Appendix 4D and 2020 Half Year Report

Release date: 19 August 2020

19 August 2020

ASX Market Announcements Office
ASX Limited
20 Bridge Street
Sydney, NSW, Australia, 2000

Smartgroup Corporation Ltd - Results for announcement to the market

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

1. Appendix 4D,
2. Review of operations, and
3. Smartgroup Corporation Ltd 2020 Half Year Report for the period ending 30 June 2020.

Smartgroup Corporation Ltd will conduct a briefing on the results at 9:00 am (Sydney time) on 20 August 2020.

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.

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Half Year Report
30 June 2020

ABN 48 126 266 831

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Appendix 4D

Statutory results for announcement to the market

		$'000's		$'000's
Revenue from ordinary activities	down	(14,387)	11% to	**111,441**
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	down	(13,429)	44% to	**17,376**
Net profit for the period attributable to the owners of Smartgroup Corporation Ltd	down	(13,429)	44% to	**17,376**

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2019 dividend per share (paid 16 March 2020)	21.5	21.5	30%
Interim 2020 dividend per share (payable 16 September 2020)	17.0	17.0	30%

The record date for determining entitlement to the interim dividend is 2 September 2020. There is no dividend reinvestment plan in place.

Net tangible assets	30 June 2020	31 Dec 2019
Net tangible assets per ordinary security, cents per share	**(39.25)**	(41.85)

Control gained or lost over entities

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

Details of Joint Venture Entities	Reporting entity's percentage holding		Contribution to profit	
	30 June 2020 %	30 June 2019 %	30 June 2020 $'000	30 June 2019 $'000
Health-e Workforce Solutions Pty Ltd[1]	**50%**	50%	**(155)**	136

[1] Excludes impairment of investment of $5,118,000 (Note 7)

Independent auditor's review

The financial report for the half year ended 30 June 2020 has been reviewed by PricewaterhouseCoopers and there is no review dispute or qualification.

Review of Operations
30 June 2020

	30 June 2020 $'000	* Restated 30 June 2019 $'000	Movement
Revenue	**111,441**	125,828	(11%)
Share of profit from joint venture accounted for using the equity method	**(155)**	136	(214%)
Expenses			
Product costs	**(3,229)**	(3,976)	(19%)
Employee benefits expense	**(41,562)**	(45,468)	(9%)
Administration and corporate expenses	**(14,879)**	(13,927)	7%
Occupancy expenses	**(742)**	(814)	(9%)
Advertising and marketing expenses	**(1,190)**	(1,835)	(35%)
Other expenses	**(1,839)**	(851)	116%
Acquisition transaction costs	**(11)**	(362)	(97%)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**47,834**	**58,731**	**(19%)**
Finance costs	**(1,375)**	(1,720)	(20%)
Onerous lease costs	**-**	(433)	(100%)
Depreciation expense	**(1,555)**	(1,989)	(22%)
Amortisation of acquired intangible assets [1]	**(10,475)**	(10,482)	0%
Amortisation of contract rights	**(507)**	-	n/a
Impairment of joint venture investment	**(5,118)**	-	n/a
Loss on revaluation of financial liabilities	**(1,283)**	-	n/a
Profit before income tax for the half-year	**27,521**	**44,107**	**(38%)**
Income tax expense [1]	**(10,145)**	(13,302)	(24%)
Net profit after income tax for the half-year	**17,376**	**30,805**	**(44%)**
Add: Amortisation, tax effected	**7,432**	7,438	0%
Add: Acquisition transaction and onerous lease costs, tax effected	**7**	556	(99%)
Add: Accelerated vesting of LFSP [2]	**375**	-	n/a
Add: Cash tax benefit on deductible amortisation [1]	**1,769**	1,703	4%
Add: Impairment of joint venture investment	**5,118**	-	n/a
NPATA [1 3]	**32,077**	**40,502**	**(21%)**
EBITDA margin	**43%**	47%	(4%)
NPATA margin	**29%**	32%	(3%)
Net operating cash inflow (outflow) [4]	**35,786**	41,728	(14%)
Net operating cash inflow as a percentage of NPATA [4]	**112%**	103%	9%

	Cents	Cents	Movement
NPATA per share [5]	**24.1**	30.7	(21%)
Dividends declared per share [5]	**17.0**	21.5	(21%)

* See note 3 for detailed information on Restatement of comparatives.

1 2019 amortisation expense, income tax expense, cash tax benefit on deductible amortisation and NPATA have been restated following final acquisition accounting for Mylease, Pay-Plan Pty Ltd and SET Leasing Pty Ltd (collectively, Pay-Plan), and revisions to acquisition accounting for Lease & Asset Finance.

2 Resulting from the modification of LTIP vesting conditions for the former CEO. Refer to the 2019 Annual Report for further details.

3 NPATA is the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items.

4 Net cash inflow from operating activities has been adjusted to exclude transaction costs relating to business acquisitions, and receipts and payments related to customer salary packaging bank accounts.

5 NPATA per share and dividends declared per share at 30 June 2020 are based on 132,880,310 shares (30 June 2019: 131,894,818 shares), which includes the 3,196,946 shares held by the Company under the Loan Funded Share Plan (LFSP) (30 June 2019: 2,926,722 shares).

Review of Operations (continued)
30 June 2020

Financial performance

The interim 2020 financial results for Smartgroup Corporation Ltd and its controlled entities (the Group) show a reduction in revenue and earnings, with negative impacts due to the recent deterioration in the economic environment arising from the impact of COVID-19 on the Australian community. Revenue of $111,441,000 represents a reduction of 11% from the half-year to 30 June 2019, while Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) reduced 19% to $47,834,000.

Interim 2020 Net Profit After Tax and Amortisation (NPATA) of $32,077,000 represents a reduction of 21% over the half-year to 30 June 2019.

Revenue has decreased primarily from a 15% reduction in novated lease settlement volumes, compared to the six months to 30 June 2019. Australian private new vehicle sales fell 19% over the same period. The decrease was seen between April and June 2020 when settlement volumes were 25% below the same period last year. Up until that point in time, settlement volumes had been 1% above the prior year. Novated lease yields were 2% lower than H1 2019 due to an increase in the proportion of customers refinancing their lease, generally for a further 12-24 months, rather than starting a lease on a new vehicle.

Salary packages of 355,500 in June 2020 have remained broadly consistent with June 2019. Packaging revenue fell primarily due to lower interest earned on client accounts.

Further to the announcement made by Smartgroup in December 2019, the revenue derived from the sale of add-on insurance products will reduce from July 2020 due to a change in commission structures and a reduction in premium pricing to customers. These changes were expected to result in a c.$4m post-tax reduction in earnings per half year, based on H2 2019 volumes. It is now estimated that, had the revised pricing applied to H1 2020 volumes, the impact would have been a reduction in earnings of c.$2.3m post-tax for the half year. The variance arises from lower volumes than the comparative H2 2019, lower penetration rates and a favourable mix of products.

Smartgroup has continued to progress the integration of acquired businesses with the completion of the Selectus transition in mid-2020. This will streamline operations and improve consistency of customer service.

Smartgroup responded to the business downturn with a cost containment plan implemented in April 2020 for a period of 3 months, including:

- Temporary salary reductions (Chairman and CEO 50%; Board and Group Executives 20%; Others 0-10%);
- Suspension of commissions and short-term incentive arrangements; and
- Restriction of all non-essential expenditure and implementation of an annual leave provision reduction program.

The value attributed to savings in the half-year from temporary measures is $4.0m. From July 2020, salaries and commissions have been restored.

NPAT also includes several individually significant items, including (all stated pre-tax):

- $1.0m provision for certain short-term fleet products where counterparty fulfillment is uncertain;
- $1.3m refinance charge resulting from the extension of the facility to May 2022;
- $1.5m redundancy costs from an operational restructure; and
- $5.1m write-down of the carrying value of a joint venture investment in Health-e Workforce Solutions.

The non-cash impairment charge of $5.1m results from a review of the carrying value in the joint venture investment, Health-e Workforce Solutions, and its adjusted contribution for H1 2020 was a loss of $0.1m. The carrying value of the joint venture as at 30 June 2020 is $0.6m. The impairment charge is considered a one-off and has been excluded from the non-IFRS measure NPATA.

Workforce

In May 2020 Smartgroup also commenced an operational restructure, resulting in a net reduction of 50 roles. The ongoing annual savings associated with this restructure are expected to be c.$4.0m.

The total workforce at 30 June 2020 comprised 617 permanent full time equivalent employees (FTE) and 7 contingent (temporary) workforce employees. This compares to a permanent workforce of 703 FTE and 41 contingent workforce employees at 30 June 2019, and 689 permanent FTE and 36 contingent workforce employees at 31 December 2019. It is noted that at 30 June 2020 there were over 20 vacancies for roles created in the restructuring process and 30 vacancies for roles previously filled by temporary employees, resulting in the net 50 FTE reduction.

Review of Operations (continued)
30 June 2020

Regulatory Matters

In January 2020, Treasury released draft legislation in connection with a proposed deferred sales model for add-on insurance products. In May 2020, the Government announced a six-month deferral, to December 2020, for the introduction of this legislation to Parliament. On 5 August 2020, ASIC released its revised draft *Product Intervention Order - Add-on Motor Vehicle Financial Risk Products*. Smartgroup, through our industry body, the National Automotive Leasing and Salary Packaging Association (NALSPA), continues to engage in the consultation process with ASIC in relation to the draft product intervention order.

As disclosed, in the 2019 Annual Report, after adjusting for the insurance underwriter changes announced in December 2019, Smartgroup estimates that it generates c.$17m annual revenue from add-on insurances that are expected to be covered by the ASIC and Treasury reviews, based on 2019 volumes. Given the draft nature of the recommendations, the range of possible outcomes and potential steps Smartgroup might take to mitigate any impact, Smartgroup is not yet able to provide specific detail on the quantum and timing of any such impacts, and whether or not they will be material.

Coronavirus (COVID-19) impact

Like many other businesses throughout Australia, the Group has been affected by the Coronavirus (COVID-19) pandemic which started impacting business operations in March 2020. Smartgroup's focus has remained on safeguarding the well-being of its employees, as well as supporting and serving those customers who provide essential services at this time, such as employees in Federal and State Governments, health care, aged care and charities.

In addition to the cost saving measures mentioned above, Smartgroup implemented the following actions to manage risk and liquidity resulting from COVID-19:

- transitioned all employees to working from home including implementing a range of protocols to minimise business interruption and monitor the well-being of employees;
- introduced new customer communication channels, such as webinars and video call presentations;
- streamlined and simplified the business through restructure; and
- refinanced and extended debt facilities.

In relation to future developments, no outlook can be provided due to the highly uncertain impact of COVID-19 on the community, consumer confidence and general economic activity. Asset valuations have been reviewed for the impact of COVID-19 within notes 6, 7 and 9.

Accounting judgements included in these financial statements are based on all information available at the time of preparation. Subsequent changes in economic conditions could result in materially different outcomes compared to the accounting estimates used in preparation of these financial statements. Disclosure around management judgements and the uncertainty in estimation arising from COVID-19 are outlined in note 2.

Cashflow and net debt

The Group net debt position at 30 June 2020 is $12,178,000 ($21,009,000 as at 31 December 2019). Leverage, as measured by net debt / last twelve months EBITDA, is 0.12x (0.20x as at 31 December 2019). The $5.1m impairment of Health-e Workforce Solutions has been excluded from the calculation of EBITDA for debt covenant purposes, given its non-operating nature.

During the period, Smartgroup drew down on its debt facilities to ensure a high level of cash was available to the Group, given the then unknown impact of COVID-19 on consumer behaviour and financial markets. In addition, the terms of the facility were renegotiated. The facility expiry was extended 6 months to May 2022, resulting in a 65bps increase in the interest margin.

The application of Accounting Standards requires immediate recognition of the present value of the change in future interest cash flows. This non-cash upfront adjustment amounted to $1,283,000 in the period, over and above the financing costs that would have been recognised had the facility remained unchanged.

Gross debt drawn at 30 June 2020 is $102,200,000. Funding requirements, the drawn debt profile and the Group's capital structure are subject to ongoing review.

Directors' Report
30 June 2020

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 half year ended 30 June 2020.

Directors

The following people were Directors of the Company during the whole of the reporting period and up to the date of this report, unless otherwise stated:

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

Principal activities

During the reporting period the principal continuing activities of the Group consisted of outsourced administration, fleet management, and software, distribution and group services. Outsourced administration comprises salary packaging, novated leasing and payroll administration.

Dividends

Dividends paid during the half year ended 30 June 2020 were as follows:

	30 June 2020 $'000
Final dividend for the year ended 31 December 2019 of 21.5 cents per ordinary share	**28,272**

On 19 August 2020, the Directors declared a fully-franked dividend of 17.0 cents per ordinary share. The record date is 2 September 2020 and the dividend will be paid on 16 September 2020. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $22,600,000.

Review of operations

The profit after tax for the Group is $17,376,000 (Restated 30 June 2019: $30,805,000). Refer to the Review of Operations for further commentary on the results.

Environmental regulation

The Group is not affected by any significant environmental regulation under Australian Commonwealth or State law in respect of its operations.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

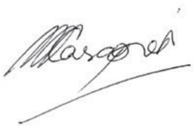
Directors' Report (continued)
30 June 2020

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 this report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

On behalf of the Directors,



Michael Carapiet

19 August 2020
Sydney

Auditor's Independence Declaration

As lead auditor for the review of Smartgroup Corporation Ltd for the half-year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
19 August 2020

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2020

	Note	30 June 2020 $'000	* Restated 30 June 2019 $'000
Revenue		**111,441**	125,828
Share of profit from joint venture accounted for using the equity method		**(155)**	136
Expenses			
Product costs		**(3,229)**	(3,976)
Employee benefits expense		**(41,562)**	(45,468)
Administration and corporate expenses		**(14,879)**	(13,927)
Occupancy expenses		**(742)**	(814)
Advertising and marketing expenses		**(1,190)**	(1,835)
Depreciation expense		**(1,555)**	(1,989)
Amortisation expense		**(10,982)**	(10,482)
Other expenses		**(1,839)**	(851)
Operating profit		**35,308**	**46,622**
Impairment of joint venture investment	7	**(5,118)**	-
Finance costs		**(2,658)**	(1,720)
Onerous lease costs		**-**	(433)
Acquisition transaction costs		**(11)**	(362)
Profit before income tax expense		**27,521**	**44,107**
Income tax expense		**(10,145)**	(13,302)
Profit after income tax expense		**17,376**	**30,805**
Other comprehensive income			
Net change in fair value of cash flow hedges taken to equity, net of tax		**(68)**	(59)
Total comprehensive income for the period		**17,308**	**30,746**

Earnings per share

	Cents	Cents
Basic earnings per share (cents)	**14.9**	23.8
Diluted earnings per share (cents)	**14.9**	23.8

* See note 3 for detailed information on the Restatement of comparatives.

Consolidated Statement of Financial Position
As at 30 June 2020

	Note	30 June 2020 $'000	* Restated 31 December 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**86,470**	39,639
Restricted cash and cash equivalents	15	**56,512**	65,402
Trade and other receivables	9	**18,471**	25,649
Income tax receivable		**213**	-
Other current assets		**2,987**	2,621
Total current assets		**164,653**	**133,311**
Non-current assets			
Investments accounted for using the equity method	7	**627**	6,400
Deferred tax assets		**9,806**	8,333
Right-of-use assets		**10,369**	11,592
Property and equipment		**1,188**	1,369
Intangible assets	6	**301,533**	311,904
Total non-current assets		**323,523**	**339,598**
Total assets		**488,176**	**472,909**
LIABILITIES			
Current liabilities			
Trade and other payables		**30,499**	35,273
Customer salary packaging liability	15	**56,512**	65,402
Income tax payable		**-**	1,474
Provisions		**12,372**	11,056
Lease liabilities		**3,684**	3,629
Other current liabilities		**4,097**	5,733
Total current liabilities		**107,164**	**122,567**
Non-current liabilities			
Provisions		**1,536**	1,684
Lease liabilities		**10,225**	11,543
Borrowings	10	**99,394**	60,392
Derivative financial instruments		**284**	10
Total non-current liabilities		**111,439**	**73,629**
Total liabilities		**218,603**	**196,196**
Net assets		**269,573**	**276,713**
EQUITY			
Share capital	11	**262,510**	259,115
Reserves	12	**8,796**	8,435
(Accumulated loss)/Retained earnings		**(1,733)**	9,163
Equity attributable to the owners of Smartgroup Corporation Ltd		**269,573**	**276,713**
Total equity		**269,573**	**276,713**

* See note 3 for detailed information on the Restatement of comparatives.

Consolidated Statement of Changes in Equity
For the half year ended 30 June 2020

	Note	Share capital $'000	Reserves $'000	Retained earnings/ (Accumulated loss) $'000	Total equity $'000
Balance at 1 January 2019		**256,687**	**5,856**	**29,765**	**292,308**
Profit for the period (restated)		-	-	30,805	30,805
Other comprehensive income		-	(59)	-	(59)
Total comprehensive income for the period		-	**(59)**	**30,805**	**30,746**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	11	2,496	-	-	2,496
Share-based payments		-	843	-	843
Dividends paid		-	-	(53,746)	(53,746)
Balance at 30 June 2019		**259,183**	**6,640**	**6,824**	**272,647**
Balance at 1 January 2020		**259,115**	**8,435**	**9,163**	**276,713**
Profit for the period		-	-	**17,376**	**17,376**
Other comprehensive income		-	**(68)**	-	**(68)**
Total comprehensive income for the period		-	**(68)**	**17,376**	**17,308**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	11	**3,395**	-	-	**3,395**
Share-based payments		-	**429**	-	**429**
Dividends provided for or paid		-	-	**(28,272)**	**(28,272)**
Balance at 30 June 2020		**262,510**	**8,796**	**(1,733)**	**269,573**

* See note 3 for detailed information on the Restatement of comparatives.

Consolidated Statement of Cash Flows

For the half year ended 30 June 2020

	Note	30 June 2020 $'000	30 June 2019 $'000
Cash flows from operating activities			
Receipts from customers		**136,804**	142,352
Payments to suppliers and employees		**(86,889)**	(83,108)
Transaction costs relating to business acquisitions		**(11)**	(184)
Interest received from cash held on behalf of customers		**556**	1,405
Interest paid on borrowings		**(860)**	(847)
Interest paid on lease liabilities		**(526)**	(456)
Income taxes paid		**(13,299)**	(17,618)
Net cash from operating activities excluding salary packaging receipts and payments		**35,775**	**41,544**
Receipts in restricted cash		**1,236,265**	1,160,394
Payments of customer salary packaging liability		**(1,245,155)**	(1,158,844)
Net cash inflow from operating activities		**26,885**	**43,094**
Cash flows from investing activities			
Payments for business acquisitions (net of cash acquired)	8	**-**	851
Capitalised contract rights		**(611)**	-
Payments for property, plant and equipment		**(211)**	(657)
Dividends received from joint venture		**500**	-
Interest received		**197**	151
Net cash (outflow) inflow from investing activities		**(125)**	**345**
Cash flows from financing activities			
Proceeds from long term incentive plan		**2,966**	3,036
Dividends paid		**(28,272)**	(53,746)
Proceeds from borrowings (net of borrowing costs)		**37,750**	6,900
Payment of lease liabilities		**(1,263)**	(1,414)
Net cash inflow (outflow) from financing activities		**11,181**	**(45,224)**
Net increase (decrease) in cash and cash equivalents		**37,941**	**(1,785)**
Cash and cash equivalents at the beginning of the year		**39,639**	39,186
Restricted cash and cash equivalents at the beginning of the year		**65,402**	42,291
Cash and cash equivalents at end of period		**86,470**	28,148
Restricted cash and cash equivalents at end of period		**56,512**	51,544
Total		**142,982**	**79,692**

Notes to the Consolidated Financial Statements

30 June 2020

1 Basis of preparation

Smartgroup Corporation Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia. The financial statements cover the consolidated entity (referred to hereafter as the Group) consisting of the Company and the entities it controlled for the half year ended 30 June 2020.

The consolidated half year financial report is a general purpose financial report prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Smartgroup Corporation Ltd is a for-profit entity for the purpose of preparing the financial report.

This half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by the Company during the interim reporting period, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding off'. Amounts in this report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards, which is set out below.

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.
Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Comparatives for the half year ending 30 June 2019 and the balance as at 31 December 2019 have been restated as set out in note 3.

2 Critical accounting judgements, estimates and assumptions

Coronavirus (COVID-19) impact

The accounting policies for critical accounting judgements, estimates and assumptions are consistent with the 2019 Annual Report, however, given the evolving nature of the current pandemic and resulting economic disruption, the Group has considered the impact of the pandemic and market volatility on estimation uncertainty.

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

Notes to the Consolidated Financial Statements (continued)
30 June 2020

2 Critical accounting judgements, estimates and assumptions (continued)

Coronavirus (COVID-19) impact (continued)

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

The carrying values of goodwill, intangible assets, property, plant and equipment, right-of-use assets, and working capital for each cash generating unit (CGU) have been reassessed, and no CGU has been impaired as a result of stress-testing a range of reasonably expected outcomes. Further details are disclosed in note 6. The Group has, however, impaired the investment in the joint venture, Health-e Workforce Solutions Pty Ltd, by $5,118,000 after reviewing the asset carrying value. Further details are disclosed in note 7.

Following re-evaluation of ECL, an additional counterparty provision has been recorded totalling $977,000, and the provision for doubtful debts has been increased by $149,000. Further details are disclosed in note 9.

3 Restatement of comparatives

Provisional accounting for acquisitions

On 1 April 2019, the Group acquired the novated leasing assets of Mylease for a total consideration of $6,900,000 and on 1 June 2019, the Group acquired 100% interest in Pay-Plan Pty Ltd and SET Leasing Pty Ltd (collectively, Pay-Plan), for a total consideration of $2,200,000. At 30 June 2019, the acquisition accounting for Mylease and Pay-Plan were provisionally determined.

As reported within the 2019 Annual Report, $193,000 of goodwill related to the Mylease and Pay-Plan acquisitions as at 30 June 2019 has been reclassified as software and customer contract intangible assets. As a result, the comparative profit and loss has been restated to recognise amortisation on software and customer contracts, along with a reduction in income tax expense of $52,000 for the interim period to 30 June 2019.

Since 31 December 2019, the acquisition accounting for Mylease and Pay-Plan were finalised, leading to a reclassification from net assets to goodwill of $195,000.The acquisition accounting for Lease and Asset Finance (L&A) was also restated, leading to an adjustment from goodwill to tangible assets, net of tax, of $146,000.

Details of all adjustments relating to acquisition accounting are disclosed in note 8.

4 Dividends

On 19 August 2020, the Directors declared a fully-franked interim dividend of 17.0 cents per ordinary share. The record date is 2 September 2020 and the dividend will be paid on 16 September 2020. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $22,600,000.

Notes to the Consolidated Financial Statements (continued)
30 June 2020

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

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

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

Notes to the Consolidated Financial Statements (continued)
30 June 2020

5 Operating segments (continued)

Half-year ended 30 June 2020	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Products, services and commissions	58,562	-	6,853	-	65,415
Management and administrative fees	32,208	3,196	228	-	35,632
Performance fees and rebates	8,250	1,647	497	-	10,394
Inter-segment sales [1]	123	1,932	12,794	(14,849)	-
Total revenue	**99,143**	**6,775**	**20,372**	**(14,849)**	**111,441**
Segment results (EBITDA)	**45,213**	**3,506**	**10,058**	**(10,943)**	**47,834**
EBITDA margin	*46%*	*52%*	*49%*		*43%*
Depreciation					(1,555)
Amortisation					(10,982)
Impairment of investment					(5,118)
Finance costs					(2,658)
Profit before income tax expense					**27,521**
Income tax expense					(10,145)
Profit after income tax expense					**17,376**
NPAT margin					*16%*
30 June 2020					
Assets					
Segment assets	203,179	19,308	17,523	248,166	488,176
Total assets					**488,176**
Liabilities					
Segment liabilities	81,322	8,963	8,958	119,360	218,603
Total liabilities					**218,603**

[1] Intersegment sales have increased due to increased IT spend and subsequent charge out to other segments at market rates.

Notes to the Consolidated Financial Statements (continued)
30 June 2020

5 Operating segments (continued)

Half-year ended 30 June 2019 (restated)	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Products, services and commissions	67,755	-	9,139	-	76,894
Management and administrative fees	33,988	3,130	303	-	37,421
Performance fees and rebates	9,021	1,730	762	-	11,513
Inter-segment sales	89	1,769	9,996	(11,854)	-
Total revenue	**110,853**	**6,629**	**20,200**	**(11,854)**	**125,828**
Segment results (EBITDA)	**49,612**	**3,844**	**10,393**	**(5,551)**	**58,298**
EBITDA margin	*45%*	*58%*	*51%*		*46%*
Depreciation					(1,989)
Amortisation					(10,482)
Finance costs					(1,720)
Profit before income tax expense					**44,107**
Income tax expense					(13,302)
Profit after income tax expense					**30,805**
NPAT margin					*24%*
31 December 2019 (Restated)					
Assets					
Segment assets	163,434	19,498	39,821	250,156	472,909
Total assets					**472,909**
Liabilities					
Segment liabilities	95,175	11,873	16,781	72,367	196,196
Total liabilities					**196,196**

Notes to the Consolidated Financial Statements (continued)
30 June 2020

6 Intangible assets

	30 June 2020 $'000	* Restated 31 December 2019 $'000
Goodwill		
At cost	**274,395**	274,395
Total Goodwill	**274,395**	**274,395**
Customer contracts		
At cost	**65,109**	65,109
Accumulated amortisation	**(54,489)**	(50,081)
Total customer contracts	**10,620**	**15,028**
Software		
At cost	**77,915**	77,915
Accumulated amortisation	**(66,903)**	(60,836)
Total software	**11,012**	**17,079**
Contract Rights		
At cost	**5,168**	4,557
Accumulated amortisation	**(966)**	(459)
Total contract rights	**4,202**	**4,098**
Brand names and logo		
At cost	**1,304**	1,304
Total brand names and logo	**1,304**	**1,304**
Total intangible assets	**301,533**	**311,904**

* See note 3 for detailed information on the Restatement of comparatives.

Impairment testing

The Group monitors its business through cash-generating units (CGU), being Outsourced administration (OA), Vehicle services (VS), Software distribution and group services (SDGS), Autopia, and Public benevolent institutions (PBI).

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

Notes to the Consolidated Financial Statements (continued)
30 June 2020

6 Intangible assets (continued)

Impairment testing (continued)

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

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

* See note 3 for detailed information on the Restatement of comparatives.

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

Brand names and logos	2020 $'000	2019 $'000
CGU 1: Outsourced administration	**1,285**	1,285
CGU 2: Vehicle services	**15**	15
CGU 3: SDGS	**4**	4
Total brand names and logos	**1,304**	**1,304**

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

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

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

A projected terminal growth rate of 1.4% (2019: 1.4%) has been used for all CGUs, consistent with the GDP growth rate released by the *Australian Bureau of Statistics* on 3 June 2020.

Pre-tax discount rates

	2020	2019
CGU 1: Outsourced administration	**17.5%**	16.0%
CGU 2: Vehicle services	**20.4%**	15.7%
CGU 3: SDGS	**21.2%**	15.5%
CGU 4: Autopia	**20.8%**	21.8%
CGU 5: PBI	**16.7%**	16.1%
CGU 6: Selectus	**-**	13.6%

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

Notes to the Consolidated Financial Statements (continued)
30 June 2020

6 Intangible assets (continued)

Sensitivity analysis

While the same terminal growth rates as the prior year have been used, due to the volatility and economic disruption arising from the COVID-19 pandemic, an additional COVID-19 risk premium has been applied to pre-tax discount rates. Several revenue and earnings scenarios have been modelled in order to estimate the recoverable amount of intangible assets.

Transactional revenue streams have been most impacted by COVID-19 and the associated scenarios modelled vary in terms of the duration of the economic downturn and strength of the subsequent economic recovery, taking into account economic forecasts from a broad range of sources. For non-transactional revenue streams, and due to the nature of the Group's customer base, the Group has assumed that revenue growth will be in line with GDP growth estimates as at 30 June 2020. Each scenario has been probability-weighted, in order to determine a best-estimate recoverable amount of intangible assets. Under all reasonably expected scenarios, there is sufficient headroom for all CGUs, such that the carrying amount does not exceed its forecast recoverable amount.

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

Smartgroup has identified CGU1 as the CGU most at risk to changes in pre-tax discount rates and transactional volumes. Applying a pre-tax discount rate in excess of 29.2% would result in an impairment to CGU1. Reasonably expected transactional volume reductions for this CGU would not result in an impairment.

For CGUs 2 to 4, applying pre-tax discount rates in excess of 36.6% would result in an impairment however transactional volumes are less volatile. For CGU 5, a pre-tax discount rate in excess of 20.5% would result in an impairment, however transaction volumes are less volatile. Reasonably expected transactional volume reductions for these CGUs would not result in an impairment.

Notes to the Consolidated Financial Statements (continued)
30 June 2020

7 Investments accounted for using the equity method

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:

	30 June 2020 $'000	31 December 2019 $'000
Non-current assets		
Interest in joint venture partnership	**627**	6,400

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

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 which arose in relation to this investment. Based on historical performance and with a loss in the period, an impairment charge of $5,118,000 has been recognised in June 2020 in relation to the Group's investment.

8 Business combinations

Prior period acquisitions

Mylease
On 1 April 2019, the Group acquired the novated leasing assets of Mylease from iNovation Pty Ltd for $6,900,000 in cash consideration. The business combination was finalised during the current reporting period, resulting in an increase in net assets of $53,000.

Pay-Plan Pty Ltd and SET Leasing Pty Ltd (collectively, Pay-Plan)
On 1 June 2019, the Group acquired 100% of the shares in Pay-Plan Pty Ltd and Set Leasing Pty Ltd (collectively, Pay-Plan) for total cash consideration of $2,200,000.

The business combination was finalised during the current reporting period, resulting in a reduction in net assets of $248,000 primarily due to a liability raised for potential future claims.

Lease and Asset Finance (L&A)
On 10 October 2019, the Group acquired the novated leasing assets of Lease and Asset Finance (L&A) for total cash consideration of $886,000. The business combination was revised during the current reporting period, resulting in an increase in tangible assets, net of tax, of $146,000. The business combination is provisional as at 30 June 2020.

Notes to the Consolidated Financial Statements (continued)
30 June 2020

8 Business combinations (continued)

Prior period acquisitions (continued)

Details of the acquisitions are summarised as follows:

	Mylease Fair Value $'000	Pay-Plan Fair Value $'000	L&A Fair Value $'000	Total Fair Value $'000
Cash and cash equivalents	-	132	-	132
Restricted cash and cash equivalents	3,800	3,903	1,680	9,383
Trade receivables	-	22	-	22
Other current assets	-	35	-	35
Other intangibles	1,907	902	106	2,915
Net deferred tax assets/(liabilities)	(73)	32	3	(38)
Trade and other payables	-	(174)	-	(174)
Customer salary packaging liability	(3,800)	(3,903)	(1,680)	(9,383)
Provision for income tax	-	(2)	-	(2)
Employee provisions	(63)	(119)	(20)	(202)
Other provisions	(7)	(405)	(97)	(509)
Net assets acquired	**1,764**	**423**	**(8)**	**2,179**
Goodwill	5,136	1,777	894	7,807
Acquisition date fair value of consideration transferred	**6,900**	**2,200**	**886**	**9,986**
Representing:				
Cash paid to vendor/into escrow	6,900	2,200	886	9,986
Acquisition costs	173	116	128	417
Cash used to acquire business, net of cash acquired:				
Cash paid to vendor/into escrow	6,900	2,200	886	9,986
Less: Cash and cash equivalents	-	(132)	-	(132)
Less: Restricted cash and cash equivalents	(3,800)	(3,903)	(1,680)	(9,383)
Net cash used	**3,100**	**(1,835)**	**(794)**	**471**

Notes to the Consolidated Financial Statements (continued)
30 June 2020

9 Trade and other receivables

	2020 $'000	2019 $'000
Trade receivables	**8,428**	11,123
Less: Provision for impairment of receivables	**(248)**	(99)
	8,180	**11,024**
Accrued revenue	**8,065**	10,559
Other receivables	**2,226**	4,066
	10,291	**14,625**
Total trade and other receivables	18,471	**25,649**

Credit risk

Expected credit loss assessment for customers

The credit risk policy remains consistent with the accounting policy disclosed in the 2019 Annual Report. The Group has historically based the expected credit loss (ECL) on actual historical credit loss experience, however, due to the disruption of the COVID-19 pandemic, forward-looking information has also been considered in reassessing the expected credit loss rate, with specific provisions totalling $237,000 raised for at-risk customer groups.

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

The following table provides information about the exposure to credit risk and ECL for trade receivables relating to corporate customers, as at 30 June 2020:

30 June 2020	Gross carrying amount ($'000)	Expected credit loss allowance ($'000)	Specific loss allowance ($'000)	Total impairment loss allowance ($'000)	Weighted-average loss rate
Grade 1 (Financiers and insurers)	810	-	(46)	(46)	5.71%
Grade 2 (Employer/Corporate)	6,026	(9)	(137)	(146)	2.42%
Grade 3 (Dealers)	1,592	(1)	(55)	(56)	3.54%

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

Notes to the Consolidated Financial Statements (continued)
30 June 2020

10 Borrowings

As at 30 June 2020, the following bank facilities were available to the Group:
- A two-year facility of $99,000,000;
- A two-year letter of credit facility of $4,000,000; and
- Ancillary facilities: credit card and electronic pay away facility of $12,500,000.

The banking facilities are guaranteed and secured by the Company and certain of the Company's subsidiaries. The facilities are subject to a variable interest rate, which is based on the BBSY plus a margin. On 1 May 2020, the banking facilities were refinanced, and a loss on revaluation of financial liabilities of $1,283,000 was incurred. The banking facilities mature on 1 May 2022.

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 half year ended 30 June 2020.

11 Equity - issued capital

	30 June 2020 Shares	31 December 2019 Shares	**30 June 2020 $'000**	31 December 2019 $'000
Ordinary Shares — fully paid	**132,880,310**	131,651,028	**284,088**	277,799
Less: Shares associated with the loan funded share plan (LFSP)	**(3,196,946)**	(2,682,932)	**(21,578)**	(18,684)
	129,683,364	**128,968,096**	**262,510**	**259,115**

(a) Movements in ordinary shares:

	Date	Number of shares	Total $'000
Opening balance	1 January 2019	130,891,931	272,114
Shares issued for LFSP	20 March 2019	830,191	7,023
	13 May 2019	383,648	3,146
Buy-back of forfeited LFSP shares	4 February 2019	(210,952)	(2,004)
	2 September 2019	(243,790)	(2,182)
Deferred tax directly recognised in equity			(298)
Balance	**31 December 2019**	**131,651,028**	**277,799**
Shares issued for LFSP	6 March 2020	**1,245,905**	**8,308**
	15 June 2020	**835,243**	**5,179**
Buy-back of forfeited LFSP shares	27 February 2020	**(154,082)**	**(853)**
	19 March 2020	**(697,784)**	**(6,277)**
Deferred tax directly recognised in equity			**(68)**
Balance	**30 June 2020**	**132,880,310**	**284,088**

Notes to the Consolidated Financial Statements (continued)
30 June 2020

11 Equity - issued capital (continued)

(b) Movements in loan funded share plan

	Date	Number of shares	Total $'000
Opening balance	1 January 2019	(2,513,465)	(15,427)
LFSP shares exercised	8 February 2019	589,630	2,726
Shares issued for LFSP	20 March 2019	(830,191)	(7,023)
	13 May 2019	(383,648)	(3,146)
Buy-back of forfeited LFSP shares	4 February 2019	210,952	2,004
	2 September 2019	243,790	2,182
Balance	**31 December 2019**	**(2,682,932)**	**(18,684)**
LFSP shares exercised	11 February 2020	**715,268**	**3,463**
Shares issued for LFSP	6 March 2020	**(1,245,905)**	**(8,308)**
	15 June 2020	**(835,243)**	**(5,179)**
Buy-back of forfeited LFSP shares	27 February 2020	**154,082**	**853**
	19 March 2020	**697,784**	**6,277**
Balance	**30 June 2020**	**(3,196,946)**	**(21,578)**

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

The shares granted as part of the LFSP are eligible for dividends and are held by the participant until they vest or are forfeited. Should the Company pay dividends or make capital distributions in the future, any dividends paid, or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle and a total shareholder return hurdle, and a continuous employment condition. The shares can only be exercised once the participant has repaid the loan.

For the half-year ended 30 June 2020, the Group recorded $7,130,000 to buy back shares issued under the LFSP, because the vesting conditions on the shares had not been met and the shares were forfeited. 851,866 shares were bought back and cancelled, resulting in a reduction of the ordinary shares on issue. On 10 July 2020, an additional 59,615 shares were bought back and cancelled, in accordance with the rules of the LFSP. The total number of shares on issue after this cancellation is 132,820,695. As this change occurred post balance date, it is not reflected in ratios that include shares on issue.

Shares issued under the LFSP are accounted for as options. As a consequence of this classification, the unvested shares issued under the LFSP at 30 June 2020 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.

Notes to the Consolidated Financial Statements (continued)
30 June 2020

12 Equity - reserves

	30 June 2020 $'000	31 December 2019 $'000
Cash flow hedge reserve	**(89)**	(21)
Share-based payments reserve	**8,608**	8,456
Other reserves	**277**	-
	8,796	**8,435**

Heading reserve - cash flow hedges

The hedging reserve is used to record the effective portion of the gains or losses on derivatives which qualify as cash flow hedge instruments and are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to executive Key Management Personnel and other senior management 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.

13 Earnings per share

	30 June 2020 $'000	* Restated 30 June 2019 $'000
Consolidated profit after income tax expense for the period attributable to the owners of Smartgroup Corporation Ltd	**17,376**	30,805

	Number	Number
Weighted average ordinary shares used in calculating basic earnings per share	**129,518,302**	129,410,633
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	**-**	219,444
Weighted average number of ordinary shares used in calculating diluted earnings per share	**129,518,302**	**129,630,077**

	Cents	Cents
Basic earnings per share (cents)	**14.9**	23.8
Diluted earnings per share (cents)	**14.9**	23.8

* See note 3 for detailed information on the Restatement of comparatives.

Notes to the Consolidated Financial Statements (continued)
30 June 2020

14 Fair value of financial instruments

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

At 30 June 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Interest rate swap contracts - cash flow hedges	**-**	**(284)**	**-**	**(284)**
Total financial liabilities	**-**	**(284)**	**-**	**(284)**

At 31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Interest rate swap contracts - cash flow hedges	-	(10)	-	(10)
Total financial liabilities	**-**	**(10)**	**-**	**(10)**

The carrying amounts of trade and other receivables and trade and other payables are assumed to 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.

Derivatives - interest rate swap contracts
The 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.

15 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

	30 June 2020 $'000	31 December 2019 $'000
Restricted cash and cash equivalents	**56,512**	65,402
Customer salary packaging liability	**(56,512)**	(65,402)

The restricted cash and cash equivalents 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 half year ended 30 June 2020, the Group has recognised finance revenue of $80,000 (30 June 2019: $236,000) from restricted cash.

Notes to the Consolidated Financial Statements (continued)
30 June 2020

15 Cash held on behalf of customers and associated liabilities (continued)

Cash held on behalf of customers - not recognised in the Consolidated Statement of Financial Position

	30 June 2020 $'000	31 December 2019 $'000
Accounts established by the Group as cash held on behalf of customers	**110,361**	113,925
Accounts established by customers directly	**78,445**	96,837
	188,806	**210,762**

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

The segregated bank accounts used for cash held on behalf of customers are with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the half year ended 30 June 2020, the Group has recognised interest revenue of $472,000 (30 June 2019: $1,121,000) from those accounts established by the Group as cash held on behalf of customers, and $4,000 (30 June 2019: $13,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

16 Events occurring after the reporting period

In December 2019, Smartgroup announced that its key insurance underwriting partner had advised Smartgroup that it intends to change the terms of the insurance products sold by Smartgroup. The new terms are effective from 1 July 2020 and based on 2019 volumes, the unmitigated financial impact of the changes is a reduction in Smartgroup's after-tax profits of approximately $4m for each half year.

There are two current regulatory reviews from the Australian Securities and Investments Commission (ASIC) *CP324: Product Intervention: The sale of add-on financial products through caryard intermediaries* released October 2019 and the associated draft *Product Intervention Order - Add-on Motor Vehicle Financial Risk Products* released in August 2020, and the Australian Department of Treasury (Treasury) Financial Services Royal Commission - *Enhancing consumer protections and strengthening regulators*, released January 2020, which includes exposure draft legislation for public comment to be introduced into Parliament by December 2020, and have the potential to impact the future contribution Smartgroup receives from add-on insurance products.
Smartgroup will continue to consult with both ASIC and Treasury in relation to proposed reforms, through our industry body, NALSPA.

After adjusting for the insurance underwriter pricing changes, and based on 2019 volumes, Smartgroup estimates that it generates approximately $17m revenue per annum from the sale of add-on insurance products expected to be covered by the ASIC and Treasury reviews. Given the draft nature of the recommendations, the range of possible outcomes and potential steps Smartgroup might take to mitigate any impact, is not yet able to provide specific detail on the quantum and timing of any such impacts, and whether or not they will be material.

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

No other matter or circumstance has occurred subsequent to period 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 or economic entity in subsequent financial periods.

Directors' Declaration
30 June 2020

In the Directors' opinion:

(a) the attached financial statements and notes set out on pages 8 to 27 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) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-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.

Signed in accordance with a resolution of directors.

On behalf of the directors,

Michael Carapiet
Chairman
Sydney
19 August 2020

Independent auditor's review report to the members of Smartgroup Corporation Ltd

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Smartgroup Corporation Ltd (the Company) and the entities it controlled from time to time during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Smartgroup Corporation Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Smartgroup Corporation Ltd is not in accordance with the *Corporations Act 2001* including:

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

1. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Joe Sheeran
Partner

Sydney
19 August 2020

Corporate Directory

Directors	Michael Carapiet Gavin Bell Deven Billimoria (resigned 28 February 2020) Andrew Bolam Carolyn Colley Deborah Homewood Timothy Looi (appointed 29 February 2020) John Prendiville Ian Watt
Company Secretaries	Sophie MacIntosh Jonathan Swain
Principal registered office in Australia	Level 8, 133 Castlereagh Street Sydney NSW 2000 Australia 1300 476 278
Share and debenture register	LINK Market Services Level 12, 680 George Street Sydney NSW 2000 1300 554 474
Auditor	PricewaterhouseCoopers One International Towers Watermans Quay Barangaroo Sydney NSW 2000
Solicitors	Minter Ellison Lawyers Level 23, 525 Collins Street Melbourne VIC 3000 02 9921 8888
Bankers	Westpac Group 275 Kent Street Sydney NSW 2000 Australia and New Zealand Banking Group Limited 242 Pitt Street Sydney NSW 2000
Stock exchange listing	Smartgroup Corporation Ltd shares are listed on the Australian Securities Exchange (ASX Code: SIQ)
Website	www.smartgroup.com.au

Smartgroup Corporation Ltd

National Head Office
Level 8, 133 Castlereagh Street
Sydney NSW 2000

smartgroup.com.au