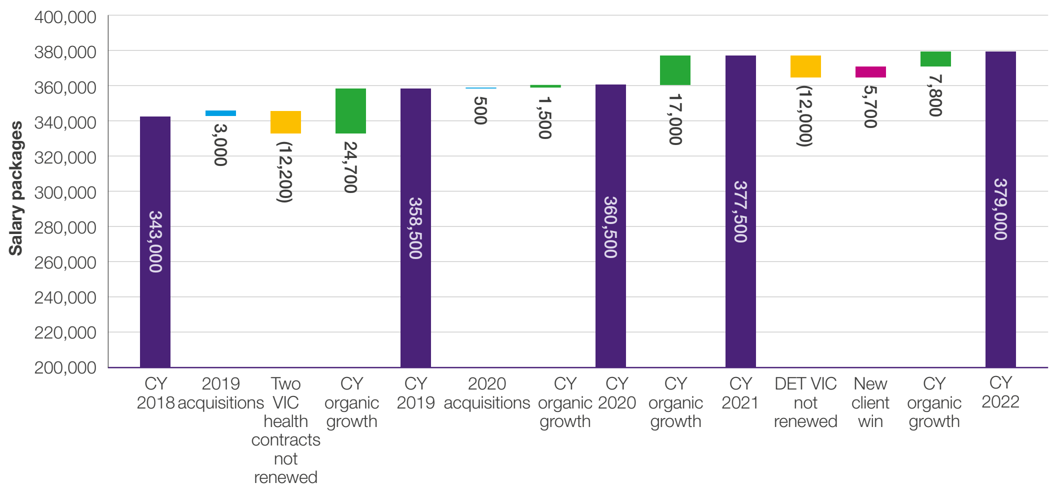
Dividend (fully franked)



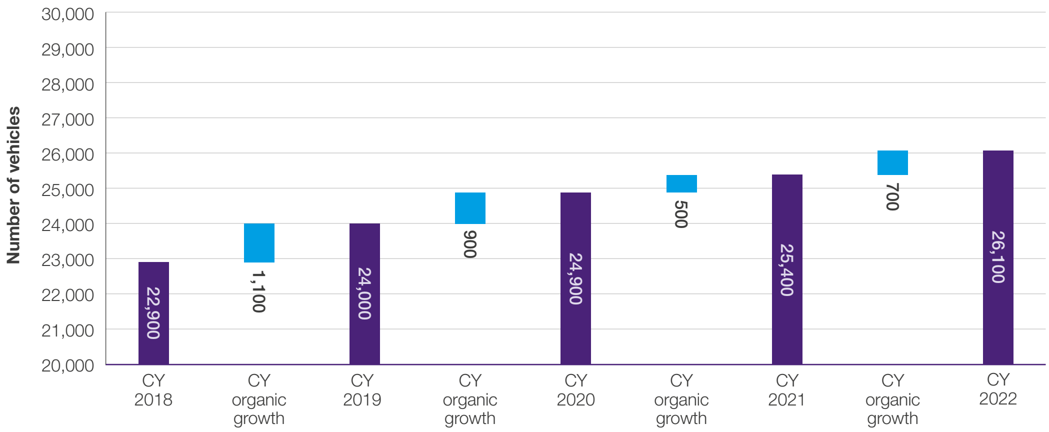
Novated leases under management



Salary packaging customers



Fleet vehicles



Consistent performances, despite challenges

December 2022 salary packaging customer numbers were in line with the previous year at 379,000. Our fleet vehicles under management grew by 3% to 26,100, although vehicle supply shortages and the transition out of DET Victoria saw novated leases under management reduce by 11% to 57,700.

While customer interest in novated leasing remained buoyant and leasing leads (excluding DET Victoria) grew by 13%, lower lead to order conversion rates as the year progressed reflected the impact of external economic factors on overall consumer confidence. Excluding DET Victoria orders, new lease vehicle orders for the second half of 2022 were 2% lower than the first half and 3% lower than the second half of 2021.

Challenges continued in the supply of motor vehicles across Australia and globally, with the average time for delivery of our vehicle orders, for our most popular makes/models, now sitting at around 85 days versus less than 20 days pre-COVID-19. These delays resulted in further growth in our already record future order book, which now stands at c.$19 million, up $3 million from December 2021 and c.$15 million above historic levels. But the extension in delivery timeframes also means operational re-work because our vehicle sales consultants are increasingly required to re-quote and re-process credit approvals, as financier credit decisions are generally only valid for 90 days.

As a result, novated leasing volume decreased by 2%, however this was offset by an improvement in upfront lease yield, which increased by 4%.

Encouraging customers to choose electric vehicles

The introduction of the Federal Government Electric Car Discount Policy in 2022 will provide substantial savings for our novated leasing and fleet clients and customers on the purchase of an electric vehicle (EV). We are excited to help our customers as they start their journey into an EV and we are well prepared to ensure that their transition is seamless, simple and cost-effective.

We have a range of initiatives to support EVs: from helping our customers to dispose of their existing vehicle and educating them about which EV is right for them, to facilitating their new EV and the full ecosystem required to support an EV lifestyle, including chargers, RFID cards and other complementary products and services.

Since the introduction of the Electric Car Discount Policy, we have seen strong interest and demand for EVs through a novated lease, with a c. 270% increase in novated leasing quotes for EVs in Q4 2022, compared to quotes in Q1 to Q3 2022. While it has only been a few months since the policy's introduction, this heighted level of interest and demand is a good indicator for the success of the EV rollout. As a salary packaging provider, at Smartgroup, we are pleased to be able to support this significant initiative to help drive EV uptake in Australia and reduce Australia's transport related emissions.

Our award-winning culture

We continue to support and encourage diversity as a powerful and distinctive part of our culture. We retained our Workplace Gender Equality Agency citation for the fourth year, recognising our commitment to enhanced gender equality in our workplace. Once again, Smartgroup was recognised as an Inclusive Employer – one of only a small number of Australian employers to have received such recognition. This is the fourth year in a row that Smartgroup has been recognised by Diversity Council Australia. We have now met all our gender targets at all levels of the organisation (from Board to Group Executive Team, Senior Leaders and team members).

As the challenges of the year put pressure on our teams, our insistence on capability building at every level of our business proved its worth, with individuals and teams showing resilience and demonstrating initiative and commitment to our strategy and the needs of our clients and customers. Our STRIVE program continued to support our leaders to set their sights high, engage with their teams and achieve their fullest potential.

Smartgroup Foundation provided grants totalling almost

$250,000

for grassroots initiatives run by 17 charitable organisations across Australia.

Being there for 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 Queensland and its very successful Catch Me If You Can program, as well as hosting events like Australia's Biggest Morning Tea. On Beans for Genes Day we once again asked our people to donate the cost of a coffee towards finding ways to treat or prevent genetic diseases in children.

In its fourth year of funding, the Smartgroup Foundation provided grants totalling almost $250,000 for grassroots initiatives run by 17 charitable organisations across Australia.

We delivered our second Modern Slavery Statement in 2022, reaffirming our commitment to eliminating modern slavery in all its forms.

We have also continued to implement our officially accredited Reconciliation Action Plan this year as we strive to contribute meaningfully to reconciliation, both within Smartgroup and in the communities in which we operate.

DONATED APPROX.

$1.65m

TO CARBON OFFSET PROJECTS

Contributing to a sustainable future

This year we approved our first detailed Sustainability Strategy, which includes our commitment to net zero carbon emissions from our direct operations by 2030, and a range of initiatives and firm promises to make a positive impact in the take up of EVs in Australia. We have also released our first stand-alone Sustainability Report, reporting against GRI standards and demonstrating our commitment to *A Smarter, More Sustainable Tomorrow*.

Novated Leasing customers have contributed over $1.65 million towards our Carbon Offset Program projects, with our environmental partners Greenfleet, Carbon Positive Australia and The Nature Conservancy. This program also saw us invest in a range of important projects, including the successful launch of an innovative blue carbon project at Webb Beach, 70kms North of Adelaide, to restore coastal wetland into an effective carbon sink.

We're proud of our achievements

While 2022 has not seen the improvements in motor vehicle supply that we had hoped for, significantly constraining potential revenue, we are proud of what we have accomplished. We continue to generate high-quality earnings from a diversified and loyal client base and the business has performed well from an operational perspective. Together with the introduction of the Federal Government Electric Car Discount Policy and the continued rollout of our Smart Future investment program, we are well 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 goes to all of our team members for their 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 Smart Future is a growing future

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

Benefitting hundreds of thousands of Australians

Facilitating financial wellbeing is at the heart of the services we provide and the very purpose of our organisation. Smartgroup has long-standing relationships with some of Australia's largest and most prominent employers. In fact, we help around 379,000 employees across corporate, government, health, not-for-profit, aged care and education sectors to reduce the tax they pay and enjoy more of their income on payday.

The right information and tools

Our teams have access to the product and segment knowledge and expertise to provide strategic guidance to clients. We aim to provide information and tools, by industry, which allow our customers to make the most of their financial benefits and boost their economic wellbeing.

A response to extensive research

Our Smart Future investment program is the result of extensive research that highlighted the need for information to be accessible across multiple devices and platforms with fast, simple and convenient service and enhanced data security.

The research told us the main reason people don't participate in a particular benefit is because they don't know how it works or what it means for them. Education is crucial, and it must be personalised and simple to understand, to help our customers make an informed decision about the benefits available to them.

Digital enhances engagement

COVID-19 also accelerated the need for strong digital experiences. Our customers want speedy, accessible service and the ability to speak to someone when they need it. Although activity itself has largely returned to pre-pandemic levels, the way our clients and customers want to engage with us, and other organisations, has changed. Delivery of digital assets will lift organic growth, ensure better education and help to lift participation rates.

By digitising the customer journey, employees will be able to engage with our service teams, when and how it suits them. At the same time, our face-to-face education teams (on-site, at events and via webinars) remain key to supporting people. We will continue to invest in these channels.

Experiences matter

Improving our client and customer experiences will make our interactions seamless, intuitive and convenient, and enable the organisations we work with to get the most out of their salary packaging program. This, in turn, will support the uptake of more packages within our existing client base, strengthen contract renewal of our long-standing relationships with some of Australia's largest employers and drive further growth in new business.

Controlling costs while maintaining quality

This year, we decided to change the program delivery approach to use more internal resources. While this means the investment time horizon will now be a little longer, it will also ensure that our Smart Future investment program delivers enduring shareholder value at an appropriate cost base.

Ease, simplicity and accessibility remain critical

Our clients are looking to support their employees by offering them benefits. They are looking to us to educate them about salary packaging, and to facilitate the uptake of packaging in an engaging and easy way. Through our Smart Future investment program, we continue to drive simplification and digital delivery as well as multi-channel engagement practices, to ensure customers get a great experience while maximising the benefits they are entitled to.

45% PBI NON-HOSPITALS

25% PBI HOSPITALS

20% GOVERNMENT

7% EDUCATION

3% CORPORATE

379,000

2022 PACKAGES

Focused on customers and their needs

Customer experience remains a key driver for our relationships. Understanding and delivering what constitutes added value for our customers underpins our own growth and therefore our Smart Future investment program.

While COVID-19 has continued to impact us and many of our clients in 2022, our commitment to providing great customer service has not wavered. A return to face-to-face commitments alongside our multi-channel approach has enabled us to bring flexibility and accessibility to engaging with our clients and customers.

Irrespective of whether we are working with an individual or an organisation, all of our services enable access to financial benefits and efficiencies. Our expertise in the complexities across each sector helps us to cater for all industries and ensures our clients and customers enjoy the maximum benefits.

We are making good progress in better understanding the similarities and differences between our customer groups and demographics, and how to best segment the thousands of people we serve. Developing a common customer relationship management (CRM) system that accommodates specific characteristics will enable us, in time, to tailor our approaches more effectively and in ways that feel even more personal.

KEY COMPONENTS	DELIVERABLE	HIGHLIGHTS	PROGRESS
Re-design client and customer portals	Enhanced leasing calculator	c.70% increase in Smartleasing calculator traffic and c.100% leads since launch.	Initial launch 2021. Launched 2022 for Autopia customers.
	Enhanced appointment booking system	Targeting higher year-on-year customer interactions.	Launched September 2022
	Car leasing portal	Another important step in our continually evolving digital experience.	Phase 1 with select clients to commence in 2023
Redesign websites and apps	Smartsalary website	Already seeing consistent usage of educational pages and materials.	Launched July 2022.
	Salary packaging calculator	Simple to use, making it easier for our customers to understand what could be packaged, and helping them to maximise their benefits and take-home pay.	Launched October 2022.
Leverage common CRM across group	Common CRM	N/A	TBD

INCREASE IN LEASING CALCULATOR TRAFFIC BY

70%

Digital evolution underway

Digital transformation will play an important role in the delivery of our Smart Future investment program. Technology underpins our ability to harness all the data we have available to us, get closer to customers, improve our core systems and introduce increasing levels of automation into our relationships and exchanges.

Originally envisaged as a series of projects delivered by Smartgroup team members with the help of external consultants, Australia-wide talent shortages meant that we initially relied far more on externals than planned. We have since changed the delivery approach to use more internal resources, which will ensure the deliverables best meet our rapidly evolving needs as a business at a more appropriate cost base. This change has impacted timeframes, but we are happy with progress to date and remain confident that this series of projects will release more potential into the business over time.

KEY COMPONENTS	DELIVERABLE	HIGHLIGHTS	PROGRESS
Establish data practice and common data platform	Substantially uplifted our Cybersecurity capability in 2022.	Appointed first permanent Chief Information Security Officer (CISO) in late 2021. Cyber Strategy approved July 2022. Obtained ISO27001 certification for our Smartsalary and Smartleasing businesses in July 2022.	Now live
Improve core systems in packaging, leasing and fleet	Iterative improvements	Implemented iterative improvements to system functionality, capacity and stability	2022-2024
Invest further in business automation	In-sourced robotics capability	Now supporting c.60 robotic processes and 50+ 'digital' FTEs.	2022-2024

NOW SUPPORTING

60

ROBOTIC PROCESSES

INCLUDING

50+

'DIGITAL' FTEs

Simpler than ever

Our business has grown rapidly and broadly over time. Inevitably, that has led to complications as we have worked to bring systems together and to simplify and streamline our operations and processes.

Customers want experiences that feel as simple and intuitive as possible. The simplification element of our strategy focuses on changing not just how we work but also how our software and platforms work for our clients and customers. By delayering systems and removing complexity, we not only deliver better customer journeys - we also lower our cost to serve and accelerate our productivity and, therefore, our time-to-market.

KEY COMPONENTS	DELIVERABLE	HIGHLIGHTS	PROGRESS
Continue migration to cloud-based software	Telephony, file storage, project management and endpoint management systems migrated	Commenced migration of Robotic Process Automation software.	2022-2024
Implement new digital experience platform	Completed foundational DXP implementation. In process of migrating all our brand websites onto the new platform.	Consistent experiences, Improved Search Engine Optimisation (SEO) Compliant with WCAG 2.0AA standards improving accessibility of Smartsalary and Smartleasing websites for all customers.	Underway since 2021.
Enhance core API capabilities	API platform implemented. New financier API implemented	Increased use of APIs and automation.	2022-2024

IMPROVED

SEO

COMPLIANT WITH WCAG 2.0 AA STANDARDS

INCREASED USE OF

APIs

AND AUTOMATION

Delivering through our people

This year has been a period of reconnection after the COVID-19 lockdowns. It has been a time for rebuilding face to face relationships, placing our values at the heart of everything we do and replenishing individual and collective mental health and wellbeing to support our engaged, high-performance culture. Once again, our people rose to the challenges, innovating and delivering services and support to our customers around Australia.

Our commitment to gender equality and ensuring everyone who works here feels welcome and valued has continued, enabling us to reach our gender targets and delivering on our Reconciliation Action Plan (RAP). Concurrently, we invested in our people and leaders, building out our culture of learning and providing our team members with access to exciting career paths and secondment opportunities. We're proud of the fact that over 80 team members were promoted in the last 12 months and 31% of our roles were filled internally.

While flexibility itself isn't new for us, it was tremendously satisfying to welcome team members back to our offices and to further evolve our hybrid work approach for our 785 permanent and temporary team members. As part of this, we have supported our People Leaders in adapting their leadership styles to empower, coach and develop their team members in a hybrid working environment. We also reinvigorated our connection moments in the office to give team members the opportunity to build relationships and celebrate diversity, wellbeing, community and just for fun events.

Our culture and values continue to underpin everything we do

Two years ago, we launched new values to ensure we demonstrate and celebrate behaviours that enable us to go Beyond Further. Our values reflect our one company, one-team culture and are the clearest demonstration to all our team members that the right behaviours are pivotal to delivering great outcomes for our people, customers and business.

This year, our team have been inspired to share 100+ stories demonstrating how our values of Care, Accountability and Team are lived each day. These stories reflect the value we collectively place on always going the extra mile to make a difference for our customers, colleagues and the community.

Wellbeing has been a priority

We are committed to promoting workplace practices that support positive mental health and wellbeing as we consider this a high priority. This year, our Wellbeing program has focused on: mental health and domestic and family violence training for People Leaders to build knowledge and confidence; wellbeing events; and perks to promote good health.

Dedicating a month to wellbeing initiatives, we encouraged our team members to adopt healthy habits through Super Food Week, offered massages and meditation to encourage taking a break, and actively promoted our Employee Assistance program.

To ensure everyone could access important mental health messages, we hosted R U OK Day speakers in our main hubs, with virtual dial-ins. Our people also got active – with 35 teams taking 27,586,786 steps as part of the STEPtember challenge, raising over $26,000 for cerebral palsy.

$26,000

RAISED FOR CEREBRAL PALSY

Building a culture of learning and development

Our primary people focus remains building capability and career paths for our team members.

To nurture talent at every stage, we are excited to have partnered with the University of Technology Sydney to provide industry placements for students enrolled in the Bachelor of Information Technology. Our internship program provided three students with hands-on experience and access to mentors to help guide them through the early stages of their career.

We remain passionate about investing in and growing our people's knowledge in every role and part of our business. To that end, we invested over 12,000 training hours in our people to expand their knowledge, develop new skills and build great leaders. That's an average of 17 hours per team member – including new training on cyber security, interactive cultural competency sessions to encourage better cross-cultural interactions, training on unconscious bias for everyone, and change management training for team members and People Leaders.

We have continued our focus on funding our future-ready teams to make sure they have what it takes to tackle the challenges of tomorrow. For this reason, we have invested in a second year of STRIVE, the extensive Smartgroup-specific coaching and education program, to equip our new cohort of People Leaders with the skills to be inspiring, effective and inclusive.

Diversity and inclusion underpin everything we do

Diversity and inclusion are inherent parts of who we are and how we work at Smartgroup. Our people rated diversity and inclusion as the highest dimension in our employee survey with a score of 91%, demonstrating our team members recognition of the important role that diversity and inclusion plays in our culture.

We are committed to creating and sustaining a diverse and inclusive place to work, where every team member feels valued, respected and welcome, and can confidently bring their best self to what they do. We embrace diversity in experience, perspectives, education, age, race, ethnicity, physical abilities, gender identity, religious beliefs, sexual orientation, socio-economic circumstances, marital or family status and other real and perceived differences. We took opportunities throughout the year to recognise the importance of diversity and difference to our organisation and celebrated NAIDOC Week, National Reconciliation Week, International Women's Day, Pride Month, Movember, Ramadan, International Day of People with Disability and Wear It Purple day. For our Harmony Week celebrations, we hosted a lunch to recognise the many cultures of Smartgroup. Team members also submitted recipes to create a physical and digital Smartgroup cookbook.

To enable our inclusive culture to thrive, we have extensively used Insights Discovery, a powerful profiling tool that helps us understand ourselves and our team mates better. Specifically, this has increased self-awareness and team effectiveness, and highlighted the very differences that make great teams and a great workplace. We have continued our commitment to every Smartgrouper having an individual profile and coaching debrief session.

INVESTED OVER

12,000

TRAINING HOURS

GENDER TARGETS REACHED – 2022

50%

WOMEN AT EXECUTIVE LEVEL

A leader in gender equality

Again this year, we were recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency. The accreditation reflects our commitment to seven key focus areas including flexible work, leadership accountability, supporting carers, gender pay equity and driving change beyond our workplace.

We pride ourselves on setting an example for those around us by having strong representation and recognition of women at senior levels of our organisation. This year, we are excited to have reached our current gender targets at all levels of our organisation. We are pleased to have over 40% of women at the Non-Executive Director level and 50% of women at the Group Executive Team level in our organisation.

In 2019, we first introduced our Diversity Speaks program to inspire and celebrate diversity and difference. This year, clients and team members from around Australia joined us on International Women's Day to hear from our special guest speaker and media personality, Erin Molan. The theme was Break the Bias and the session was hosted by our CEO, Tim Looi, who discussed the importance of diversity and inclusion, including what we are doing to contribute to a gender-equal environment, free of bias, stereotypes and discrimination. Erin then shared her incredible story, as an advocate for social change and female empowerment, of breaking down barriers for women in sports journalism, her career beyond sports and how negative experiences can be turned into positive actions that empower and protect others.

We also continued with our Men's Shed and Women's Room team member forums to support and promote gender equality and progress. These forums have created a strong community to share, inspire, and empower our people in a supportive, safe and informal environment. Topics this year included health and wellbeing, the gender pay gap, breaking down stereotypes and calling out biases.

We became a member of Supply Nation to further support closing the gap for Australia's Indigenous peoples and communities through procurement.

Engaging with First Nations

In 2021, our Reconciliation Action Plan (RAP) received official accreditation by Reconciliation Australia. This year we have focused on implementing and delivering on this Plan, which represents our guiding framework for tracking our progress and outcomes in engaging with First Nations.

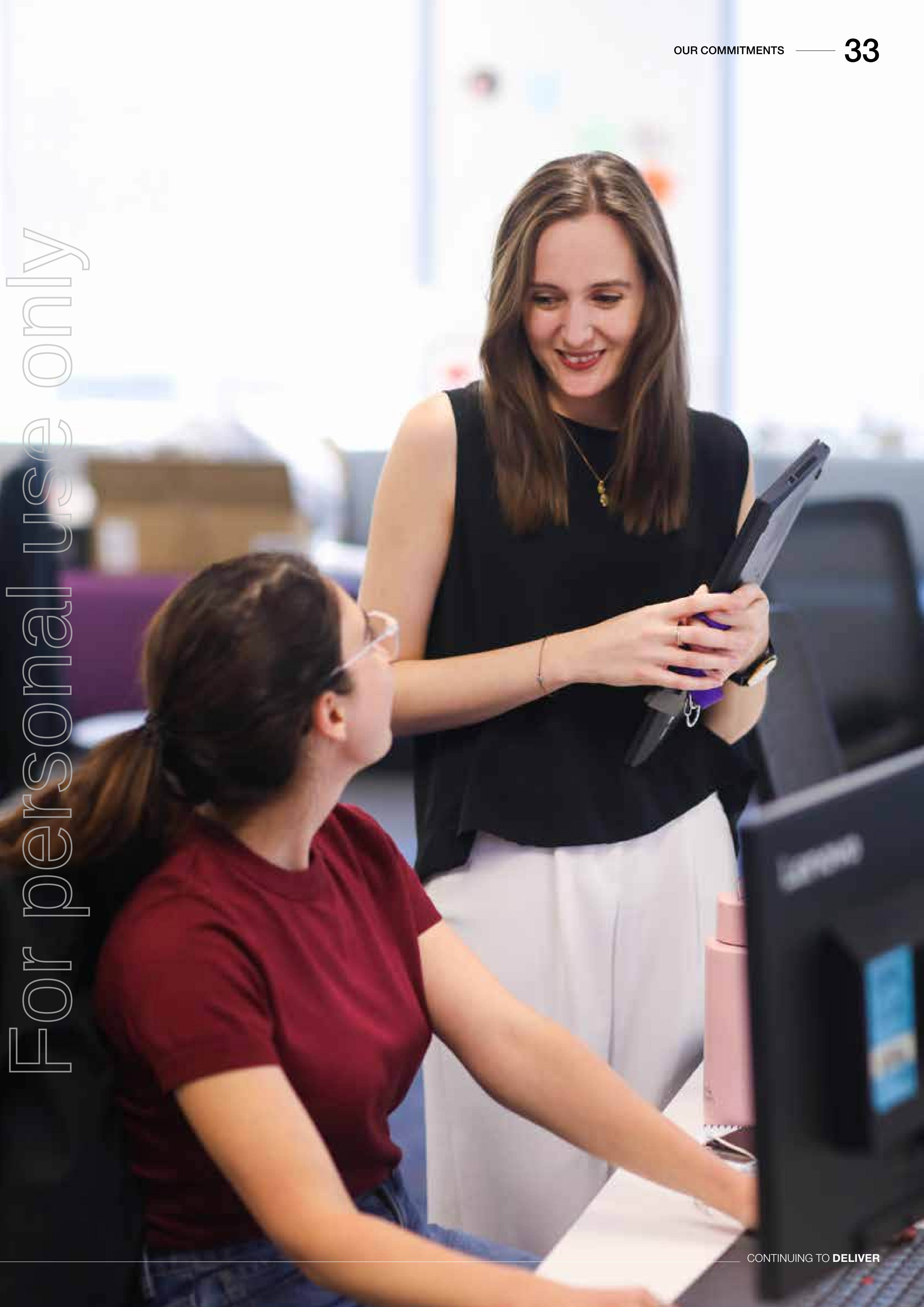
A core element of our RAP is creating specific activities and goals for increasing our engagement with First Nation suppliers as well as increasing Aboriginal and Torres Strait Islander representation in our workforce. We continued to advertise all open roles in *Koori Mail* – a national Aboriginal and Torres Strait Islander newspaper which is indigenously owned. We also celebrated NAIDOC Week again this year, with a special cultural performance to celebrate and recognise the history, culture and achievements of Aboriginal and Torres Strait Islander peoples.

We also made several other new commitments as follows:

- We established a RAP Working Group, who have played a pivotal role in achieving our first Reflect RAP and developing our next Innovation RAP.
- We became a member of Supply Nation to further support closing the gap for Australia's Indigenous peoples and communities through procurement.
- We participated in the CareerTrackers Winter Work Shadow program. As part of this program, a First Nations student joined us for 3 days in July to understand our business, what it is like to work in an office environment and what career opportunities are available to them after they leave school.
- Finally, we launched First Nations cultural awareness training to over 700+ team members as part of National Reconciliation Week, with a course covering the 7 Steps to Practical Reconciliation.

Proud of our people

Throughout another busy and challenging year, our people have continued to be our most valuable asset and have shown their passion for our values and delivering customer excellence. Their energy and commitment has contributed to an outstanding year and will enable us to deliver on an exciting Smart Future.



A Smarter, More Sustainable Tomorrow

We have a strong commitment to environment, social and governance (ESG) issues. Sustainable thinking is part of everything we do and essential to our ongoing success. We continue to find ways to optimise our operations, find innovative and timely improvement solutions and minimise adverse impacts on our people, the communities around us, the environment and the world.

This year we've taken a significant step forward in formalising our approach to sustainability. Building on our existing initiatives, we have developed our first sustainability strategy, which has been formally endorsed by the Board. We're also proud to launch our first sustainability report, which includes details of our targets and specific initiatives.

Our ESG framework and initiatives are overseen by the Board ESG Committee. This Committee has been charged with ensuring we operate our business ethically, responsibly and sustainably, and that we communicate clearly and transparently to stakeholders.

IN 2022 ALMOST

$250K

DONATED TO

17

CHARITIES ACROSS AUSTRALIA

Supporting community and charity organisations

We offer community support directly through sponsorships and initiatives as well as through the Smartgroup Foundation.

We have particularly close ties to the public benevolent institution sector. Alongside offering them our services, we look for opportunities to offer more localised support that aligns with their interests and objectives – whether that be with financial assistance, or through our people volunteering.

Established in 2019, Smartgroup Foundation receives an annual grant from Smartgroup Corporation to support charities with Deductible Gift Recipient (DGR) status through grants of between $5,000 and $15,000.

Grant recipients differ every year. The projects are all grassroots initiatives that improve our communities, in areas chosen by our team members. In 2022, these areas were: children's illness and disease; children and families at risk; mental illness; and the environment. Each project must meet the selection criteria required for approval and is assessed through a structured process.

In 2022 we donated almost $250,000 to 17 charities across Australia. Our organisation and team members also supported a range of worthy causes including Movember, Australia's Biggest Morning Tea, STEPtember and our ongoing partnership with PCYC QLD.

Our inaugural Sustainability Report details our goals and initiatives as a responsible corporate citizen. Download the Report **here**.

Helping to protect our planet

Our Carbon Offset Program has been in place since 2008 and, in that time, has directly contributed to the sequestration of hundreds of thousands of tonnes of carbon.

First partnering with Greenfleet, a leading carbon offset organisation (and the first of its kind in Australia), we expanded our Program in 2020 to include The Nature Conservancy (TNC) and Carbon Positive Australia. Working with these partners, we now invest in important restoration and biodiversity projects throughout Australia.

This year, we were delighted to be part of the official launch of an exciting new blue carbon coastal wetland restoration project. TNC will be working to restore wetland at Webb Beach (near the Adelaide International Bird Sanctuary) to expand critical habitat for Australian and migratory birds (including the shorebird), help with water flow, and capture carbon from the atmosphere.

Our Smartfleet business also continues to introduce efficiencies and fleet management solutions to help reduce impact on the environment and help clients reduce their emissions. A priority is addressing the barriers to faster transition to low-emissions mobility and exploring access to electric vehicles and green energy.

Ongoing expansion of carbon offset program

Partnering on important restoration and biodiversity projects across Australia

Continuing to innovate to reduce our environmental impact

Governance and risk management

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

Smartgroup operates in a dynamic environment and is exposed to risks associated with dealing 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 that it considers are likely to have a material effect on Smartgroup's financial performance or enterprise value. Relevant risks are reported in Smartgroup's risk register and are closely analysed by the Board's 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 and opportunities

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. The impact of adverse macro-economic conditions, rising costs of living and reduced credit affordability on customer demand, and the ongoing uncertainties around new car supply may affect the new car sales market and revenue generation for Smartgroup's novated leasing business. The recently legislated EV Discount Policy provides a significant incentive for customers to acquire a car using novated leasing and is expected to have a positive impact on the new private car market as Australia seeks to reduce carbon emissions.	• 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 which supports our ability to source new cars. • We inform our customers of car order lead times which reflect current new car supply chain conditions. • We proactively promote the benefits and discounts available by taking out a novated lease of an EV under the Federal Government Electric Car Discount Policy.
Regulatory environment The salary packaging and novated leasing industry is subject to regulations such as those relating to customer protection, privacy, cybersecurity and taxation (see also Fringe Benefits Tax below). Regulatory 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 deferred sales model, Design and Distribution Obligations, and Anti-Hawking Regime for add-on insurance products. • The National Automotive Leasing and Salary Packaging Association (NALSPA) is looking to implement a new Industry Code of Practice with additional disclosure obligations.

Risks and opportunities	How we respond
Fringe Benefits Tax The associated benefits permitted under Fringe Benefits Tax (FBT) legislation underpin the provision of products and services within salary packaging administration and novated leasing. 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 and data privacy Smartgroup collects and processes certain personal information to conduct its business activities and service our customers. Cyber-incidents may compromise the technology used by Smartgroup to store confidential information of clients and customers. Although Smartgroup has a number of measures in place, it is possible that these measures might not prevent or detect unauthorised access to, or disclosure of, confidential information. A successful cyber-attack could lead to the loss of information or assets, breaches of data privacy laws, and/or extended outages of technology platforms.	• A dedicated Information/Cyber Security Team, led by a dedicated Chief Information Security Officer, protects, detects, monitors, assesses and strategically strengthens our resilience to evolving cyber threats. • A Cyber framework, which includes a suite of information security policies and standards govern information security across Smartgroup. • We continuously monitor our network and conduct vulnerability assessments to identify potential threats, and conduct penetrating testing of our critical IT assets. • The Smartgroup Privacy Policy governs how we collect, use, disclose and hold personal information. • A continuous education program raises team members' awareness of 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 our operations, customer service levels and client retention.	• The Business Resilience and IT Disaster Recovery plans guide Smartgroup's response to and recovery from major incidents. • We periodically test our ability to respond effectively to business interruptions. Our performance during 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 which 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 are resourced to facilitate successful project delivery. • The Project Management and Prioritisation Framework guide the initiation, approval and prioritisation of projects. • We conduct post-implementation reviews to ensure we incorporate the lessons learned into future projects.
People/team members A stable and experienced Management Team is central to the success of Smartgroup. The 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. • Competitive remuneration structures, and short-term and long-term incentive plans support our ability to attract and retain key personnel and the successful execution of our strategy. • We conduct team member engagement surveys to support the Management Team in maintaining an effective workforce.

Risks and opportunities	How we respond
Suppliers Smartgroup depends on several 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 possible 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 to provide choice and competitive funding rates for our customers.
Workplace Health and Safety Smartgroup is committed to providing a safe and healthy environment for our team members. The COVID-19 pandemic required us to embrace new ways of working which carry heightened risks relating to safety, health and wellbeing.	• The Work Health & Safety (WHS) Policy sets out our commitment to providing a work environment that ensures our team members' health and safety. • 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, including during COVID-19. We have regular communication with team members to promote awareness on physical and mental wellbeing. We actively monitor relevant indicators to identify areas for improvement.
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.	• We look to grow and diversify our business to reduce the concentration on key clients. The 10 largest contracts now represent a smaller percentage of total revenue 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.

Risks and opportunities	How we respond
Competition The salary packaging and novated leasing industry is subject to increasing competition in respect of pricing, products and services and 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 if we fail to respond to changes in market conditions, customer demands or technology advancement. These may have possible consequences for client retention and profitability.	• Our Smart Future investment 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 have a dedicated Chief Customer Officer and are focused on how we engage with our clients and customers to 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 environmental footprint (team members travel, energy usage and office materials consumption), our actions could deliver negative environmental outcomes.	• The Board Environment, Social and Governance (ESG) Committee addresses risks related to sustainability as part of its scope of responsibilities. • The Board has endorsed a formal Sustainability Strategy, with a range of strong targets and initiatives. • See more in our Sustainability Report.
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 (eg. increased adoption of zero or low emission vehicles (ZLEVs)) could have an impact on Smartgroup's future financial performance. Some customers may also defer their decision to acquire a new car as they choose to wait for improved ZLEV choice, availability and pricing.	• We monitor and assess developments relating to the impact of climate change on our strategy and operations. • The ESG Committee provides oversight on the social, environmental and ethical impact of our business activities. • We educate customers on ZLEVs and the benefits of novated leasing ZLEVs. • Smartgroup has relationships with ZLEV manufacturers to support our ability to source such vehicles for our customers. • See more on our Sustainability Report pages 10–14.
Modern Slavery Smartgroup does not tolerate or support the use of forced or compulsory labour, and we extend this approach throughout our supply chain. Our main supply chain activities include 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. • We have issued our 2022 Modern Slavery Statement Report. • See more on our Sustainability Report pages 10, 19–21.

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 2022.

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 (retired 31 August 2022)
- Carolyn Colley
- Deborah Homewood
- Timothy Looi
- Anne McDonald
- 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	2022 $000	2021 $000
Final ordinary dividend for the year ended 31 December 2021 of 19.0 cents (2020: 17.5 cents) per ordinary share	25,174	23,100
Final special dividend in respect of the year ended 31 December 2021 of 30.0 cents (2020: 9.0 cents) per ordinary share	39,748	11,880
Interim ordinary dividend for the year ended 31 December 2022 of 17.0 cents (2021: 17.5 cents) per ordinary share	22,733	23,370
Interim special dividend in respect of the year ended 31 December 2021 of 5.5 cents per ordinary share	–	7,260
Total	**87,655**	**65,610**

On 22 February 2023, the Directors declared a fully franked final ordinary dividend for the year ending 31 December 2022 of 15.0 cents per share. The final dividend will be paid on 23 March 2023 to shareholders registered on 9 March 2023, resulting in a total distribution of $19,800,000.

On 22 February 2023, after consideration of the Group's capital requirements, the Directors determined that a further return to shareholders is appropriate, and declared a fully franked special dividend of 14.0 cents per share, in respect of the year ended 31 December 2022. The special dividend will be paid on 23 March 2023 to shareholders registered on 9 March 2023, with an expected total distribution of $18,480,000.

The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2022 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 $58,781,000 (2021: $58,813,000). Refer to the Chairman's Report on page 10 and the Managing Director and CEO's report on page 12 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

Since 31 December 2022 no matter or circumstance has arisen 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 described in the Managing Director and CEO's report on page 12.

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 2022 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: Board Chairman, member of Audit and Risk Committee, Environment, Social and Governance Committee, Human Resources and Remuneration Committee and IT and Innovation Committee.

Interests in shares: 2,381,412

Interests in options: None

John Prendiville
Deputy Chair and
Non-Executive Director

Qualifications: John holds a Bachelor of Science (Hons) in Astrophysics from the Royal Military College, Duntroon, and a 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 Director and Chair of Wilsons Private Wealth and a member of the Investment Committee of the River Capital Growth Fund. 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: Board Deputy Chair, member of Human Resources and Remuneration Committee and IT and Innovation Committee.

Interests in shares: 675,000

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: 176,816

Interests in options: 937,806

Deborah Homewood
Non-Executive Director

Qualifications: Deborah completed her registered nurse training at St Andrews Hospital, Queensland, and 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 was most recently Managing Director of MAX Solutions from July 2012 until December 2022. Before that, Deborah was CEO of Pacnet, Australia and New Zealand – an Asian-headquartered telecommunications carrier – where she also 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): Managing Director of MAX Solutions from July 2012 until December 2022.

Special responsibilities: Member of Audit and Risk 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, a Master of Economics and a 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 before making the change to corporate. His most recent appointment in the public sector 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, and is on the Board of the Grattan Institute. Ian is a Senior Advisor to Flagstaff Partners.

Former directorships (last three years): Non-Executive Director of Citibank Pty Ltd from November 2015 to July 2022.

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

Interests in shares: 126,522

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) and Qantm Intellectual Property Limited (ASX: QIP). Before becoming a Director, Gavin was Managing Partner and Chief Executive Officer of law firm Herbert Smith Freehills (formerly Freehills). He was a partner in the firm for 25 years before that.

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

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) 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): Non-Executive Director of OnePath Custodians Ltd and Oasis Fund Management Ltd (IOOF's superannuation businesses) from March 2021 to March 2022.

Special responsibilities: Chair of IT and Innovation Committee and member of Environment, Social and Governance Committee and 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, 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 (ASX: LNK), where she is a member of the Audit Committee and the Human Resources and Remuneration Committee.

Former directorships (last three years): None.

Special responsibilities: Chair of Audit and Risk Committee and member of Environment, Social and Governance Committee.

Interests in shares: 21,000

Interests in options: None

Andrew Bolam
Non-Executive Director
(retired 31 August 2022)

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

Experience and expertise: Andrew has more than 20 years of experience in financial and general management including most recently as 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 (until 31 August 2022).

Interests in shares: 257,760 (as at 31 August 2022)

Interests in options: None

Company secretaries

Sophie MacIntosh was appointed Chief Legal Officer on 7 November 2016 and 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. She is also a member of the Australian Institute of Company Directors.

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

Meetings of Directors

The number of meetings of the Company's Board of Directors and each Board committee held during the year ended 31 December 2022, 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[2]	14	14	4	4	3	3	3	3	1	1
Gavin Bell	14	12	4	4	3	3	–	–	3	3
Carolyn Colley[3]	14	12	–	–	3	2	3	3	1	1
Deborah Homewood[4]	14	12	1	1	3	3	3	3	2	2
Timothy Looi	14	14	–	–	–	–	–	–	–	–
Anne McDonald[5]	14	14	3	3	–	–	–	–	1	1
John Prendiville[6]	14	14	3	3	3	3	1	1	–	–
Ian Watt	14	14	4	4	–	–	3	3	3	3
Andrew Bolam[7]	10	9	3	3	–	–	2	2	–	–

1. Column H represents the number of meetings held during the time the Director held office or was a member of the relevant committee. Column A represents the numbers of those meetings attended by the Director. In the case of committee meetings, column A records attendance by Directors whilst members of the relevant Committee.
2. Formally appointed as a member of the Environment, Social and Governance Committee with effect from 1 October 2022, having previously attended all committee meetings in his capacity as Board Chairman.
3. Appointed as a member of the Environment, Social and Governance Committee with effect from 1 October 2022.
4. Appointed as a member of the Audit and Risk Committee and retired from the Environment, Social and Governance Committee with effect from 1 October 2022.
5. Appointed as a member of the Audit and Risk Committee with effect from 1 April 2022 and as a member of the Environment, Social and Governance Committee with effect from 1 October 2022.
6. Appointed as a member of the IT and Innovation Committee and retired from the Audit and Risk Committee with effect from 1 October 2022.
7. Retired as a Director on 31 August 2022.

Remuneration report

Introduction from the Chair of the Human Resources and Remuneration Committee

In 2022, Smartgroup's Remuneration Framework remained largely consistent to 2021, other than the introduction of a new Short Term Incentive Plan (STIP) which is detailed further below.

Under the 2022 Remuneration Framework:

- remuneration for Executive key management personnel (KMP) in 2022 was structured to include 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 were conditional on the achievement of certain Group NPATA targets, with the balance conditional on the achievement of other non-financial key performance indicators (KPIs) but only payable if a minimum overall Group NPATA target was achieved.

Details of the specific Group NPATA targets and non-financial KPIs approved by the Board for 2022, and the extent to which they were achieved, are set out later in the Remuneration Report.

Key remuneration decisions and outcomes for 2022 affecting KMP were as follows.

- Introduction of a new STIP which permits the Board to offer eligible employees options, performance rights and/or share appreciation rights. The terms of the STIP were approved by shareholders at the AGM held in May 2022. For 2022, 50% of each Executive KMP's total potential short-term incentive entitlements were payable in cash (subject to achievement of the relevant Group NPATA targets and non-financial KPIs). The other 50% were payable in the form of performance rights issued under the STIP for nil consideration, with vesting of those performance rights conditional on achievement of those targets and KPIs). In prior years, all STIP entitlements for Executive KMP were payable in cash.
- As a result of an executive remuneration benchmarking review carried out during 2021[1], the fixed remuneration of several members of Executive KMP was increased in 2022, as foreshadowed in the 2021 remuneration report. A further executive remuneration benchmarking review was carried out at the end of 2022[1]. Following this review, no further increases to fixed remuneration of Executive KMP were proposed.
- None of the long-term incentive shares issued to Executive KMP in 2020 vested in 2022, as target earnings per share and relative total shareholder return thresholds were not achieved.
- At the AGM held in May 2022, shareholders approved an increase to the maximum aggregate remuneration that can be paid to Non-Executive Directors from $1,300,000 to $1,450,000 per annum. No changes to the remuneration rates payable to Non-Executive Directors for acting as Directors, Committee chairs or Committee members were made in 2022, although the Board approved an additional payment of $20,000 per annum for the person holding the role of Deputy Chair. As a result of changes to the composition of the Board's Committees during the year, changes to total remuneration payable to certain individual Non-Executive Directors also occurred.

Details of these decisions and outcomes are set out further in the Remuneration Report. The Board believes that the 2022 remuneration outcomes fairly reflect the performance of the Company and Executive KMP.

We thank our shareholders for their support and welcome feedback on our Remuneration Report.

Gavin Bell
Chair of the Human Resources
and Remuneration Committee

1. The work performed by the remuneration consultants engaged in 2021 and 2022 to carry out these benchmarking reviews does not meet the definition of remuneration recommendation within the Corporations Act 2021.

About this report

The Remuneration Report describes the remuneration arrangements for the KMP of the Group for the year ended 31 December 2022. This 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 2022 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
John Prendiville	Deputy Chair and Non-Executive Director	Full year
Gavin Bell	Non-Executive Director	Full year
Andrew Bolam	Non-Executive Director	Part year – retired 31 August 2022
Carolyn Colley	Non-Executive Director	Full year
Deborah Homewood	Non-Executive Director	Full year
Anne McDonald	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)	Full year
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.

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.

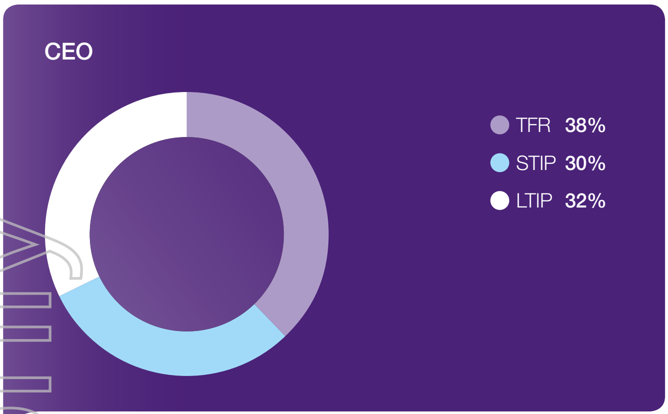
The Executive Remuneration and Reward Framework consists of four components:

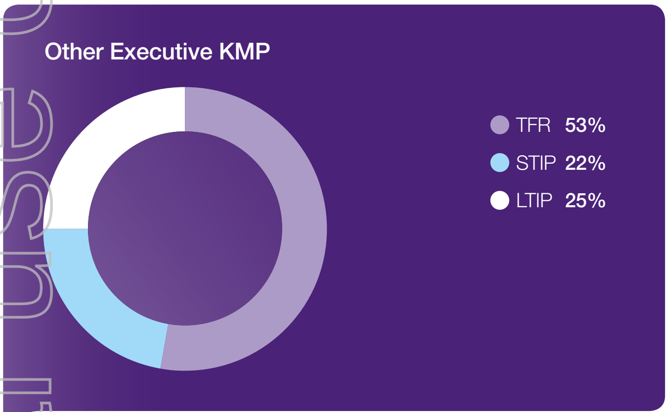
- total fixed remuneration (TFR) comprising base salary, superannuation and non-monetary benefits;
- short-term performance incentives (STI);
- long-term performance incentives (LTI); and
- other statutory entitlements such as long service leave.

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

The charts on the following page show the relative proportions of TFR, STI and LTI for the year ended 31 December 2022 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 program (STI program) in a manner determined by the Board. The STI program 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 STI program remains competitive and attractive, and to incentivise the Executive Team to stay and to strive for exceptional performance.

Any amount that may be paid to the participants under the STI program 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.

In 2022, the Board established a new Short-Term Incentive Plan (STI Plan) under which the Board may offer Executive KMP and other eligible employees options, performance rights and/or share appreciation rights (Awards) subject to vesting conditions, performance hurdles and/or exercise conditions approved by the Board. The terms of the STI Plan were approved by shareholders at the AGM held in May 2022.

The Board can structure STI payments for Executive KMP so that they are payable partly in cash under the STI program and partly by the issue of Awards under the STI Plan which only vest if the financial and non-financial KPIs and objectives approved by the Board are achieved. In prior years, STI entitlements for Executive KMP have been payable only in cash. Any grant of securities under the STI Plan to the Managing Director and CEO is required to be approved by shareholders under the ASX Listing Rules. This approval will usually be sought at the Company's AGM.

Awards issued under the STI Plan lapse if relevant vesting conditions are not met or if the participant ceases employment before vesting (subject to the Board's discretion to permit vesting of Awards 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 Awards may vest.

The Board also has the discretion to issue Awards on terms that any ordinary shares received by the relevant participant on exercise of a vested Award are subject to disposal restrictions.

Long-term incentives

In early 2015, the Board established a Long-Term Incentive Plan (LTIP) for Executive KMP and other eligible employees, the terms of which were approved by shareholders at the 2015 AGM. Shareholders approved the future issue of shares under the LTIP as an exception to ASX Listing Rule 7.1 at the AGMs 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 AGM.

The LTIP is a loan-funded share plan. Shares are purchased by the participant and funded by a loan provided by the Company. The shares are held by the participant until they vest or are forfeited and therefore 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 if 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 issues of shares under the LTIP in any one or more years with issues of securities under the STIP or any other incentive plan approved by the Board.

2022 Executive KMP remuneration structure

Total fixed remuneration

Following an executive remuneration benchmarking review carried out during 2021, Executive KMP fixed remuneration was increased effective 1 January 2022 as follows.

- Fixed remuneration for Tim Looi, Managing Director and CEO, was increased from $680,000 to $700,000.
- Fixed remuneration for Sarah Haas, Chief Operating Officer, was increased from $440,000 to $453,000.
- Fixed remuneration for Anthony Dijanosic, Chief Financial Officer, was increased from $350,000 to $400,000.

A further executive remuneration benchmarking review was carried out at the end of 2022. Following this review, no further increases to fixed remuneration of Executive KMP are proposed.

The work performed by the remuneration consultants engaged to carry out these benchmarking reviews does not meet the definition of remuneration recommendation within the Corporations Act 2021.

Short-term incentives

Target STI

Participants in the STIP have a target STI payment set every year as a percentage of their TFR. In 2022, this target was 79% of TFR for Tim Looi as Managing Director and CEO (2021: 51%), and an average of 40% for the other Executive KMP (2021: 31%).

KPIs and conditions to payment of STI

Under the 2022 STI arrangements approved by the Board:

- 16% of each Executive KMP's STI target amount is payable on the achievement of target Group NPATA of $72.0 million, rising on a linear basis to 40% of target amount on achievement of Group NPATA of $74.0 million;
- if the target Group NPATA of $72.0 million is achieved, a further payment of up to 30% of the Executive KMP's STI target amount may become payable based on the achievement of non-financial Group-based strategic KPIs, and a separate further payment of up to 30% of the STI target amount may become payable based on the achievement of non-financial function-based KPIs;
- an additional amount of up to 50% of the Executive KMP's STI target amount is payable for Group NPATA outperformance between $74.0 million and $80.0 million, rising on a linear basis;
- for the purposes of STI assessment, in certain circumstances, actual NPATA can be adjusted to take into account incremental changes in the level of revenue deferred due to vehicle delivery delays;
- 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 2022, and the extent to which they were achieved, are set out in Table 3 on page 49.

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.

Form of payment of STI

Of any STI payable to Executive KMP, 50% will be payable in cash and the other 50% payable in the form of performance rights issued under the STIP, as described below. The number of performance rights issued to each Executive KMP is calculated by dividing the dollar amount equal to 50% of the Executive KMP's STI target amount by the 10-day volume weighted average price (VWAP) of Smartgroup shares commencing on the first trading day after the Company's 2022 AGM.

Performance rights issued under the STIP

The following performance rights were issued to Executive KMP on 26 May 2022, with a grant date of 11 May 2022, following approval by shareholders at the AGM. The number of shares issued was determined based on 10-day VWAP of $8.3615 with:

- 26,909 performance rights issued to the Managing Director and CEO, in accordance with the shareholder approval given at the 2022 AGM; and
- a total of 20,930 performance rights issued to other Executive KMP.

The performance rights were issued subject to the following terms and conditions:

- the number of performance rights that vest, if any, is calculated by reference to the extent that the KPIs and conditions to payment of STI referred to above are met;
- each performance right that vests can be exercised in accordance with the terms of the STIP for one ordinary share; and
- any shares issued on the exercise of performance rights will be subject to a holding lock expiring on 31 December 2023 (that is, one year after the end of the financial year in respect of which the relevant performance rights formed part of the Executive KMP's remuneration).

Fair value

- The performance rights granted as part of the STIP are accounted for as options. The fair value of the performance rights used for grant allocation purposes was calculated using the spot rate on the grant date. The fair value is separate to the issue price, which is based on the 10-day VWAP immediately prior to the issue of the shares.

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 2022, the LTIP grant to the Managing Director and CEO was 86% of TFR (2021: 88%) and the LTIP grant to other Executive KMP was 47% of TFR (2021: 54%) 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 2022 LTIP grant:

- 402,577 shares were issued to the Managing Director and CEO in accordance with the approval given at the 2022 AGM at an issue price of $8.7617 per share, being the 20-day VWAP of shares up to and including the trading day immediately before the date of the 2022 AGM; and
- a total of 268,386 shares were issued to other Executive KMP at an issue price of $7.5710 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 2022 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 2022 LTIP grant is subject to a total shareholder return (TSR) hurdle. The performance hurdles are described in more detail below. Shares issued under the 2022 LTIP grant will vest on 31 December 2024 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 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 2022 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 2021 EPS of $0.521 (calculated on the basis of reported 2021 NPATA of $69.5 million and 133.5 million shares on issue) to the EPS for the financial year ending on 31 December 2024, 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 2022 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 2024*	Below 5.0		Nil
		5.0	0.603	50
		Between 5.0 and 10.0		Straight line between 50 and 100
		10.0 or greater	0.693	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 2022 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, this being the three-year period starting on 1 January 2022 and ending on 31 December 2024. 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 2022 (the performance measurement period start date) and the 20 trading days up to and including 31 December 2024 (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.

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.

Table 2: Relative TSR performance hurdle

TSR performance hurdle – applies to a maximum of 25% of the total number of shares issued under the 2022 LTIP grant

Measure	Vesting period	Smartgroup TSR performance compared to index (percentile)	Shares subject to vesting %
Relative TSR (ranking)	The period of three years ending 31 December 2024*	0 to 49th	Nil
		50th	50
		51st to 74th	Straight line between 50 and 100
		75th to 100th	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 83 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 issue of the shares.

2022 Executive KMP remuneration outcomes

STI – achievement of KPIs and financial outcomes

The Company reported 2022 Group NPATA of $61.2 million, which is less than target Group NPATA of $72.0 million. Accordingly:

- none 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 not been met.

The table below shows the non-financial KPIs approved by the Board under the STIP for 2022 for Executive KMP and the Board's assessment of the extent to which those KPIs were achieved.

Table 3: 2022 non-financial KPIs and achievement

KPI	Relevant executive	How it is measured	Weighting %	Actual achievement %	
1. Profit	All	Delivery of target NPATA of $74m (minimum threshold of $72m for partial achievement)	40	CEO CFO COO	0 0 0
2. Engage workforce	All	Achieve target engagement score of 65% (minimum threshold of 60% for partial achievement)	5	CEO CFO COO	0 0 0
3. Customer and digital	All	Achieve Customer NPS of 46; Achieve Client NPS of 50 for top 20 clients and 40 for clients 21-50; Reduce manual service interactions 5%	15	CEO CFO COO	50 50 50
4. Improve core operations	All	Delivery of Smart Future projects; execution of M&A activities; set up vehicle self-funding capability; revenue growth from broader client base	35	CEO CFO COO	21 21 20
5. Improve risk and compliance governance processes and frameworks	All	Remediation of risk actions	5	CEO CFO COO	50 100 75

Notwithstanding the achievement of a number of the non-financial KPIs as shown in the above table, since the reported Group NPATA did not meet the minimum threshold of $72.0 million, the Board has determined that no STI payments will be made in respect of the year ended 31 December 2022, and all performance rights issued to Executive KMP in respect of the 2022 STI will lapse in accordance with the rules of the STIP.

The table below shows the actual STI outcome for each Executive KMP for the year ended 31 December 2022 in absolute terms and as a percentage of their target STI opportunity, under the STI arrangements approved by the Board.

Table 4: 2022 STIP outcomes

Name of executive	STI amount $	Percentage of target STI %
Timothy Looi	–	–
Anthony Dijanosic	–	–
Sarah Haas	–	–

LTI – vesting of shares subject of 2020 grant under the LTIP

Shares issued under the 2020 LTIP grant had a vesting period ending on 31 December 2022. 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 2020 LTIP grant. It was based on the CAGR in the Company's EPS (based on NPATA) from the pro-forma 2019 EPS of $ 0.615. As at 31 December 2022, EPS (based on NPATA) was $0.458, which represents a CAGR of -9% from the pro-forma 2019 EPS. This result means that none of the shares issued under the 2020 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 2020 LTIP grant. The Company's TSR performance was measured to be in the 31st percentile of the S&P/ASX 200 Index. This result means that none of the shares issued under the 2020 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 2022 Executive KMP remuneration outcomes and 2022 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 ones shown in the table below 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

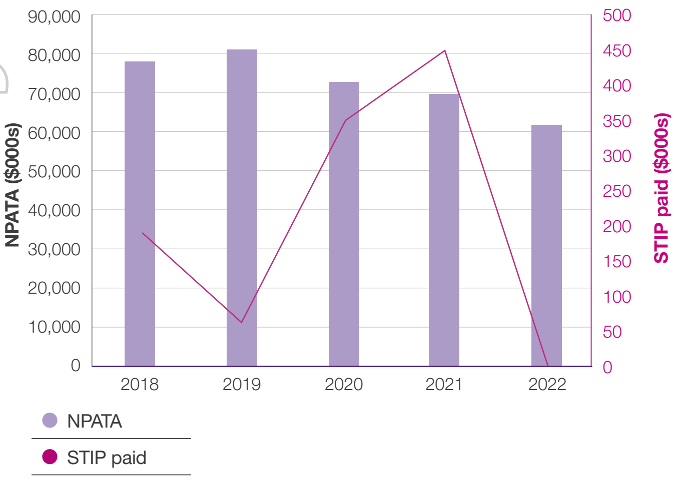
Index	2018	2019	2020	2021	2022
NPATA ($m)	77.8[2]	81.0	65.2	69.5	61.2
EPS (cents)	59.4[2]	61.5	49.1	52.1	45.8
Ordinary dividends declared in respect of the financial year – per share (cents)	41.5	43.0	34.5	36.5	32.0
Special dividends declared in respect of the financial year – per share (cents)	–	20.0	9.0	35.5	14.0
Share price – year-end ($)	8.88	6.94	6.89	7.75	5.10
Three-year TSR performance compared to index[1] (%)	87	71	33	24	-13

1. The relevant comparator index for 2018 was the S&P/ASX Small Ordinaries Index. The relevant comparator index for 2019 onwards 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 2022 was in the 31st quartile of all companies in the S&P/ASX 200.

The graph below illustrates the relationship between the Group's performance and STI awards in respect of the financial year ended 31 December 2022 and the preceding four financial years.

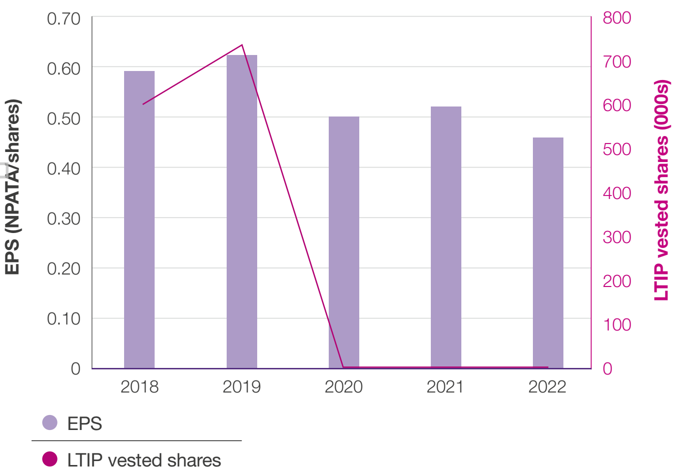
Table 6: Relationship between the Group's performance and STIP outcomes



The graph below illustrates the relationship between the Group's performance and LTI awards in respect of the financial year ended 31 December 2022 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 each of the years ended 31 December 2022, 31 December 2021 and 31 December 2020,the three-year EPS CAGR was below the relevant EPS hurdles and none of the shares issued under the 2020, 2019 or 2018 LTIP grant were vested. For the year ended 31 December 2019, the three-year EPS CAGR was 14%, and 83% of the shares issued under the 2017 LTIP grant were vested. For the year ended 31 December 2018, the three-year EPS CAGR exceeded the relevant EPS hurdle, and 100% of shares issued under the 2016 LTIP 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 its AGM. 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 $1,300,000 to $1,450,000 by a resolution passed at the AGM in May 2022. 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 Deputy Chair is paid $20,000 per annum;
- 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 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.

These fees remain unchanged from 2021, except for the Deputy Chair fee which was introduced as a new payment in 2022 on the appointment of John Prendiville as the Board's first Deputy Chair.

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 2022 and 2021

Details of the remuneration of the KMP of the Group are set out in the following tables in accordance with the Corporations Act 2001 and the Accounting Standards. The KMP are set out on page 45.

Table 8: 2022 remuneration

	Short-term benefits			Post-employment benefits	Long-term benefits		
	Cash salary and fees $	STIP – Cash bonus $	STIP – Performance rights expense $	Superannuation $	Annual and long service leave[1] $	Net LTIP expense[2] $	Total $
Non-Executive Directors							
Michael Carapiet	230,000	–	–	23,575	–	–	**253,575**
John Prendiville	135,235	–	–	13,867	–	–	**149,102**
Gavin Bell	142,500	–	–	14,606	–	–	**157,106**
Andrew Bolam[3]	81,667	–	–	8,269	–	–	**89,936**
Carolyn Colley	132,500	–	–	13,587	–	–	**146,087**
Deborah Homewood	130,625	–	–	13,391	–	–	**144,016**
Anne McDonald	119,167	–	–	12,242	–	–	**131,409**
Ian Watt	142,500	–	–	14,606	–	–	**157,106**
Executive Directors							
Timothy Looi	675,570	–	–	24,430	(26,664)	147,201	**820,537**
Other Executive KMP							
Anthony Dijanosic	375,570	–	–	24,430	13,621	158,125	**571,746**
Sarah Haas	428,570	–	–	24,430	9,176	50,582	**512,858**
Total	**2,593,904**	**–**	**–**	**187,433**	**(3,867)**	**355,908**	**3,133,378**

1. The amounts disclosed in this column represent the change in associated leave provisions. They may be negative where more leave is taken than accrued during the year.
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. Andrew Bolam retired as a Director on 31 August 2022.

Table 9: 2021 remuneration

	Short-term benefits		Post-employment benefits	Long-term benefits		
	Cash salary and fees $	STIP – Cash bonus $	Superannuation $	Annual and long service leave[1] $	Net LTIP expense[2] $	Total $
Non-Executive Directors						
Michael Carapiet	245,667	–	23,992	–	–	**269,659**
John Prendiville	142,833	–	13,946	–	–	**156,779**
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**
Anne McDonald[3]	5,072	–	507	–	–	**5,579**
Ian Watt	137,500	–	13,419	–	–	**150,919**
Executive Directors						
Timothy Looi	657,369	262,500	22,631	24,516	386,928	**1,353,944**
Other Executive KMP						
Anthony Dijanosic[4]	220,963	68,530	15,166	16,656	49,764	**371,079**
Sarah Haas[5]	417,369	191,500	22,631	28,149	73,349	**732,998**
Tony Forward[6]	247,844	–	14,775	11,268	113,736	**387,623**
Total	**2,592,450**	**522,530**	**177,613**	**80,589**	**623,777**	**3,996,959**

1. The amounts disclosed in this column represent the change in associated leave provisions. This may be negative where more leave is taken than accrued during the year. The annual and long-service leave has been amended to include the leave taken during the year and to consistently reflect the expense recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The 2021 values have been restated to align with the current year presentation, resulting in a decrease in annual leave of $82,835 and an increase in long-service leave of $19,156.
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. Anthony Dijanosic became a member of 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. Sarah Haas' bonus includes a one-off bonus payment of $75,000 as disclosed in the 2020 Annual Report.
6. Tony Forward ceased to be KMP on 27 August 2021.

Other transactions with KMP

Cost reimbursements of $35,821 were paid to KMP in 2022 (2021: $4,518).

Table 10: Cost reimbursements to KMP

Reimbursements to key management personnel	2022 $	2021 $
Non-Executive Directors		
Michael Carapiet	430	100
John Prendiville	–	–
Gavin Bell	–	–
Andrew Bolam	5,400	834
Carolyn Colley	–	–
Deborah Homewood	–	–
Anne McDonald	–	–
Ian Watt	7,931	2,547
Executive Directors		
Timothy Looi	1,176	–
Other Executive KMP		
Anthony Dijanosic	7,401	295
Sarah Haas	13,483	742
Tony Forward	–	–
Total	**35,821**	**4,518**

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 – STI %		At risk – LTI %	
	2022	2021	2022	2021	2022	2021
Non-Executive Directors						
Michael Carapiet	100	100	–	–	–	–
John Prendiville	100	100	–	–	–	–
Gavin Bell	100	100	–	–	–	–
Andrew Bolam[1]	100	100	–	–	–	–
Carolyn Colley	100	100	–	–	–	–
Deborah Homewood	100	100	–	–	–	–
Anne McDonald[2]	100	100	–	–	–	–
Ian Watt	100	100	–	–	–	–
Executive Directors						
Timothy Looi	82	52	0	19	18	29
Other Executive KMP						
Anthony Dijanosic[3]	72	69	0	18	28	13
Sarah Haas	90	64	0	26	10	10
Tony Forward[4]	–	71	–	0	–	29

1. Andrew Bolam retired as a Director on 31 August 2022.
2. Anne McDonald was appointed as a Non-Executive Director with effect from 14 December 2021.
3. Anthony Dijanosic became a member of 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.
4. Tony Forward ceased to be a member of KMP on 27 August 2021. The amounts in this table comprise all remuneration paid to Mr Forward up to 31 December 2021.

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 $700,000 inclusive of superannuation contributions; and • receive short-term incentive payments capped at a maximum of $550,000 inclusive of superannuation, cash payments and any Awards issued under the STI Plan 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 which 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 receive potential short-term incentive payments and to participate in the LTIP;
- termination by either party giving six 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 2022 nor the year ended 31 December 2021.

STIP and LTIP

As described above, the Company has established an LTIP for Executive KMP and other senior management. The LTIP is in the form of a loan funded share plan (LFSP). 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. Details of the performance conditions attaching to these shares are disclosed in Tables 1 and 2 on pages 48 and 49.

Performance Rights have also been issued under the STIP for nil consideration, with vesting of those performance rights conditional on achievement of individual targets and KPIs. As with the securities issued under the LTIP, 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 2001 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 2022.

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

Type	Grant date	Performance period	Earliest exercise date	Expiry date	Exercise price $	Number of shares issued	Fair value price at grant date (EPS) $	Fair value price at grant date (TSR) $	Total fair value at grant date $	Performance achieved
LFSP	8 March 2022	Three years to 31 December 2024	1 January 2025	7 March 2027	7.57	630,705	1.87	1.78	1,166,426	To be determined
LFSP	11 May 2022	Three years to 31 December 2024	1 January 2025	10 May 2027	8.78	599,177	2.21	2.15	1,312,767	To be determined
LFSP	8 March 2021	Three years to 31 December 2023	1 January 2024	7 March 2026	7.00	977,887	1.79	1.75	1,737,999	To be determined
LFSP	12 May 2021	Three years to 31 December 2023	1 January 2024	11 May 2026	6.97	561,152	1.76	1.72	981,174	To be determined

As noted above, shares issued under the LTIP are not options. However, for compliance with the Corporations Act 2001, the Company provides a summary below of the vesting of shares issued under the STIP and LTIP that have a vesting period ending on 31 December 2022.

Table 13: LTIP shares with a vesting period ending on 31 December 2022

Type	Grant date	Performance period	Exercise date	Expiry date	Exercise price $	Number of non-forfeited shares[1]	Fair value price at grant date (EPS) $	Fair value price at grant date (TSR) $	Performance achieved %	Number of shares vested at 31 December 2022[2]	% vested at 31 December 2022[2] %
LFSP	3 March 2020	Three years to 31 December 2022	1 January 2023	2 March 2025	6.67	981,075	1.26	1.24	Nil	–	Nil
LFSP	10 June 2020	Three years to 31 December 2022	1 January 2023	9 June 2025	6.20	670,392	1.42	1.37	Nil	–	Nil

1. Prior to performance determination by the Board.
2. As determined by the Board on 16 February 2023.

Table 14: Performance Rights with a vesting period ending on 31 December 2022

Type	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 2022[2]	% vested at 31 December 2022[2] %
Performance Rights	11 May 2022	Year ended 31 December 2022	1 January 2023	10 May 2027	0.00	76,764	8.43	Nil	–	Nil

1. Prior to performance determination by the Board.
2. As determined by the Board on 16 February 2023.

The following tables set out details of shares granted to Executive KMP under the STIP and LTIP in 2022 as remuneration. There were no options over ordinary shares issued to Directors or other KMP as part of compensation as at 31 December 2022.

Table 15: 2022 LTIP to KMP granted as remuneration

Name	Balance at start of year – unvested	Granted as compensation – LTIP	Vested in year	Forfeited[1]	Balance at end of year – unvested	Balance at end of year – vested but unexercised	Balance at end of year – vested and unvested
Timothy Looi	1,205,621	402,577	–	(670,392)	937,806	–	937,806
Anthony Dijanosic	129,497	134,193	–	–	263,690	–	263,690
Sarah Haas	367,349	134,193	–	(223,464)	278,078	–	278,078
Total KMP	**1,702,467**	**670,963**	**–**	**(893,856)**	**1,479,574**	**–**	**1,479,574**

1. Shares forfeited relate to the LTIP grants on 3 March 2020 and 10 June 2020, which did not vest.

Table 16: 2022 STIP to KMP long-term incentives granted as remuneration

Name	Balance at start of year – unvested	Granted as compensation – STIP	Vested in year	Forfeited[1]	Balance at end of year – unvested	Balance at end of year – vested but unexercised	Balance at end of year – vested and unvested
Timothy Looi	–	26,909	–	(26,909)	–	–	–
Anthony Dijanosic	–	7,475	–	(7,475)	–	–	–
Sarah Haas	–	13,455	–	(13,455)	–	–	–
Total KMP	**–**	**47,839**	**–**	**(47,839)**	**–**	**–**	**–**

1. Shares forfeited relate to the STIP granted 11 May 2022, which did not vest.

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 2022.

Table 17: Director and Executive KMP shareholdings

	Balance at start of year including exercised LTIP	Received on the exercise of LTIP[1]	Other additions	Disposals	Balance at end of year
Non-Executive Directors					
Michael Carapiet	2,392,746	–	–	–	2,392,746
John Prendiville	675,000	–	–	–	675,000
Gavin Bell	77,650	–	–	–	77,650
Andrew Bolam[2]	257,760	–	–	–	257,760
Carolyn Colley	7,000	–	–	–	7,000
Deborah Homewood	6,618	–	–	–	6,618
Anne McDonald	–	–	21,000	–	21,000
Ian Watt	106,522	–	20,000	–	126,522
Executive Director					
Timothy Looi[2]	77,242	103,574	–	–	180,816
Other Executive KMP					
Anthony Dijanosic	23,545	–	129	–	23,674
Sarah Haas	–	–	129	–	129
Total	**3,624,083**	**103,574**	**41,258**	**–**	**3,768,915**

1. This column includes vested shares issued under the LTIP which are 'exercised' under the terms of the LTIP by the holder repaying the outstanding loan amount on those vested shares, following which the holding lock on those shares is released.
2. Andrew Bolam retired as a Director on 31 August 2022.
3. Timothy Looi's shareholdings include 4,000 shares held by related parties.

This concludes the Remuneration Report, which has been audited.

Other disclosures

Shares under option

As at 31 December 2022, there were 1,479,574 unvested shares held by employees under the LTIP (being shares issued under the 2021 and 2022 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

A total of 103,574 ordinary shares of Smartgroup Corporation Ltd were issued on the exercise of options during the year ended 31 December 2022 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the Directors and certain 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 certain Executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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 2001 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

There are no amounts paid or payable to the auditor for non-audit services provided during the financial year.

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 2001.

The Directors are of the opinion that the services disclosed in note 38 to the financial statements do not compromise the external auditor's independence requirements under the Corporations Act 2001 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 2001 is set out on the following page.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

Resolution of Directors

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Michael Carapiet
Chairman

22 February 2023
Sydney

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Smartgroup Corporation Ltd for the year ended 31 December 2022, 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
22 February 2023

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Reconciliation of Statutory Results to Adjusted Results

For the year ended 31 December 2022

$m	2022 statutory results	Non-IFRS adjustment measures	Add back: Merger and acquisition costs	2022 adjusted
Revenue	224.7	–	–	224.7
Operating EBITDA	**93.3**	**–**	**0.1**	**93.4**
Joint venture contribution	0.3	–	–	0.3
Segment note EBITDA	**93.6**	**–**	**0.1**	**93.7**
Depreciation expense	(4.0)	–	–	(4.0)
Amortisation expense	(3.9)	–	–	(3.9)
Net finance costs	(2.1)	–	–	(2.1)
PBT	**83.6**	**–**	**0.1**	**83.7**
Income tax expense	(24.8)	–	(0.0)	(24.8)
NPAT	**58.8**	**–**	**0.1**	**58.9**
Add back: Amortisation of acquired intangibles	–	1.8	–	1.8
Cash tax benefit	–	0.5	–	0.5
NPATA	**58.8**	**2.3**	**0.1**	**61.2**
Shares on issue (millions)				133.7
NPATA per share (cps)				**45.8**

Financial statements

Financial Report 2022 Smartgroup Corporation Ltd
31 December 2022 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 2022

Consolidated	Note	2022 $'000	2021 $'000
Revenue	7	224,697	221,798
Share of profits from joint venture accounted for using the equity method		339	248
Expenses			
Product costs		(7,589)	(5,980)
Employee benefits expense		(87,071)	(80,823)
Administration and corporate expenses		(32,602)	(28,360)
Occupancy expenses	8	(1,376)	(1,358)
Advertising and marketing expenses		(1,740)	(1,507)
Depreciation expense	8	(4,066)	(3,355)
Amortisation of acquired intangible assets	8	(2,559)	(8,269)
Amortisation of contract rights and internally developed intangibles	8	(1,340)	(1,049)
Other expenses		(965)	(762)
Operating profit		**85,728**	**90,583**
Loss on revaluation of an asset held for sale		–	(1,434)
Loss on sale of business		–	(154)
Finance costs	8	(2,083)	(1,674)
Merger and acquisition transaction costs		(64)	(2,149)
Profit before income tax expense		**83,581**	**85,172**
Income tax expense	9	(24,800)	(26,359)
Profit after income tax expense		**58,781**	**58,813**
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		577	114
Other comprehensive income, net of tax		**577**	**114**
Total comprehensive income		**59,358**	**58,927**

		Cents	Cents
Basic earnings per share	16	45.3	45.4
Diluted earnings per share	16	45.3	45.4

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 2022

Consolidated	Note	2022 $'000	2021 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	26,707	32,453
Restricted cash and cash equivalents	37	36,020	41,196
Trade and other receivables	18	18,421	23,947
Other current assets	20	4,468	3,579
Total current assets		**85,616**	**101,175**
Non-current assets			
Investments accounted for using the equity method	23	374	575
Derivative financial instruments	21	1,062	153
Deferred tax assets	9	14,821	12,722
Right-of-use assets	39	6,592	5,592
Property and equipment	32	8,447	4,380
Intangible assets	6	288,930	283,666
Total non-current assets		**320,226**	**307,088**
Total assets		**405,842**	**408,263**
LIABILITIES			
Current liabilities			
Trade and other payables	33	31,908	38,203
Customer salary packaging liability	37	36,020	41,196
Provisions	34	13,907	13,459
Contract liabilities	36	9,421	4,704
Income tax payable	9	4,875	4,540
Lease liabilities	39	4,248	3,536
Other current liabilities	22	1,722	1,555
Total current liabilities		**102,101**	**107,193**
Non-current liabilities			
Provisions	35	1,321	1,838
Contract liabilities	36	3,663	–
Lease liabilities	39	4,631	4,322
Borrowings	11	53,784	28,680
Total non-current liabilities		**63,399**	**34,840**
Total liabilities		**165,500**	**142,033**
Net assets		**240,342**	**266,230**
EQUITY			
Issued capital	12	263,418	262,878
Reserves	13	12,958	10,512
Accumulated losses		(36,034)	(7,160)
Equity attributable to the owners of Smartgroup Corporation Ltd		**240,342**	**266,230**
Total equity		**240,342**	**266,230**

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 2022

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	356	–	–	356
Share-based payments	13	–	1,622	–	1,622
Dividends provided for or paid	15	–	–	(65,610)	(65,610)
Balance at 31 December 2021		**262,878**	**10,512**	**(7,160)**	**266,230**

Consolidated	Note	Share capital $'000	Reserves $'000	Retained earnings/ (Accumulated losses) $'000	Total equity $'000
Balance at 1 January 2022		**262,878**	**10,512**	**(7,160)**	**266,230**
Profit for the year		–	–	58,781	58,781
Other comprehensive income		–	577	–	577
Total comprehensive income for the year		–	**577**	**58,781**	**59,358**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	12	540	–	–	540
Share-based payments	13	–	1,869	–	1,869
Dividends provided for or paid	15	–	–	(87,655)	(87,655)
Balance at 31 December 2022		**263,418**	**12,958**	**(36,034)**	**240,342**

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 2022

Consolidated	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers		277,559	252,507
Payments to suppliers and employees		(178,744)	(151,339)
Transaction costs relating to mergers and acquisitions		(188)	(2,370)
Interest received from cash held on behalf of customers		1,839	22
Interest and transaction costs paid on borrowings		(1,465)	(633)
Interest paid on lease liabilities	39	(749)	(760)
Income taxes paid		(26,934)	(21,613)
Net cash inflow from operating activities excluding salary packaging receipts and payments		**71,318**	**75,814**
Receipts in restricted cash		2,429,995	2,440,559
Payments of customer salary packaging liability		(2,435,171)	(2,447,474)
Net cash inflow from operating activities		**66,142**	**68,899**
Cash flows from investing activities			
Payments for intangibles	6	(9,163)	(4,313)
Payments for property, plant and equipment	32	(5,770)	(3,611)
Dividends received from joint venture	23	540	500
Interest received		287	5
Proceeds from sale of business		–	175
Net cash outflow from investing activities		**(14,106)**	**(7,244)**
Cash flows from financing activities			
Repayment of borrowings	11	(5,000)	(10,000)
Proceeds from borrowings	11	30,000	14,000
Dividends paid	15	(87,655)	(65,610)
Proceeds from long term incentive plan		2,059	1,478
Principal repayments on lease liabilities	39	(2,362)	(3,353)
Net cash outflow from financing activities		**(62,958)**	**(63,485)**
Net increase in cash and cash equivalents		**(10,922)**	**(1,830)**
Cash and cash equivalents at the beginning of the year		32,453	27,368
Restricted cash and cash equivalents at the beginning of the year		41,196	48,111
Cash and cash equivalents at the end of the financial year		26,707	32,453
Restricted cash and cash equivalents at the end of the financial year		36,020	41,196
Cash and cash equivalents at the end of the year		**62,727**	**73,649**

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 2022

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 22 February 2023. 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.

Comparatives

Certain comparative figures have been restated to conform with the financial statement presentation adopted for the current year.

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 2022, the Group had net current liabilities of $16,485,000 due to payment of special dividends of $39,748,000 in March 2022.

The Group has prepared projected cash flows for the twelve months from the date of the Directors' Declaration, taking into consideration the continued business impact of motor vehicle availability. 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 $11,100,000 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.

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.

Note 3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out in note 40 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 2022:

Amendments to AASB 3 Business Combinations, Reference to the Conceptual Framework
Amendments to AASB 116 Property, Plant and Equipment: Proceeds before Intended Use
Amendments to AASB 137 Provisions, Contingent Liabilities and Contingent Assets: Proceeds before Intended Use
Amendments to AASB 9 Financial Instruments, Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

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 2022

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2022 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 40. 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 2022

Note 5. Operating segments (continued)

Operating segment information

Consolidated - 2022	OA $'000	VS $'000	SDGS $'000	Intersegment eliminations / Corporate $'000	Total $'000
Revenue					
Products, services and commissions	125,732	–	–	1,754	127,486
Management and administrative fees	61,975	9,021	4,674	–	75,670
Performance fees and rebates	17,505	3,040	996	–	21,541
Inter-segment sales	267	3,681	33,743	(37,691)	–
Total revenue	205,479	15,742	39,413	(35,937)	224,697
Segment results (EBITDA)	**107,242**	**10,540**	**7,735**	**(31,888)**	**93,629**
Depreciation					(4,066)
Amortisation					(3,899)
Finance costs					(2,083)
Profit before income tax expense					**83,581**
Income tax expense					(24,800)
Profit after income tax expense					**58,781**
Assets					
Total segment assets	100,517	22,018	37,888	245,419	405,842
Total assets					**405,842**
Liabilities					
Total segment liabilities	72,751	5,433	32,240	55,076	165,500
Total liabilities					**165,500**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 5. Operating segments (continued)

Operating segment information (continued)

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)	**110,194**	**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**

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 2022

Note 6. Non-current assets — intangible assets

Consolidated	2022 $'000	2021 $'000
Goodwill - at cost	272,664	272,664
Goodwill	**272,664**	**272,664**
Customer contracts and relationships - at cost	63,609	63,609
Less: Accumulated amortisation	(63,419)	(61,380)
Customer contracts and relationships	**190**	**2,229**
Acquired software and websites - at cost	77,915	77,915
Less: Accumulated amortisation	(77,915)	(77,395)
Acquired software and websites	–	**520**
Contract rights - at cost	5,168	5,168
Less: Accumulated amortisation	(3,550)	(2,516)
Contract rights	**1,618**	**2,652**
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	13,476	4,313
Less: Accumulated amortisation	(322)	(16)
Internally developed software and websites	**13,154**	**4,297**
Intangible assets	**288,930**	**283,666**

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 2021	**274,395**	**6,384**	**4,634**	**3,685**	**1,304**	–	**290,402**
Additions	–	–	–	–	–	4,313	4,313
Disposals[1]	(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**
Additions[2]	–	–	–	–	–	9,163	9,163
Amortisation expense	–	(2,039)	(520)	(1,034)	–	(306)	(3,899)
Balance at 31 December 2022	**272,664**	**190**	–	**1,618**	**1,304**	**13,154**	**288,930**

[1] Disposal of goodwill relates to the sale of Smartequity Pty Ltd and Smartequity EIS Pty Ltd (collectively 'Smartequity') on 29 October 2021.

[2] $397,000 of research and development (as defined in AASB 138 Intangible Assets) was completed on internally developed software and websites and expensed in 2022 (2021: $1,072,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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	2022 $'000	2021 $'000
CGU 1: Outsourced Administration	151,169	151,169
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	76,039
Goodwill	**272,664**	**272,664**

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

Brand names and logos	2022 $'000	2021 $'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	2022	2021
CGU 1: Outsourced Administration	11.6%	12.2%
CGU 2: Vehicle Services	11.9%	12.5%
CGU 3: SDGS	12.2%	12.4%
CGU 4: Autopia	11.0%	11.7%
CGU 5: PBI	10.8%	11.6%

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

The reduction in the pre–tax discount rates calculated between 2021 and 2022 is largely driven by a higher proportion of debt, which carries a lower cost compared to the cost of equity.

A projected terminal growth rate of 2.0% (2021: 1.4%) has been used for all CGUs in line with the terminal growth rate based on GDP growth forecasts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 ongoing vehicle supply challenges as a result of COVID-supply chain disruption, and is most influenced by economic changes. The scenarios modelled vary in terms of the duration for vehicle supply to recover, and takes into account economic forecasts from a broad range of sources. Due to the nature of the Group's customer base, for non-transactional revenue streams, the Group has assumed that revenue growth will be in line with GDP growth estimates as at 31 December 2022, 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 28.4% 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 from Contracts with Customers*. 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 the Consolidated Statement of Profit or Loss and Other Comprehensive Income 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 2022

Note 7. Revenue

Consolidated	2022 $'000	2021 $'000
Products, services and commissions	127,486	124,132
Management and administration fees	75,670	75,766
Performance fees and rebates	21,541	21,900
Revenue	**224,697**	**221,798**

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, fleet management and payroll 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 from Contracts with Customers*, 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 contract liability balances are disclosed in note 36.

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 from Contracts with Customers* 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 2022

Note 8. Expenses

Consolidated	2022 $'000	2021 $'000
Depreciation		
Office equipment	141	208
Computer equipment	533	472
Furniture, fixtures and fittings	31	56
Leased motor vehicles	801	63
Leasehold improvements	177	174
Right-of-use assets	2,383	2,382
Total depreciation	**4,066**	**3,355**
Amortisation		
Customer contracts and relationships	2,039	4,155
Acquired software and websites	520	4,114
Total amortisation of acquired intangible assets	**2,559**	**8,269**
Amortisation		
Contract rights	1,034	1,033
Internally developed software and websites	306	16
Total amortisation of contract rights and internally developed intangibles	**1,340**	**1,049**
Total depreciation and amortisation	**7,965**	**12,673**
Finance costs		
Interest and finance charges paid/payable	1,621	919
Interest on lease liabilities	749	760
Finance income	(287)	(5)
Total finance costs	**2,083**	**1,674**
Occupancy costs		
Short-term lease rent expense	84	122
Lease termination costs	1	(22)
Other occupancy related costs	1,291	1,258
Total occupancy costs	**1,376**	**1,358**
Superannuation expense		
Defined contribution superannuation expense	6,858	6,020
Share-based payments expense		
Share-based payments expense	472	622

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 9. Income tax

Income tax expense

Consolidated	2022 $'000	2021 $'000
Current tax	27,267	27,005
Deferred tax – origination and reversal of temporary differences	(2,467)	(646)
Aggregate income tax expense	**24,800**	**26,359**
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	**(2,467)**	**(646)**

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

Consolidated	2022 $'000	2021 $'000
Profit before income tax expense	**83,581**	**85,172**
Tax at the statutory tax rate of 30%	25,074	25,552
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Loss on revaluation of an asset held for sale	–	430
Loss on sale of business	–	(21)
Intangible assets	–	310
Non-deductible expenses	46	32
Share-based payments	142	186
Share of profits – joint venture	(146)	(107)
Sundry items	(11)	(87)
	25,105	**26,295**
Under/(over) provision of tax in respect of prior years	(215)	58
Prior year temporary differences not recognised now recognised	(90)	6
Income tax expense	**24,800**	**26,359**

Amounts recognised directly in equity

Consolidated	2022 $'000	2021 $'000
Amounts charged/(credited) directly to equity:		
Deferred tax assets	**(368)**	**(171)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 9. Income tax (continued)

Deferred tax assets

Consolidated	2022 $'000	2021 $'000
Deferred tax assets comprises of temporary differences attributable to:		
Impairment of receivables	167	132
Employee benefits	2,794	2,733
Accruals and other provisions	5,539	6,456
Property and equipment	(2,146)	(1,030)
Contract liabilities	3,924	1,390
Acquisition and issuance costs	4,735	3,435
Leased property and equipment – assets	(1,978)	(1,678)
Leased property and equipment – liabilities	2,664	2,358
Intangible assets	50	(549)
Prepayments	(1)	(183)
Contract assets	(437)	(398)
Derivative financial instruments	(319)	(46)
Back-to-back leased vehicles	(399)	(307)
Other current liabilities	516	363
Sundry items	10	(24)
Total temporary differences	**15,119**	**12,652**
Amounts recognised in equity:		
Derivative financial instruments	(298)	(51)
Share issue transaction costs	–	121
Total recognised in equity	**(298)**	**70**
Net deferred tax assets	**14,821**	**12,722**

Movements:

Consolidated	2022 $'000	2021 $'000
Opening balance	12,722	12,247
Credited to profit or loss	2,467	646
Credited/(charged) to equity	(368)	(171)
Closing balance	**14,821**	**12,722**

Income tax payable

Consolidated	2022 $'000	2021 $'000
Income tax payable	**4,875**	**4,540**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022

Note 10. Current assets — cash and cash equivalents

Consolidated	2022 $'000	2021 $'000
Cash at bank and in hand	26,707	32,453
Cash and cash equivalents	**26,707**	**32,453**

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	2022 $'000	2021 $'000
Bank loan	53,900	28,900
Borrowing costs and interest at amortised cost	(116)	(220)
Borrowings	**53,784**	**28,680**

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	2022 $'000	2021 $'000
Bank loan	**53,900**	**28,900**

As at 31 December 2022, the following facilities were available to the Group:

- A revolving facility of $65,000,000;
- 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 subsidiaries of the Company. The facilities are subject to a variable interest rate, which is based on the 3-month BBSY (Bank Bill Swap Bid Rate) plus a margin. Gross debt drawn down as at 31 December 2022 is $53,900,000. 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 (2021: none).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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

Financing arrangements

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

Consolidated	2022 $'000	2021 $'000
Total facilities		
Bank loan	65,000	45,000
Letter of credit facility	5,000	5,000
	70,000	**50,000**
Used at the reporting date		
Bank loan	53,900	28,900
Letter of credit facility	3,964	3,605
	57,864	**32,505**
Unused at the reporting date		
Bank loan	11,100	16,100
Letter of credit facility	1,036	1,395
	12,136	**17,495**

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 2022

Note 12. Equity — issued capital

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Ordinary shares — fully paid	133,670,773	133,498,979	289,479	287,036
Less: Shares associated with the loan funded share plan (LFSP)	(3,974,966)	(3,906,746)	(26,061)	(24,158)
Issued Capital	**129,695,807**	**129,592,233**	**263,418**	**262,878**

Movements in ordinary share capital

Details	Date	Shares	Total $'000
Opening balance	1 January 2021	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**
Shares issued for LFSP	8 March 2022	630,705	4,775
	11 May 2022	599,177	5,250
Buy-back of forfeited LFSP shares	2 March 2022	(655,666)	(4,905)
	2 March 2022	(348,422)	(2,223)
	31 October 2022	(54,000)	(333)
Deferred tax directly recognised in equity			(121)
Balance		**133,670,773**	**289,479**

Movements in the loan funded share plan

Details	Date	Shares	Total $'000
Opening balance	1 January 2021	(3,303,160)	(20,994)
LFSP shares exercised	1 June 2021	19,366	124
	6 October 2021	55,332	353
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**	**(3,906,746)**	**(24,158)**
LFSP shares exercised	21 February 2022	103,574	662
Shares issued for LFSP	8 March 2022	(630,705)	(4,775)
	11 May 2022	(599,177)	(5,250)
Buy-back of forfeited LFSP shares	2 March 2022	655,666	4,904
	2 March 2022	348,422	2,223
	31 October 2022	54,000	333
Balance	**31 December 2022**	**(3,974,966)**	**(26,061)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 10 March 2022, loan funded shares were granted to the management team under the Loan Funded Share Plan (LFSP). At the Annual General Meeting on 11 May 2022, loan funded shares to the CEO were approved by shareholders. Shares were subsequently issued to the CEO and new management team members after the AGM.

The issue price is calculated based on the 20–day volume weighted average price of shares trading on the ASX up to and including 7 March 2022 for the March grant and up to the day before the AGM for the May grant. Shares vest over a 3–year period subject to 2 vesting conditions, the “EPS Performance Hurdle” and the “TSR Performance Hurdle”, and a continuous employment condition.

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 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 2022, 1,058,088 shares issued under the LFSP were bought back as vesting conditions on the shares had not been met and the shares were forfeited, resulting in a $7,460,000 reduction in ordinary share capital.

Performance Rights

An updated Short Term Incentive Plan (STIP) was approved by the Board on 22 March 2022. On 11 May 2022, performance rights to the CEO were approved at the AGM, and performance rights granted to the CEO and management team on 26 May 2022. Performance rights have a nil exercise price and are valued based on the 10–day volume weighted average price of shares traded on the ASX up to, and including, 25 May 2022. Performance rights vest over a 1 year period. These rights granted do not include voting rights nor attract dividends, and are subject to vesting conditions being performance hurdles relating to the annual Key Performance Indicators (KPIs). Performance rights cannot be transferred and are not quoted on the ASX.

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 2021 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 2022

Note 13. Equity — reserves

	2022 $'000	2021 $'000
Cash flow hedge reserve	696	119
Share-based payments reserve	11,823	9,954
Other reserves	439	439
Reserves	**12,958**	**10,512**

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 2021	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	–	(477)	–	(477)
LFSP forfeited	–	(1,270)	–	(1,270)
Balance at 31 December 2021	**119**	**9,954**	**439**	**10,512**
Movements in hedges	824	–	–	824
Deferred tax	(247)	–	–	(247)
Share-based payments	–	4,280	–	4,280
LFSP exercised	–	(662)	–	(662)
LFSP forfeited	–	(1,749)	–	(1,749)
Balance at 31 December 2022	**696**	**11,823**	**439**	**12,958**

Note 14. Share-based payments

Performance Rights (PR) 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.

The performance rights are a short term incentive plan (STIP) for the executive management team. Refer to note 12 for the terms of the performance rights. The performance rights are subject to vesting conditions, cannot be transferred and are not quoted on the ASX.

The share-based payments have been treated as options in accordance with AASB 2 *Share-based payment*.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 14. Share-based payments (continued)

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

Type	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
2022									
LFSP	17 March 2017	31 December 2019	$6.39	103,574	–	(103,574)	–	–	–
LFSP	3 March 2020	31 December 2022	$6.67	981,075	–	–	(981,075)	–	–
LFSP	10 June 2020	31 December 2022	$6.20	670,392	–	–	(670,392)	–	–
LFSP	8 March 2021	31 December 2023	$7.00	934,887	–	–	(197,885)	737,002	–
LFSP	12 May 2021	31 December 2023	$6.97	561,152	–	–	–	561,152	–
LFSP	8 March 2022	31 December 2024	$7.57	–	630,705	–	–	630,705	–
LFSP	11 May 2022	31 December 2024	$8.78	–	599,177	–	–	599,177	–
PR	11 May 2022	31 December 2022	–	–	83,995	–	(83,995)	–	–
				3,251,080	**1,313,877**	**(103,574)**	**(1,933,347)**	**2,528,036**	–
	Weighted average exercise price			$6.71	$7.64	$6.39	$6.25	$7.56	–
2021									
LFSP	17 March 2017	31 December 2019	$6.39	103,574	–	–	–	103,574	103,574
LFSP	20 March 2019	31 December 2021	$8.55	655,666	–	–	(655,666)	–	–
LFSP	3 March 2020	31 December 2022	$6.67	1,245,905	–	–	(264,830)	981,075	–
LFSP	10 June 2020	31 December 2022	$6.20	835,243	–	–	(164,851)	670,392	–
LFSP	8 March 2021	31 December 2023	$7.00	–	977,887	–	(43,000)	934,887	–
LFSP	12 May 2021	31 December 2023	$6.97	–	561,152	–	–	561,152	–
				2,840,388	**1,539,039**	**–**	**(1,128,347)**	**3,251,080**	**103,574**
	Weighted average exercise price			$6.96	$6.99	–	$7.71	$6.71	$6.39

The weighted average share price during the financial year was $7.56 (2021: $6.71).

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 3.8 years (2021: 3.5 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 2022	31 December 2024	$7.72	$7.57	40.00%	5.50%	1.62%	$1.15
11 May 2022	31 December 2024	$8.28	$8.78	40.00%	5.50%	2.91%	$1.37

Performance rights were granted to the CEO and management team on 26 May 2022, with a grant date of 11 May 2022 based on the date of shareholder approval at the AGM. Performance rights have a nil exercise price and the number of shares were determined based on the 10–day volume weighted average price ($8.36) of shares traded on the ASX up to, and including, 25 May 2022.

The fair value at grant date is the spot share price on 11 May 2022 of $8.43. The performance rights vest over a 1 year period, being 1 January 2022 to 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 15. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

Consolidated	2022 $'000	2021 $'000
Final dividend for the year ended 31 December 2021 of 19.0 cents (2020: 17.5 cents) per ordinary share	25,174	23,100
Final special dividend for the year ended 31 December 2021 of 30.0 cents (2020: 9.0 cents) per ordinary share	39,748	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 2022 of 17.0 cents (2021: 17.5 cents) per ordinary share	22,733	23,370
	87,655	**65,610**

On 22 February 2023, the Directors declared a fully franked dividend of 15.0 cents per ordinary share. The final dividend will be paid on 23 March 2023 to shareholders registered on 9 March 2023 with an expected total distribution of $19,800,000.

On 22 February 2023, after consideration of the Group's capital requirements, the Directors determined that a further return to shareholders is appropriate, and declared a fully franked special dividend of 14.0 cents per share, in respect of the year ended 31 December 2022. The special dividend will be paid on 23 March 2023 to shareholders registered on 9 March 2023 with an expected total distribution of $18,480,000.

The final ordinary and special 2022 dividends had not been declared at the reporting date and therefore are not reflected in the consolidated financial statements.

Dividends are paid out from the parent entity which has retained earnings as at 31 December 2022 of $49,741,000. As at 31 December 2022, the Group has retained losses of $36,034,000. The difference in retained earnings is primarily due to the amortisation of intangible assets recognised in the Group financial statements arising from historic business combinations.

Franking credits

Consolidated	2022 $'000	2021 $'000
Franking credits available at the reporting date based on a tax rate of 30%	13,510	24,103
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%	4,875	4,540
Franking credits available for subsequent financial years based on a tax rate of 30%	**18,385**	**28,643**

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 2022

Note 16. Earnings per share

Consolidated	2022 $'000	2021 $'000
Profit after income tax attributable to the owners of Smartgroup Corporation Ltd	**58,781**	**58,813**

Consolidated	2022 Number	2021 Number
Weighted average ordinary shares used in calculating basic earnings per share	129,681,051	129,541,873
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	**129,681,051**	**129,560,707**

Consolidated	2022 Cents	2021 Cents
Basic earnings per share	45.3	45.4
Diluted earnings per share	45.3	45.4

Accounting policy for earnings per share

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.

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 2022

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:

	2022		2021	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank loans	2.67%	53,900	1.81%	28,900
Cash and cash equivalents	1.07%	(26,707)	0.00%	(32,453)
Restricted cash and cash equivalents	1.24%	(36,020)	0.00%	(41,196)
Interest rate swaps (notional principal amount)	1.86%	(35,205)	0.07%	(13,000)
Net exposure to cash flow interest rate risk		**(44,032)**		**(57,749)**

Sensitivity

An increase/decrease in interest rates of 100 basis points (2021: increase of 100/decrease to rate floor) would have a favourable/(adverse) effect on profit before tax and equity of $440,000 (2021: $580,000/($230,000)).

Derivatives interest rate swap

The Group has entered into interest rate swap contracts with notional/principal value as at 31 December 2022 of $35,205,000 (2021: $13,000,000). The interest rate contracts hedge the Group's risk against an increase in variable interest rates. The weighted average fixed rate is 2.12% (2021: 0.95%).

Sensitivity – derivative valuation

An increase in interest rates of 100 (2021:100) basis points would have a favourable effect on derivative financial instruments value and total equity by $581,000 (2021: $470,000) while a decrease in interest rates of 100 basis points (2021: decrease to the rate floor) would have an adverse effect on the derivative financial instruments value and total equity by $302,000 (2021: $94,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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.

Expected credit loss (ECL) 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. Specific provisions total $549,000 (2021: $364,000) 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, with the expected credit loss allowance in 2022 totalling $6,000 (2021: $75,000). The credit loss rates are based on a 3–year rolling average between 0.0% – 0.2% (2021: 0.0% – 1.3%) and derived using counterparty–specific information and historical data from previous recessions and economic projections.

The Group has additionally provided $310,000 (2021: $276,000) 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 2022:

31 December 2022	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)	2,014	–	(167)	(167)	8.29%
Grade 2 (Employer/Corporate)	4,693	(5)	(261)	(266)	5.67%
Grade 3 (Dealers)	1,825	(1)	(121)	(122)	6.68%
Total expected credit loss exposure	**8,532**	**(6)**	**(549)**	**(555)**	

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.

Financing arrangements

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 17. Financial instruments (continued)

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 2022					
Non-interest bearing					
Trade payables	4,918	–	–	–	4,918
Customer salary packaging liability	36,020	–	–	–	36,020
Interest bearing - variable					
Bank loans	2,470	55,210	–	–	57,680
Lease liabilities	4,248	4,131	4,692	–	13,071
Total non-derivatives	**47,656**	**59,341**	**4,692**	**–**	**111,689**
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**

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

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For the year ended 31 December 2022

Note 18. Current assets – trade and other receivables

Consolidated	2022 $'000	2021 $'000
Trade receivables	8,532	8,043
Less: Allowance for expected credit losses	(555)	(439)
	7,977	**7,604**
Contract assets	6,040	10,745
Other receivables	4,404	5,598
	10,444	**16,343**
Total trade and other receivables	**18,421**	**23,947**

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
2022				
Assets				
Interest rate swap contracts - cash flow hedges	–	1,062	–	1,062
Total assets	**–**	**1,062**	**–**	**1,062**
2021				
Assets				
Interest rate swap contracts - cash flow hedges	–	153	–	153
Total assets	**–**	**153**	**–**	**153**

There were no transfers between levels during the financial year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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	2022 $'000	2021 $'000
Prepayments	2,988	2,511
Other current assets	149	46
Back-to-back leased vehicles	1,331	1,022
Other current assets	**4,468**	**3,579**

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 2022

Note 21. Derivative financial instruments

Consolidated	2022 $'000	2021 $'000
Non-current assets		
Derivative financial instruments	1,062	153
Total non-current derivative financial instrument assets	**1,062**	**153**

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	2022 $'000	2021 $'000
Leased vehicle borrowings	1,722	1,555
Other current liabilities	**1,722**	**1,555**

Refer to note 20 for further information in relation to leased vehicle borrowings, and the associated back-to-back leased motor vehicles.

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

Consolidated	2022 $'000	2021 $'000
Investment in joint venture - Health-e Workforce Solutions Pty Ltd	**374**	**575**

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 2022

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	2022 %	2021 %
Health-e Workforce Solutions Pty Ltd	Australia	50	50

Consolidated	2022 $'000	2021 $'000
Summarised statement of financial position		
Current assets	1,551	2,243
Non-current assets	72	43
Total assets	**1,623**	**2,286**
Current liabilities	543	806
Total liabilities	**543**	**806**
Net assets	**1,080**	**1,480**
Summarised statement of profit or loss and other comprehensive income		
Revenue	2,872	2,454
Other expenses	(1,901)	(1,746)
Profit before income tax	**971**	**708**
Income tax expense	(291)	(213)
Profit after income tax	**680**	**495**
Other comprehensive income	–	–
Total comprehensive income	**680**	**495**
Reconciliation of the Group's carrying amount		
Opening carrying amount	575	827
Dividends received	(540)	(500)
Share of profit after income tax expense	339	248
Closing carrying amount	**374**	**575**

Contingent liabilities

Share of contingent liabilities relating to joint venture as at 31 December 2022 was $nil (2021: $nil).

Commitments

Share of commitments relating to joint venture as at 31 December 2022 was $nil (2021: $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 2022

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

$35,821 in cost reimbursements were paid to key management personnel in 2022 (2021: $4,518).

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

	2022 $'000	2021 $'000
Profit after income tax expense	66,133	101,511
Total comprehensive income	**66,133**	**101,511**

Statement of financial position

	2022 $'000	2021 $'000
Current assets	373,623	524,710
Total assets	**462,247**	**613,988**
Current liabilities	84,730	242,131
Total liabilities	**137,504**	**270,710**
Issued capital	262,418	261,877
Reserves		
Hedging reserve - cash flow hedges	696	119
Share-based payments reserve	11,449	9,580
Other reserves	439	439
Retained earnings	49,741	71,263
Total equity	**324,743**	**343,278**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022 of $624,000 (2021: $1,509,000). The reduction from 2021 reflects bank guarantees on new property leases being drawn by a Group subsidiary, rather than by the parent entity.

Capital commitments - Property and equipment

The parent entity had no capital commitments for property and equipment as at 31 December 2021 and 31 December 2022.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 3 and note 40, 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	2022 %	2021 %
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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	2022 $	2021 $
Short-term employee benefits	2,593,904	3,114,980
Post-employment benefits	187,433	177,613
Long-term benefits	(3,867)	80,589
Share-based payments	355,908	623,777
Compensation	**3,133,378**	**3,996,959**

In the current year, annual and long service leave benefits disclosed within long-term benefits has been amended to reflect the amounts accrued during the year, net of leave taken during the year. The comparative amounts have been restated to align with the current year presentation.

Note 28. Contingent liabilities

The Group had contingent liabilities at 31 December 2022 of $3,964,000 (2021: $3,605,000) which primarily relate to guarantees on property leases. The Group has given guarantees for performance of contracts to its customers as at 31 December 2022 of $450,000 (2021: $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 2022

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

	2022 $'000	2021 $'000
Consolidated Statement of Profit or Loss and Other Comprehensive Income		
Revenue	222,904	218,461
Product costs	(7,589)	(5,980)
Employee benefits expense	(86,019)	(78,354)
Administration and corporate expenses	(30,848)	(28,367)
Occupancy expenses	(1,376)	(1,365)
Advertising and marketing expenses	(1,740)	(1,507)
Amortisation of acquired intangibles	(1,309)	(6,899)
Amortisation of contract rights and internally developed intangibles	(1,329)	(1,038)
Depreciation expense	(4,066)	(3,353)
Other expenses	(340)	(4,876)
Operating profit before income tax expense	**88,288**	**86,722**
Finance costs	(2,086)	(1,674)
Loss on sale of business	–	(154)
Profit before income tax expense	**86,202**	**84,894**
Income tax expense	(24,947)	(25,168)
Profit after income tax expense	**61,255**	**59,726**
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	577	114
Total comprehensive income for the year	**61,832**	**59,840**

	2022 $'000	2021 $'000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**(12,900)**	**(7,016)**
Profit after income tax expense	61,255	59,726
Dividends paid	(87,655)	(65,610)
Retained earnings at the end of the financial year	**(39,300)**	**(12,900)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 30. Deed of cross guarantee (continued)

Consolidated Statement of Financial Position

	2022 $'000	2021 $'000
Current assets		
Cash and cash equivalents	25,803	31,405
Restricted cash and cash equivalents	36,020	41,196
Trade and other receivables	22,969	27,301
Other current assets	4,469	2,557
Total current assets	**89,261**	**102,459**
Non-current assets		
Investments accounted for using the equity method	28,094	28,494
Derivative financial instruments	1,062	153
Deferred tax assets	14,624	12,219
Property and equipment	8,447	4,378
Intangible assets	260,322	257,022
Right-of-use assets	6,592	5,592
Total-non-current assets	**319,141**	**307,858**
Total assets	**408,402**	**410,317**
Current liabilities		
Trade and other payables	38,462	51,061
Customer salary packaging liability	36,020	41,196
Lease liabilities	4,248	3,536
Contract liabilities	8,935	4,028
Income tax payable	4,873	2,248
Provisions	13,823	13,148
Other current liabilities	1,722	–
Total current liabilities	**108,083**	**115,217**
Non-current liabilities		
Provisions	1,395	1,837
Borrowings	53,784	28,680
Contract liabilities	3,663	–
Lease liabilities	4,630	4,322
Total non-current liabilities	**63,472**	**34,839**
Total liabilities	**171,555**	**150,056**
Net assets	**236,847**	**260,261**
Equity		
Share capital	263,189	262,649
Reserves	12,958	10,512
Retained earnings	(39,300)	(12,900)
Total equity	**236,847**	**260,261**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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	2022 $'000	2021 $'000
Profit for the year	**58,781**	**58,813**
Adjustments for		
Share of profits — joint ventures	(339)	(248)
Share-based payments	472	622
Fair value change to derivative financial instruments	909	200
Interest received — disclosed under investing activities	(287)	(5)
Amortisation of interest and borrowing costs	112	122
Loss/(gain) on sale of non-current assets	20	–
Depreciation	4,066	3,355
Amortisation	3,899	9,318
Loss on revaluation of an asset held for sale	–	1,434
Loss/(gain) on sale of business	–	(67)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	5,470	(8,393)
Decrease/(increase) in net deferred tax assets	(2,099)	(475)
Decrease/(increase) in other current assets	(889)	(1,710)
Increase/(decrease) in trade and other payables	(7,446)	8,367
Increase/(decrease) in provision for income tax	335	5,392
Increase/(decrease) in provisions and other liabilities	8,314	(911)
	71,318	**75,814**
Decrease in customer salary packaging liability	(5,176)	(6,915)
Net cash from operating activities	**66,142**	**68,899**

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 2021	**24,673**
Proceeds from borrowings	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**
Proceeds from borrowings	30,000
Borrowing costs	(8)
Repayments of borrowings	(5,000)
Amortisation of borrowing costs (non-cash)	112
Balance as at 31 December 2022	**53,784**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 32. Non-current assets — property and equipment

Consolidated	2022 $'000	2021 $'000
Computer equipment		
At cost	3,235	5,911
Accumulated depreciation	(1,990)	(5,169)
Computer equipment	**1,245**	**742**
Furniture, fixtures and fittings		
At cost	259	1,272
Accumulated depreciation	(107)	(1,149)
Furniture, fixtures and fittings	**152**	**123**
Office equipment		
At cost	807	1,604
Accumulated depreciation	(603)	(1,318)
Office equipment	**204**	**286**
Leasehold improvements		
At cost	1,307	4,977
Accumulated depreciation	(1,008)	(4,523)
Leasehold improvements	**299**	**454**
Leased motor vehicles		
At cost	7,417	2,849
Accumulated depreciation	(870)	(74)
Leased motor vehicles	**6,547**	**2,775**
Property and equipment	**8,447**	**4,380**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 2022						
Opening net book amount	742	123	286	454	2,775	4,380
Additions	1,036	75	60	26	4,613	5,810
Disposals	-	(15)	(1)	(4)	(40)	(60)
Depreciation expense (note 8)	(533)	(31)	(141)	(177)	(801)	(1,683)
Closing net book amount	**1,245**	**152**	**204**	**299**	**6,547**	**8,447**
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**

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 2022

Note 33. Current liabilities — trade and other payables

Consolidated	2022 $'000	2021 $'000
Trade payables	4,918	8,095
Accrued expenses	16,958	20,455
Other payables and accruals	10,032	9,653
Trade and other payables	**31,908**	**38,203**

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	2022 $'000	2021 $'000
Employee benefits	8,451	8,004
Operations provision	5,456	5,455
Provisions – current	**13,907**	**13,459**

Employee benefits

The provision for employee benefits relates to the Group's liability for annual leave and long service leave. Refer to note 40 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	2022 $'000	2021 $'000
Employee benefits obligation expected to be settled after 12 months	**5,139**	**4,006**

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 2022

Note 35. Non-current liabilities — provisions

Consolidated	2022 $'000	2021 $'000
Employee benefits	792	993
Make good provision	455	454
Operations provision	74	391
Provisions – non-current	**1,321**	**1,838**

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 2022	Make good provision $'000	Operations provision $'000
Carrying amount at start of year	454	5,846
Charged/(credited) to profit or loss	–	–
– additional provisions recognised/(de-recognised)	1	(316)
Carrying amount at end of year	**455**	**5,530**

Note 36. Contract liabilities

Consolidated	2022 $'000	2021 $'000
Contract liabilities – current	9,421	4,704
Contract liabilities – non-current	3,663	–
Contract liabilities	**13,084**	**4,704**

Expected timing of performance obligations satisfied:

At 31 December 2022	1 year or less $'000	>1 to 2 years $'000	>2 to 5 years $'000	Over 5 years $'000	Total $'000
Contract liabilities	**9,421**	**2,320**	**1,343**	**–**	**13,084**

Consolidated 2022	Contract liabilities $'000
Carrying amount at start of year	4,704
Revenue received in advance	17,700
Revenue recognised upon meeting performance obligations	(9,320)
Carrying amount at end of year	**13,084**

Contract liabilities primarily relate to income received in advance from customer contracts for which revenue is recognised on satisfaction of outstanding performance obligations. The revenue related to these contract liabilities are disclosed in note 7.

Contract liabilities have increased by $8,380,000 primarily due to the upfront receipt of commissions following the sale and transition of a key financier. Management expects 72% of the contract liabilities ($9,421,000) with performance obligations not yet fulfilled will be recognised in 2023, with the remaining 28% ($3,663,000) recognised over time until February 2027. All other contract liabilities are for periods of one year or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 37. 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 2022 $'000	31 December 2021 $'000
Restricted cash and cash equivalents	**36,020**	**41,196**
Customer salary packaging liability	**(36,020)**	**(41,196)**

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 2022, the Group has recognised finance revenue of $445,000 (31 December 2021: $11,000) from restricted cash.

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

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

	2022		2021	
	Weighted average interest rate	As at 31 December 2022 $'000	Weighted average interest rate	As at 31 December 2021 $'000
Accounts established by the Group as cash held on behalf of customers	1.15%	113,280	0.01%	135,224
Accounts established by customers directly	1.15%	63,556	0.00%	82,658
Cash held on behalf of customers		**176,836**		**217,882**

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 2022, the Group has recognised interest revenue of $893,000 (31 December 2021: $18,000) from those accounts established by the Group as cash held on behalf of customers, and $501,000 (31 December 2021: $4,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 38. Remuneration of auditors

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

Consolidated	2022 $	2021 $
Audit and review of financial statements	595,000	561,000
PricewaterhouseCoopers	**595,000**	**561,000**

Note 39. 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 2021	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**
Additions	3,189	–	3,189
Depreciation charge for the year	(2,275)	(108)	(2,383)
Remeasurement of leases	194	–	194
Balance at 31 December 2022	**6,560**	**32**	**6,592**

Lease liabilities (current and non-current)

Consolidated	2022 $'000	2021 $'000
Balance at 1 January	7,858	12,416
Additions	3,189	51
Interest incurred	749	760
Interest paid on lease liabilities	(749)	(760)
Payments of lease liabilities	(2,362)	(3,353)
Remeasurement and surrender of leases	194	(1,256)
Balance at 31 December	**8,879**	**7,858**

Maturity analysis - contractual undiscounted cashflows

At 31 December 2022	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	**4,248**	**4,131**	**4,692**	**–**	**13,071**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

Note 39. Leases (continued)

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	2022 $'000	2021 $'000
Interest on lease liabilities (included in finance costs)	(749)	(760)
Expense relating to short-term leases (included in other expenses)	(84)	(122)

Amounts recognised in the statement of cash flows

Consolidated	2022 $'000	2021 $'000
Total cash outflow for leases	**(3,111)**	**(4,113)**

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 2022

Note 40. 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 2022 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 2022

Note 40. 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 for the Loan Funded Share Plan. 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 2022

Note 40. 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 2022

In the Directors' opinion:

(a) the financial statements and notes set out on pages 62 to 108 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 2022 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
22 February 2023
Sydney

Independent auditor's report

To the members of Smartgroup Corporation Ltd

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Smartgroup Corporation Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2022 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 2022
- 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.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999

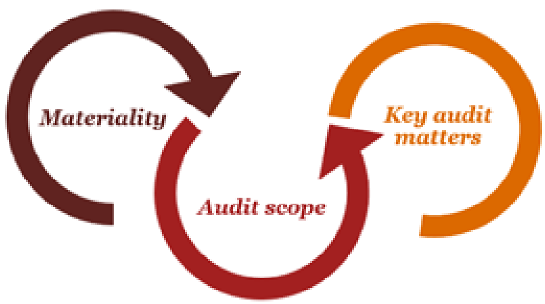
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999

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 $4.18 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, profit before tax (which is a generally accepted benchmark for profit-orientated entities) is a key metric against which the performance of the Group is measured.
- We selected 5% based on our professional judgement, noting that it is within the range of commonly acceptable profit related materiality thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.
- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

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 impairment assessment *Refer to note 6 – $272.7 million* The Group's goodwill is 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 balance, • the judgement involved in assessing whether an impairment was required and; • the ongoing motor vehicle supply chain challenges. The Group performed an impairment assessment over goodwill by calculating the value in use for each CGU, using discounted cash flow models (the models). Key judgements in the models included the determination of CGUs, discount rates, annual revenue and terminal growth rates and the assumption that there will be no significant changes to the legislation governing the provision of products and services within the salary packaging administration and novated leasing industries in the forecast periods.	We performed the following audit procedures, amongst others: • we assessed whether the Group's identification of CGUs was consistent with our knowledge of the operations, internal reporting lines and the level of integration of the previously acquired businesses • we evaluated the process by which the cash flow forecasts were developed including the review of significant assumptions and judgements by the Audit and Risk Committee • we compared the cash flow forecasts to Board approved budgets and inspected evidence of oversight over key assumptions in the forecasts by the directors • we assessed the Group's ability to accurately forecast by comparing previous forecasts with actual results • for significant inputs and assumptions, we considered and evaluated management's evaluation and response to estimation uncertainty

pwc

Key audit matter	*How our audit addressed the key audit matter*
	• 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 $240.3 million as at 31 December 2022 to its market capitalisation of $682 million on the same date • we evaluated the reasonableness of the Group's disclosures on goodwill in light of the requirements of Australian Accounting Standards.
Restricted cash and cash equivalents held on behalf of customers *Refer to note 37 - $36 million* The provision of salary packaging services involves the Group holding funds on behalf of certain customers, either as restricted cash or cash equivalents held on behalf of customers. This was a key audit matter as the Group may be responsible for any shortfall in these accounts, there is a significant volume of transactions impacting restricted cash and cash held on behalf of customers' accounts throughout the year and due to the large volume of accounts and employees under management (EUM).	We performed the following audit procedures, amongst others: • 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

pwc

Key audit matter	*How our audit addressed the key audit matter*
	• 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 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 2022, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 44 to 57 of the directors' report for the year ended 31 December 2022.

In our opinion, the remuneration report of Smartgroup Corporation Ltd for the year ended 31 December 2022 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
Partner

Sydney
22 February 2023

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 30 January 2023.

Class of shares and voting rights

At 30 January 2023, there were 10,838 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 30 January 2023:

Size of holding	Number of holders	Total shares held	Percentage of total shares
1 – 1,000	5,281	2,349,597	1.76%
1,001 – 5,000	3,975	10,215,608	7.64%
5,001 – 10,000	938	6,967,637	5.21%
10,001 – 100,000	588	13,767,297	10.30%
100,001 and over	56	100,370,634	75.09%
Total shareholders	**10,838**	**133,670,773**	**100.00%**

Twenty largest shareholders of ordinary shares as at 30 January 2023:

Name	Number of ordinary shares	Percentage of ordinary shares
HSBC Custody Nominees (Australia) Limited	25,678,519	19.21%
Citicorp Nominees Pty Limited	17,999,750	13.47%
J P Morgan Nominees Australia Pty Limited	15,565,095	11.64%
National Nominees Limited	8,330,882	6.23%
HSBC Custody Nominees (Australia) Limited - A/C 2	6,899,802	5.16%
BNP Paribas Noms Pty Ltd	4,671,134	3.49%
Blackanco Nominees Pty Ltd	2,341,782	1.75%
Citicorp Nominees Pty Limited	1,581,678	1.18%
Anacacia Pty Ltd	1,556,060	1.16%
Timothy Looi	1,504,624	1.13%
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	1,415,026	1.06%
Heatherwood Court Pty Ltd	1,005,871	0.75%
Gentilly Holdings 2 Pty Limited	807,500	0.60%
BNP Paribas Nominees Pty Ltd	773,115	0.58%
Point Capital Pty Ltd	625,000	0.47%
BKI Investment Company Limited	600,000	0.45%
Gentilly Holdings Pty Ltd	573,135	0.43%
Gentilly Holdings 2 PL	564,281	0.42%
Sarah Haas	501,542	0.38%
Mr Haining Yu & Ms Weihua Han	477,667	0.36%
Total	**93,472,463**	**69.93%**

Restricted securities or securities subject to voluntary escrow

There are no securities or securities subject to voluntary escrow as at 30 January 2023.

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.

Substantial Shareholders

As at 30 January 2023, there were no substantial holders in the Company.

Five year summary

Index	2022	2021	2020	2019	2018
Income statement ($m)					
Revenue	224.7	221.8	216.3	249.8	241.8
EBITDA	93.4	103.0	95.4	118.2	115.0
NPAT (statutory)	58.8	58.8	41.3	61.4	59.3
NPATA	61.2	69.5	65.2	81.0	77.8
Statement of financial position ($m)					
Assets	405.8	408.3	408.4	472.9	464.0
Liabilities	165.5	142.1	137.5	196.2	171.7
Net assets	240.3	266.2	270.9	276.7	292.3
Net cash/(debt)	(27.2)	3.6	2.5	(21.0)	(14.6)
Share information					
Ordinary shares (million shares)	133.7	133.5	132.8	131.7	130.9
Dividends per share (cents per share)					
Interim	17.0	17.5	17.0	21.5	20.5
Special	14.0	35.5	9.0	20.0	–
Final	15.0	19.0	17.5	21.5	21.0
Total dividends	**46.0**	**72.0**	**43.5**	**63.0**	**41.5**
Share price at 31 December ($)	5.10	7.75	6.83	6.94	8.88
NPATA/ordinary shares (cents per share)	45.8	52.1	49.1	61.5	59.4
Ratios					
Ordinary dividend payout ratio	70%	70%	70%	70%	70%
Operating cashflow/NPATA	117%	113%	115%	110%	103%
Net debt/EBITDA	0.3	N/A	N/A	0.2	0.1
Operational metrics					
FTEs	734	673	630	689	695
Packages	379,000	377,500	360,500	358,500	343,000
Novated leases under management	57,700	64,700	66,700	68,500	65,250

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 2022
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 2022 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

Corporate directory

Directors

Michael Carapiet
Timothy Looi
Gavin Bell
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

10 May 2023 at 11am.
Please refer to the website for further details.

smart group corporation

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