Harmoney

FY2022 Half Year Report

About this report

This report contains the review of operations, Directors' report and the condensed consolidated financial statements for Harmoney Corp Limited for the half year ended 31 December 2021. The review of operations and Directors' report are not part of the financial statements and contains a summary of the Group's operations over the period.

Non-GAAP measures have been included in this report, as the Group believes that they provide useful information for readers to assist in understanding the Group's financial performance. Non-GAAP financial measures should not be viewed in isolation or considered as substitutes for measures reported in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

All amounts are presented in New Zealand dollars (NZD) except where indicated, and comparatives relate to the six months ended 31 December 2020 unless otherwise stated.

Contents

Review of Operations 5

Directors' Report 12

Condensed Consolidated Group Financial Statements 14

Notes to the Condensed Consolidated Financial Statements 18

Directors' Declaration 29

Independent Auditor's Review Report 30

Corporate Information 32

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Review of Operations

Pro forma financial performance

The table below sets out the pro forma financial performance for the period compared to the prior period pro forma financial performance. The pro forma results are intended to provide a more meaningful view of the Group's operating performance, normalising for differences in accounting treatment between warehouse and peer-to-peer funded loans. A reconciliation of the statutory consolidated statement of profit or loss is set out on page 11.

	6 months ended 31 December 2021 Pro forma $'000	6 months ended 31 December 2020 Pro forma $'000	Change	Change %
Interest income	42,611	41,535	1,076	3%
Other income	-	19	(19)	N/A
Total income	**42,611**	**41,554**	**1,057**	**3%**
Interest expense	8,430	15,644	(7,214)	(46%)
Incurred credit losses	9,968	8,710	1,258	14%
Net lending margin	**24,213**	**17,200**	**7,013**	**41%**
Movement in expected credit loss provision	(2,730)	(1,828)	(902)	(49%)
Net lending margin after loss provision	**26,943**	**19,028**	**7,915**	**42%**
Marketing expenses	10,666	6,365	4,301	68%
Verification and servicing expenses	2,389	2,156	233	11%
Net operating margin	**13,888**	**10,507**	**3,381**	**32%**
Personnel expenses	5,097	4,177	920	22%
Share based payment expenses	1,467	3,916	(2,449)	(63%)
Technology expenses	2,025	1,633	392	24%
General and administrative expenses	2,961	4,306	(1,345)	(31%)
Depreciation and amortisation expenses	714	410	304	74%
Total indirect expenses	**12,264**	**14,442**	**(2,178)**	**(15%)**
Profit / (Loss) before income tax	**1,624**	**(3,935)**	**5,559**	**141%**
Income tax (expense) / benefit	(454)	1,101	(1,555)	N/A
Profit / (Loss) after income tax	**1,170**	**(2,834)**	**4,004**	**141%**
Non-cash and other normalisation adjustments				
Movement in expected credit loss provision	(2,730)	(1,828)	(902)	(49%)
Share based payment expenses	1,467	3,916	(2,449)	(63%)
Depreciation and amortisation expenses	714	410	304	74%
IPO Expenses	-	3,163	(3,163)	(100%)
Income tax impact of adjustments	154	(1,585)	1,739	110%
Cash NPAT	**775**	**1,242**	**(467)**	**(38%)**

For the six months ended 31 December 2021 the Group reported a pro forma Cash NPAT of $0.8m (1HFY21: $1.2m). Net lending margin[1] improved $7.0m, led by lower interest expense as the Group continued its transition to warehouse funding, and increased the sophistication and diversification of its funding facilities with the introduction of an additional Australian warehouse as well as the Group's inaugural asset backed securitisation and a corporate debt facility.

Operating costs increased $7.7m over 1HFY21 with marketing costs increasing $4.3m on investment in new customer growth, particularly in Australia; administrative expenses (excluding initial public offering ('IPO') costs from 1HFY21) increasing $1.4m on funding diversification establishment costs and additional public company costs; and personnel expenses increasing $0.9m on investment in additional developers for the Group's proprietary Stellare® platform post the Group's IPO.

[1] Net lending margin is interest income less interest expense and incurred credit losses.

Loan originations

	6 Months ended 31 December 2021	6 Months ended 31 December 2020	Change	Change %
Total originations ($'000)	205,169	93,099	112,070	120%
New customer originations ($'000)	128,692	39,701	88,991	224%
Existing customer originations ($'000)	76,477	53,398	23,079	43%
Number of originations	12,940	6,883	6,057	88%
Average value of new customer originations ($)	20,376	17,598	2,778	16%
Average value of existing customer originations ($)	11,545	11,541	4	0%

From this financial year, the Group has transitioned to including only incremental loan originations when reporting existing customer originations, reflecting the originations growth being added to the portfolio. This change has no impact on the portfolio size.

Loan originations for 1HFY22 were $205m, up 120% on 1HFY21 led by new customer originations of $129m, up 224% as the Group's proprietary Stellare® marketing model continued attracting record numbers of new customers 100% direct online. Existing customers added $76m in growth originations, up 43% on 1HFY21. New customer origination growth is a lead indicator of upcoming existing customer origination growth, as new customers return for future needs at minimal additional marketing cost due to the direct customer relationship.

Loan origination by geography

Australian 1HFY22 loan originations were $95m, up 333% on 1HFY21, with new customer loan originations increasing by 443% to $75m and existing customer loan originations increasing by 147% to $20m. New customer origination growth is the result of sustained application of the Group's proprietary Stellare® marketing model and Libra 1.7 scorecard in Australia, post the Group's FY21 IPO. Existing customer growth is the result of the Group's consumer direct model in action, as growing numbers of new Australian customers begin returning for subsequent needs. The strong growth in Australian new customer loan originations is expected to fuel further growth in existing customer loan origination in future periods. This has been demonstrated over many years in New Zealand, where existing customer loan originations comprised 51% of total originations in 1HFY22, compared with Australia where existing customer loan originations comprised only 21% of total originations, highlighting the existing customer growth potential in Australia.

New Zealand 1HFY22 loan originations were $110m, up 55% on 1HFY21, as New Zealand remained temporarily impacted by COVID-19 lockdowns for periods during 1HFY22. New Zealand new customer loan originations were $54m, up 107% on 1HFY21 and existing customer loan originations were $56m, up 25% on 1HFY21.

Pro forma portfolio

	6 Months ended 31 December 2021	6 Months ended 31 December 2020	Change	Change %
Loan book (period end) ($'000) [1]	556,662	468,186	88,476	19%
Loan book (average) ($'000) [1]	523,060	477,042	46,018	10%

[1] Includes warehouse and peer-to-peer funded loans

At 31 December 2021 the loan portfolio was $557m, up $56m (11%) on 30 June 2021, with the Australian loan portfolio growing 36% to $194m on strong origination growth, while the New Zealand loan portfolio grew $5m (2%) with loan originations slowed by temporary COVID-19 lockdowns and loan amortisation elevated on borrowers refinancing with home mortgages on a confluence of historic low fixed mortgage rates and high house prices.

Pro forma net lending margin

	6 Months ended 31 December 2021	6 Months ended 31 December 2020	Change	Change %
Average interest rate (%)	16.3%	17.4%	(110bps)	N/A
Funding debt (period end) ($'000)	482,351	446,938	35,413	8%
Funding debt (average) ($'000)	491,045	466,828	24,217	5%
Warehouse funded % of book (period end) ($'000)	81%	45%	36%	N/A
Warehouse funded % of book (average) ($'000)	72%	35%	37%	N/A
Average funding rate (%)	3.4%	6.7%	(330bps)	N/A
Net interest margin (%)	13.1%	10.9%	220bps	N/A
Incurred credit loss ($'000)	9,968	8,710	1,258	14%
Incurred credit loss to average loan book (%)	3.8%	3.7%	10bps	N/A
Net lending margin (%)	9.3%	7.2%	210bps	N/A

Harmoney increased its net lending margin to $24.2m (9.3%), up $7.0m from $17.2m (7.2%) 1HFY21. This was led by funding efficiencies, with the average funding rate falling to 3.4% from 6.7% 1HFY21, as the Group continued its transition to warehouse funding and enhanced the sophistication and diversification of its funding facilities.

Interest income for the half year was $42.6m, up $1m on 1HFY21 with a higher average portfolio size over the period partially offset by a lower average interest rate of 16.3% (17.4% 1HFY21) on the continued growth in the Australian proportion of the portfolio, where interest rates (and funding costs) are lower.

Interest expense decreased by 46% on 1HFY21 to $8.4m, despite the average portfolio growing by 10% on 1HFY21, with the average funding rate, which represents interest expense as a percentage of the average funding debt, decreasing to 3.4% in 1HFY22 from 6.7% in 1HFY21. This decrease was driven by continuation of the Group's transition to warehouse funding, reaching 81% of the portfolio being warehouse funded at 31 December 2021, together with an increase in the sophistication and diversification of its funding facilities with the introduction of an additional Australian warehouse as well as the Group's inaugural asset backed securitisation and a corporate debt facility.

Incurred credit loss, which represent actual losses on loans written off during the period, were $10.0m, up $1.3m from 1HFY21 driven by portfolio growth with the incurred credit loss to average loan portfolio rate, which represents incurred credit loss as a percentage of the portfolio, remaining stable at 3.8% (3.7% 1HFY21).

Pro forma credit provisioning

	6 Months ended 31 December 2021	6 Months ended 31 December 2020	Change	Change %
Movement in expected credit loss provision ($'000)	(2,730)	(1,828)	(902)	49%
Provision rate (%)	4.6%	5.7%	(110bps)	N/A

The Group's expected credit loss (ECL) provision at 31 December 2021 was $25.6m, representing 4.6% of the portfolio, down from 5.7% of the portfolio at 31 December 2020.

The reduction in the ECL provision rate was driven by a reduction in the proportion of borrowers in arrears, or considered to be in financial hardship, at 31 December 2021 compared with at 31 December 2020. The ECL provision was further moderated by a reduction in the overlay applied by management to adjust for future macroeconomic factors not incorporated within the base provisioning model. This reduction in the economic overlay adjustment was in response to the easing of economic uncertainty associated with COVID-19 from the circumstances persisting at 31 December 2020, however the adjustment remains higher than pre-COVID-19 levels reflecting management's assessment that economic uncertainty remains elevated.

Pro forma direct expense metrics

	6 Months ended 31 December 2021	6 Months ended 31 December 2020	Change
Marketing to origination ratio	5.2%	6.8%	(1.6%)
Verification & servicing to origination ratio	1.2%	1.9%	(0.7%)
Marketing to income ratio	25.0%	15.3%	9.7%
Verification & servicing to income ratio	5.6%	4.3%	1.3%

The Group's direct expenses are those that drive, or are driven by, the level of customer activity, being marketing and customer verification and servicing.

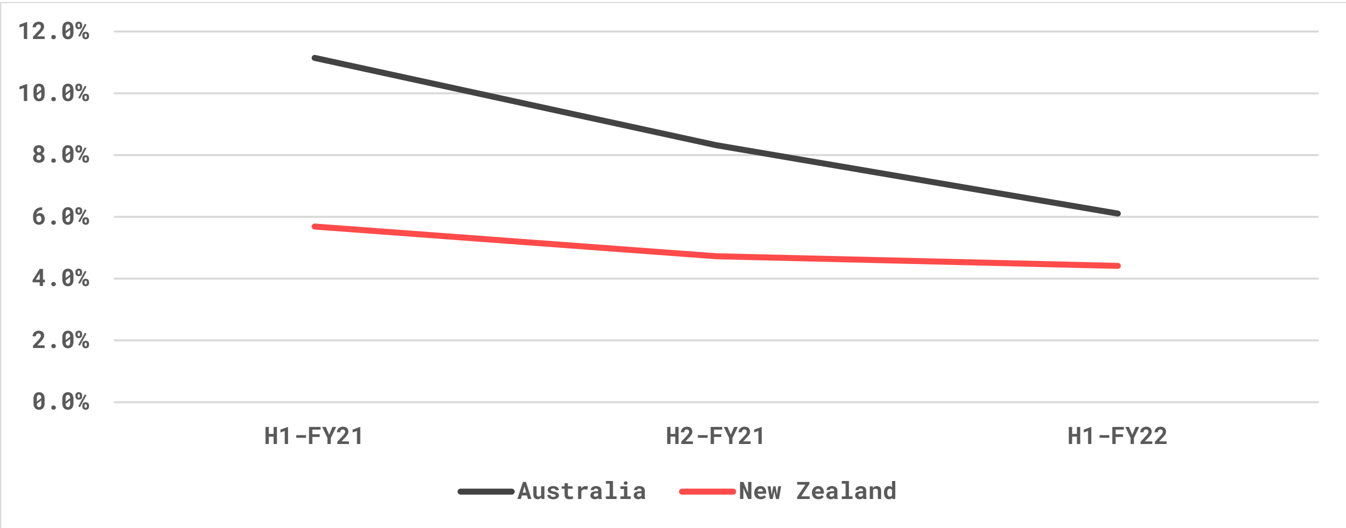
Customer verification and servicing costs were $2.4m in 1HFY22, an increase of 35% on 1HFY21 (excluding initial public offering ('IPO') costs from 1HFY21) but following an 88% increase in the number of originations from 1HFY21, further demonstrating the scalability of the Stellare® platform.

Marketing expenses increased to $10.7m in 1HFY22, up from $6.4m in growth constrained pre-IPO 1HFY21. Post-IPO the Group has maintained sustained investment in the application of its proprietary Stellare® customer acquisition model to the Australian market. Stellare® employs machine learning technology to continuously improve marketing efficiency, delivering record numbers of new customers 100% direct online, as shown by the 443% growth in Australian new customer loan originations from 1HFY21.

A consequence of the Group's direct to consumer model is that marketing expenses are recognised when incurred, rather than over the expected life of the loan, causing these costs to significantly lead the associated interest income. Accordingly, Harmoney believes that for marketing expenditure, the cost to loan origination ratio is a better measure of efficiency, comparing the expenditure in the period to the loans originated in the period.

For the Group, the timing difference between marketing expenditure and the revenue that it generates is compounded by the direct relationship it has with customers, which generates subsequent loan originations and associated revenue from existing customers for little or no additional marketing expense. The chart below illustrates that in the longer established New Zealand portfolio, where existing customer loan originations are a much higher proportion of total originations, the marketing expense to total originations ratio is significantly lower.

Marketing to originations ratio



Pro forma indirect expense metrics

	6 Months ended 31 December 2021	6 Months ended 31 December 2020	Change
Personnel to income ratio	12%	10%	2%
Technology to income ratio	5%	4%	1%
General and administrative to income ratio	7%	4%	3%

Personnel expenses (excluding share based payments) increased to $5.1m in 1HFY22, up from $4.2m in 1HFY21 on post-IPO investment in Harmoney's proprietary Stellare® technology platform.

Technology costs were $2.0m, an increase of $0.4m from 1HFY21 driven by costs associated with capability enhancements to the Group's proprietary Stellare® platform.

Administrative expenses increased $1.4m to $3.0m in 1HFY22 up from $1.6m in 1HFY21 (excluding initial public offering ('IPO') costs) on investment in funding diversification establishment costs and on additional public company costs.

Statutory to pro forma reconciliation

The table below sets out the pro forma adjustments applied to the statutory consolidated income statement by line, for the half year period ended 31 December 2021 and the prior comparative half year period ended 31 December 2020. The pro forma adjustments are consistent with those made in the IPO Prospectus and are intended to provide a more meaningful view of the Group's operating performance, normalising for differences in statutory accounting treatment between warehouse and peer-to-peer funded loans.

	6 Months ended 31 December 2021			6 Months ended 31 December 2020		
	Statutory	Pro forma Adjustments	Pro forma	Statutory	Pro forma Adjustments	Pro forma
	$'000	$'000	$'000	$'000	$'000	$'000
Interest income [1]	31,343	11,268	42,611	14,998	26,537	41,535
Fee income [2]	2,543	(2,543)	-	4,063	(4,063)	-
Other income [3]	-	-	-	356	(337)	19
Total income	**33,886**	**8,725**	**42,611**	**19,417**	**22,137**	**41,554**
Interest expense [4]	6,772	1,658	8,430	3,928	11,716	15,644
Impairment expense [5]	6,884	354	7,238	5,778	1,104	6,882
Marketing expenses	10,666	-	10,666	6,365	-	6,365
Verification and servicing expenses	2,389	-	2,389	2,156	-	2,156
Personnel expenses [6]	6,564	-	6,564	8,023	70	8,093
Technology expenses	2,025	-	2,025	1,633	-	1,633
General and administrative expenses	2,961	-	2,961	4,306	-	4,306
Depreciation and amortisation expenses	714	-	714	410	-	410
(Loss) / Profit before income tax	**(5,089)**	**6,713**	**1,624**	**(13,182)**	**9,247**	**(3,935)**
Income tax (expense) / benefit [7]	-	(454)	(454)	2,694	(1,593)	1,101
(Loss) / Profit after income tax	**(5,089)**	**6,259**	**1,170**	**(10,488)**	**7,654**	**(2,834)**

Notes:

1. In the statutory income statement, loans funded via warehouse facilities are recorded on-balance sheet, while loans funded via the Group's peer-to-peer trusts are "derecognised" for accounting purposes. As the Group is transitioning to full warehouse funding, this creates income statement comparability issues between periods. As such a pro forma adjustment has been made to present the income statement consistently with recognition of peer-to-peer funded loans on-balance sheet, indifferent to funding sources. In the statutory income statement, for loans funded by the Group's peer-to-peer trusts, expected lifetime fee income is recognised on loan origination, in contrast with warehouse funding where interest income and interest expense are recognised over the life of the loan. The interest income adjustment recognises interest income earned during the period from peer-to-peer funded loans.
2. For the reasons set out in note 1, the fee income adjustment removes fees earned from peer-to-peer funded loans with establishment fees being recognised in the pro forma income statement through interest income over the expected life of the loan and peer-to-peer lender fees being recognised in the pro forma as a deduction from interest expense. The fee income adjustment also reclassifies borrower dishonour and late fees to other income in the prior comparable period.
3. The other income adjustment reclassifies borrower dishonour and late fees in the prior comparable period from fee income in the statutory income statement to other income in the pro forma income statement and, for consistency with the pro forma income statement presented in the Prospectus.
4. For the reasons set out in note 1, the interest expense adjustment recognises net interest paid to peer-to-peer lenders after deducting impairments and fees owed to the Group and, for consistency with the pro forma income statement presented in the Prospectus, in the prior comparative period removes the interest expense relating to the corporate debt facility, which was repaid prior to the IPO.
5. For the reasons set out in note 1, the impairment expenses adjustment recognises, for peer-to-peer funded loans, both actual incurred credit losses and the movement in expected credit loss provision during the period.
6. For consistency with the pro forma income statement presented in the Prospectus, the personnel expenses in the prior comparative period have been adjusted to remove the net impact of the non-recurring benefit of the Wage Subsidy Scheme in New Zealand and the JobKeeper wage subsidy in Australia and salary reductions taken by employees.
7. The income tax benefit adjustment represents the cumulative income tax expense on the pro forma adjustments at an effective income tax rate of 28%.

Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity consisting of Harmoney Corp Limited and the entities it controlled at the end of, or during the six months ended, 31 December 2021 ("the Group").

Directors

As at the date of this report, the Directors of Harmoney Corp Limited are:

David Flacks	Independent Director
Tracey Jones	Independent Director
Paul Lahiff	Independent Chairman
Neil Roberts	Founder, Chief Product Officer and Executive Director
David Stevens	Chief Executive Officer and Managing Director

Principal activities

Harmoney provides customers with unsecured personal loans that are easy to access, competitively priced using risk-adjusted interest rate and accessed 100% online. The Group operates across New Zealand and Australia.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the six months ended 31 December 2021.

Dividends

There were no dividends paid, recommended, or declared during the current or previous financial half-year.

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

For and on behalf of the Directors

Paul Lahiff
Chairman
Auckland
25 February 2022

Financial Report

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2021

	Notes	6 months ended 31 December 2021 $'000	6 months ended 31 December 2020 $'000
Interest income		31,343	14,998
Fee income	5	2,543	4,063
Other income		-	356
Total income		**33,886**	**19,417**
Interest expense	6	6,772	3,928
Impairment expense		6,884	5,778
Marketing expenses		10,666	6,365
Verification and servicing expenses		2,389	2,156
Personnel expenses		6,564	8,023
Technology expenses		2,025	1,633
General and administrative expenses		2,961	4,306
Depreciation and amortisation expenses		714	410
Loss before income tax		**(5,089)**	**(13,182)**
Income tax benefit		-	2,694
Loss for the period attributable to shareholders of Harmoney Corp Limited		**(5,089)**	**(10,488)**
Other comprehensive (loss) / gain			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(701)	432
Gain on cash flow hedge reserve		308	354
Other comprehensive (loss) / income for the period, net of tax		**(393)**	**786**
Total comprehensive loss for the period attributable to shareholders of Harmoney Corp Limited		**(5,482)**	**(9,702)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share		(5.0)	(12.2)
Diluted earnings per share		(5.0)	(12.2)

THE ABOVE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

Condensed Consolidated Statement of Financial Position

as at 31 December 2021

	Notes	31 December 2021 $'000	30 June 2021 $'000
Assets			
Cash and cash equivalents	7	55,888	76,464
Trade and other assets		2,616	1,894
Finance receivables	8	437,071	294,821
Property and equipment		262	642
Intangible assets		5,915	3,455
Deferred tax assets	9	11,490	11,490
Derivative financial instruments		223	-
Total assets		**513,465**	**388,766**
Liabilities			
Payables and accruals		9,114	7,324
Borrowings	10	424,141	291,541
Provisions		8,478	13,405
Lease liability		162	717
Derivative financial instruments		-	85
Total liabilities		**441,895**	**313,072**
Net assets		**71,570**	**75,694**
Share capital	11	131,559	131,399
Foreign currency translation reserve		(137)	564
Share based payment reserve	12	1,414	216
Cash flow hedge reserve		223	(85)
Accumulated losses		(61,489)	(56,400)
Equity		**71,570**	**75,694**

THE ABOVE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 December 2021

	Notes	Share capital $'000	Foreign currency translation reserve $'000	Share based payment reserve $'000	Cash flow hedge reserve $'000	Accumulated losses $'000	Total $'000
Balance at 30 June 2020		**56,686**	**(334)**	**2,825**	**(926)**	**(29,366)**	**28,885**
Loss for the period		-	-	-	-	(10,488)	(10,488)
Other comprehensive income, net of income tax		-	432	-	354	-	786
Total comprehensive income / (loss)		**-**	**432**	**-**	**354**	**(10,488)**	**(9,702)**
Recognition of share based payments		-	-	4,337	-	-	4,337
Transfer to share capital	12	7,162	-	(7,162)	-	-	-
Issue of share capital		67,551	-	-	-	-	67,551
Balance at 31 December 2020		**131,399**	**98**	**-**	**(572)**	**(39,854)**	**91,071**

	Notes	Share capital $'000	Foreign currency translation reserve $'000	Share based payment reserve $'000	Cash flow hedge reserve $'000	Accumulated losses $'000	Total $'000
Balance at 30 June 2021		**131,399**	**564**	**216**	**(85)**	**(56,400)**	**75,694**
Loss for the period		-	-	-	-	(5,089)	(5,089)
Other comprehensive (loss) / income, net of income tax		-	(701)	-	308	-	(393)
Total comprehensive (loss) / income		**-**	**(701)**	**-**	**308**	**(5,089)**	**(5,482)**
Recognition of share based payments	12	-	-	1,358	-	-	1,358
Transfer to share capital	12	160	-	(160)	-	-	-
Balance at 31 December 2021		**131,559**	**(137)**	**1,414**	**223**	**(61,489)**	**71,570**

THE ABOVE CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2021

	Notes	6 months ended 31 December 2021 $'000	6 months ended 31 December 2020 $'000
Cash flows from operating activities			
Interest received		30,857	14,751
Interest paid		(6,572)	(4,136)
Other income		(1,068)	4,044
Payments to suppliers and employees		(23,138)	(16,063)
Net cash generated by / (used in) operating activities		**79**	**(1,404)**
Cash flows from investing activities			
Net advances to customers		(149,566)	(77,291)
Payments for intangibles and equipment		(2,816)	(2,130)
Net cash (used in) investing activities		**(152,382)**	**(79,421)**
Cash flows from financing activities			
Net proceeds from finance receivables borrowings		122,341	67,082
Net proceeds / (repayment) of debt financing		6,372	(10,693)
Net proceeds from issue of convertible notes		4,248	-
Net proceeds from share issue		-	67,550
Principal element of lease payments		(533)	(478)
Net cash generated by financing activities		**132,428**	**123,461**
Cash and cash equivalents at the beginning of the period		76,464	34,779
Net (decrease) / increase in cash and cash equivalents		**(19,875)**	**42,636**
Effects of exchange rate changes on cash and cash equivalents		(701)	429
Cash and cash equivalents at the end of the period	7	**55,888**	**77,844**

THE ABOVE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

Notes to the Condensed Consolidated Financial Statements

1 Corporate information

Harmoney Corp Limited (the Company) and its subsidiaries (collectively, the Group) are companies whose primary business is to originate, service and invest in loans. There has been no change in the principal activity of the Group during the period.

The results and position of each group entity are expressed in New Zealand dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements, unless otherwise stated. All amounts disclosed in the financial statements and notes have been rounded to the nearest thousand New Zealand dollars ($000) unless otherwise stated.

Harmoney Corp Limited is a company incorporated in New Zealand and registered under the Companies Act 1993, whose shares are publicly traded on both the Australian Stock Exchange (ASX) and New Zealand Exchange (NZX) and is required to be treated as a reporting entity under the Financial Market Conducts Act 2013 and the Financial Reporting Act 2013 as it is a licensed peer-to-peer lender. The Company was incorporated on 1 May 2014.

2 Significant accounting policies

2.1 Basis of preparation

The condensed consolidated financial statements for the six months ended 31 December 2021 have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 30 June 2021 and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the ASX listing rules. These financial statements have been reviewed and have not been subject to an audit.

2.2 Accounting policies

The condensed consolidated financial statements have been prepared using consistent accounting policies and methods of computation that were applied in the most recent annual financial statements of the Group.

The Group has not early adopted any standards, interpretation and/or amendments in the current period. Accounting policies applied in these financial statements have been consistently applied for all periods presented in the condensed consolidated financial statements.

3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses and actual results may differ from these estimates.

In preparing the Group's condensed consolidated financial statements, the significant judgements, estimates and assumptions were consistent with those applied to the Group's consolidated financial statements for the year ended 30 June 2021.

3.1 Expected credit loss provision

The Group has estimated the provision for expected credit losses (ECL) based on historically observed patterns of borrower behaviour adjusted for current and future economic outcomes. These are discussed in detail in note 8 and have a significant impact on these financial statements.

The Group measures the allowance for ECL using an expected credit loss impairment model as required by NZ IFRS 9 *Financial Instruments* (NZ IFRS 9). The Group's accounting policy for the recognition and measurement of the allowance for ECL was described in the most recent annual consolidated financial statements.

3.2 Determination of transaction price for distributing services

In respect of peer-to-peer funded loans, the Group has estimated the transaction price for distributing services, being the amount to which the Group expects to be entitled for matching peer-to-peer lenders with borrowers that meet their lending criteria. The transaction price includes a component of variable consideration as the amount of certain payments is correlated with borrower behaviour over which the Group has no control. The Group has estimated the transaction price based on historically observed patterns of borrower behaviour. The assumptions made regarding the rate of default and early repayment by borrowers has a significant impact on these financial statements.

The Group measures the transaction price including variable consideration to determine income as required by NZ IFRS 15 *Revenue from Contracts with Customers* (NZ IFRS 15). The transaction price is determined based on models of expected customer behaviour which are informed by historical experience. An overlay has been applied to reduce the amount of income recognised to accommodate for the expected deviation from that base given current uncertainties.

3.3 Treatment of development costs incurred in the period

The Group has incurred and will continue to incur significant costs on software development projects. The directors believe that the costs fall within the definition of research and development within NZ IAS 38 *Intangible Assets*. Judgement has been applied in assessing these costs against the recognition and measurement criteria in that standard. The costs have been recorded as Intangible Assets on the balance sheet where the Group believes that they have met all the requirements of the recognition criteria and expensed where they have not been met.

3.4 Deferred tax asset relating to tax losses

NZ IAS 12 *Income Taxes* allows the capitalisation of tax losses as deferred tax assets only to the extent that there is convincing evidence that future taxable profit will be available against which the unused tax losses can be utilised. The tax loss position of the Group arose from significant one-off costs, including those related to the IPO, that will not re-occur and a strategic repositioning. The Group is transitioning to originating loans on balance sheet, and while in the growth phase, this creates a tax profile of high costs being incurred in the short-term and income over time. The Group has estimated the amount of deferred tax assets for which there is convincing evidence that utilisation will occur in the medium term and disclosed the remainder as unrecognised deferred tax assets.

4 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (considered to be the CODM).

The CODM considers the business from a geographical operating perspective and has identified two reportable segments: New Zealand and Australia. This is a change from previous segment reporting, where there was a third segment for centrally incurred costs allocated to Head Office. The CODM considers performance for New Zealand and Australia with costs allocated as the Australian business has now matured. This change has been reflected in the comparative period.

The CODM assesses the business on a Cash NPAT basis. Cash NPAT is a non-GAAP measure and consists of profit/(loss) after income tax, adjusted for determined non-cash and abnormal items. It is intended as a supplementary measure of operating performance for readers to understand the cash generating ability of the Group. Cash NPAT does not have a standard meaning prescribed by GAAP and therefore may not be compared to information presented by other entities.

Intersegment revenue is not considered by the chief operating decision maker and is accordingly excluded from segment reporting.

The following tables present income and loss information for the Group's operating segments for the six months ended 31 December 2021 and 2020, respectively.

Segmented income statement for the 6 months ended 31 December 2021 $'000

	New Zealand	Australia	Group
Interest income	22,092	9,251	31,343
Fee income	2,170	373	2,543
Total income	**24,262**	**9,624**	**33,886**
Interest expense	4,404	2,368	6,772
Incurred credit losses	2,790	1,315	4,105
Movement in expected credit loss provision	(749)	3,528	2,779
Marketing expenses	4,853	5,813	10,666
Verification and servicing expenses	1,661	728	2,389
Personnel expenses (excl. share-based payments)	4,547	550	5,097
Share-based payments expenses	1,397	70	1,467
Technology expenses	2,025	-	2,025
General and administrative expenses	1,038	1,923	2,961
Depreciation and amortisation expenses	649	65	714
Profit/(loss) before income tax	**1,647**	**(6,736)**	**(5,089)**
Income tax benefit/(expense)	-	-	-
Profit/(loss) for the period attributable to shareholders of Harmoney Corp Limited	**1,647**	**(6,736)**	**(5,089)**
Non-cash and other normalisation adjustments			
Movement in expected credit loss provision	(749)	3,528	2,779
Share based payments expenses	1,397	70	1,467
Depreciation and amortisation expenses	650	64	714
Income tax impact of adjustments	-	-	-
Cash NPAT	**2,945**	**(3,074)**	**(129)**

Segmented income statement for the 6 months ended 31 December 2020 $'000

	New Zealand	Australia	Group
Interest income	12,183	2,815	14,998
Fee income	3,922	141	4,063
Other income	239	117	356
Total income	**16,344**	**3,073**	**19,417**
Interest expense	2,202	1,726	3,928
Incurred credit losses	1,809	190	1,999
Movement in expected credit loss provision	2,406	1,373	3,779
Marketing expenses	4,051	2,314	6,365
Verification and servicing expenses	1,652	504	2,156
Personnel expenses (excl. share-based payments)	3,545	562	4,107
Share-based payments expenses	3,355	561	3,916
Technology expenses	1,633	-	1,633
General and administrative expenses	3,493	813	4,306
Depreciation and amortisation expenses	344	66	410
Profit/(loss) before income tax	**(8,146)**	**(5,036)**	**(13,182)**
Income tax benefit	2,938	(244)	2,694
Profit/(loss) for the period attributable to shareholders of Harmoney Corp Limited	**(5,208)**	**(5,280)**	**(10,488)**
Non-cash and other normalisation adjustments			
Change in NZ IFRS15 expected revenue	2,070	328	2,398
Movement in expected credit loss provision	2,406	1,373	3,779
Share based payments expenses	3,355	561	3,916
Depreciation and amortisation expenses	344	66	410
IPO related expenses	3,163	-	3,163
Income tax impact of adjustments	(2,502)	(686)	(3,188)
Cash NPAT	**3,628**	**(3,638)**	**(10)**

5 Fee income

	6 months ended 31 December 2021 $000	6 months ended 31 December 2020 $000
Borrower fee income		
Establishment services	-	660
Protect fees	241	313
Other fees	-	20
Total borrower fee income	**241**	**993**
Lender fee income		
Distributing services	2,302	3,070
Total fee income	**2,543**	**4,063**

6 Interest expenses

	6 months ended 31 December 2021 $000	6 months ended 31 December 2020 $000
Interest on receivables funding	6,744	3,267
Interest on corporate debt	21	623
Interest on lease liability	7	38
Total interest expense	**6,772**	**3,928**

7 Cash

	31 December 2021 $'000	30 June 2021 $'000
Cash on hand and demand deposits	32,136	44,343
Restricted cash	23,752	32,121
Total cash and cash equivalents	**55,888**	**76,464**

Restricted cash is held by the trusts controlled by the Group. The funds may only be used for purposes defined in the trust documents.

8 Finance receivables

	31 December 2021 $'000	30 June 2021 $'000
Finance receivables	455,563	310,124
Accrued interest	2,539	2,051
Protect receivables	250	389
Deferred establishment fees	(3,129)	(2,368)
Expected credit loss (ECL) provision	(18,152)	(15,375)
Total finance receivables	**437,071**	**294,821**

Credit risk management

In response to COVID-19 the Group made changes to credit underwriting and collections processes to mitigate the impacts of economic downturn and the related credit risk. For example, by: directing additional resource towards helping borrowers in financial hardship, reducing the permitted borrowing limits across all customers, and limiting exposure to high-risk segments.

ECL Provision

The Group measures the allowance for expected credit losses (ECL) using an expected credit loss impairment model as required by NZ IFRS 9 *Financial Instruments* (NZ IFRS 9). The estimated impact of COVID-19 has been incorporated into forward-looking inputs as described below.

Forward-looking economic inputs (FLI)

The Group has a process for incorporating forward-looking economic scenarios and determining the probability weightings assigned to each scenario in determining the overall ECL. The economic overlay is a forward-looking provision in addition to the standard modelled provision.

The Group has identified a number of key indicators that are considered in modelling the overlay, the most significant of which are gross domestic product, unemployment rate, employment and hours worked, public demand, household consumption, income and savings rate, investment and inflation which are obtained from publicly available date (range of market economists and official data sources). These indicators are assessed semi-annually and judgement is applied in determining the probability weighting assigned across the four economic scenarios (Base Case, Worst Case, Poor Case and Best Case). The Group's Assets and Liabilities Committee provides ultimate approval for FLI inputs and the resulting overlay applied.

The Group expects there to be further impacts as a result of the COVID-19 pandemic. These impacts would flow through to the modelled expected loss provision, but currently due to the evolving economic impact of the pandemic, may not be fully captured in the modelled outcome. Over time, it is anticipated the economic overlay will need to be adjusted as additional factors are embedded into the base case of the modelled provision.

The table below presents the gross exposure and related ECL allowance for finance receivables:

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Expected loss rate	3.10%	50.77%	95.47%	3.96%
	$'000	$'000	$'000	$'000
Gross carrying amount	451,063	5,671	1,368	458,102
Expected credit loss provision	(13,967)	(2,879)	(1,306)	(18,152)
Net carrying amount	**437,096**	**2,792**	**62**	**439,950**

30 June 2021	Stage 1	Stage 2	Stage 3	Total
Expected loss rate	4.18%	17.32%	70.50%	4.92%
	$'000	$'000	$'000	$'000
Gross carrying amount	299,200	11,819	1,156	312,175
Expected credit loss provision	(12,513)	(2,047)	(815)	(15,375)
Net carrying amount	**286,687**	**9,772**	**341**	**296,800**

Movements in the expected credit loss provision are as follows:

	31 December 2021 $'000	30 June 2021 $'000
Opening balance	15,375	7,075
Additional provision recognised due to		
Increase/(Decrease) in economic overlay	1,226	(831)
Increase in gross finance receivables	5,679	13,984
Finance receivables written off during the period as uncollectible	(4,128)	(4,853)
Total provision	**18,152**	**15,375**

9 Deferred tax

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

	31 December 2021 $'000	30 June 2021 $'000
Deferred tax assets	14,151	14,425
Deferred tax liabilities	(2,661)	(2,935)
Deferred tax assets	**11,490**	**11,490**

31 December 2021	Opening balance $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Closing balance $'000
Deferred tax (liabilities)/assets in relation to				
Tax losses	6,800	(1,961)	-	4,839
Deferred R&D expenses	2,283	-	-	2,283
Share based payments	-	513	-	513
Accruals	5,342	1,174	-	6,516
Plant, equipment and intangibles	(65)	(88)	-	(153)
Distributing services	(2,870)	362	-	(2,508)
	11,490	**-**	**-**	**11,490**

30 June 2021	Opening balance $'000	Recognised in profit or loss $'000	Recognised in equity $'000	Closing balance $'000
Deferred tax (liabilities)/assets in relation to				
Tax losses	4,156	2,644	-	6,800
Deferred R&D expenses	4,355	(2,072)	-	2,283
Share based payments	901	(530)	(371)	-
Accruals	2,284	3,058	-	5,342
Plant, equipment and intangibles	(5)	(60)	-	(65)
Distributing services	(2,143)	(727)	-	(2,870)
	9,548	**2,313**	**(371)**	**11,490**

The recognised tax losses are subject to meeting the requirements of the applicable tax legislation. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset recognised to be utilised. The Group has further tax losses of $13.8m at 31 December 2021 (June 2021: $11.9m) which have not been recognised and are available to offset future taxable profits.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

10 Borrowings

	31 December 2021 $'000	30 June 2021 $'000
Receivables funding	413,925	291,541
Corporate debt	5,968	-
Convertible notes	4,248	-
Total borrowings	**424,141**	**291,541**

The receivables funding relates to borrowings specific to the warehouse entities and are secured by their assets. The maturity profiles of the receivables funding borrowings are aligned with the receivables held in the relevant warehouse facilities, and therefore considered current. The borrowings have a contractual maturity which may be more than 12 months from the reporting date. The contractual maturity date refers to the date until which the warehouse entities may continue to purchase further receivables using principal payments of the finance receivables and further drawdowns of the facility. After that date, unless the agreement terms are extended, the borrowings are required to be paid down as customers make repayments on the finance receivables.

The corporate debt and convertible notes relate to a A$20m facility entered into in December 2021 which expires in December 2024. The facility is structured as 60% debt notes and 40% convertible notes.

As at 31 December A$10m of the facility was drawn down including A$4m of convertible notes. The maximum number of shares that would be issued on conversion of the drawn down convertible notes would be 1,666,667.

The facility is guaranteed by way of a performance and payment guarantee by Harmoney Corp Limited and each of its subsidiaries.

Under the terms of the facilities, the Group is required to comply with financial and non-financial covenants.

Warehouse facilities	31 December 2021 $'000	30 June 2021 $'000
Total facilities	770,017	543,214
Used at reporting date	470,114	338,371
Unused at reporting date	303,626	204,843

The unused amount of the warehouse facilities relates to amounts that are available for drawdown from funders but does not include restricted cash that has already been drawn but has not yet been utilised for funding purposes.

11 Share capital

Share capital comprises:

	31 December 2021 Number of shares	31 December 2021 Share capital $'000	30 June 2021 Number of shares	30 June 2021 Share capital $'000
Fully paid ordinary shares	101,018,964	131,559	100,912,724	131,399
Total issued capital	**101,018,964**	**131,559**	**100,912,724**	**131,399**

	Ordinary shares
As at 30 June 2021	100,912,724
Shares issued under share based payment arrangements	106,240
As at 31 December 2021	**101,018,964**

Share issued under share based payment arrangements

106,240 shares were issued in settlement of the options on 1 December 2021. The options were net settled on a cashless basis based on the exercise price of each option.

Ordinary shares

Ordinary shares carry a right to one vote per share, to an equal share in dividends, and to a pro-rata share of net assets on wind up.

12 Share based payment reserve

	31 December 2021 $'000	30 June 2021 $'000
Opening balance	216	2,825
Arising on equity settled benefits	1,358	4,925
Deferred tax on share based payments	-	(372)
Transferred to share capital	(160)	(7,162)
Closing balance	**1,414**	**216**

13 Controlled entities

During the six months ended 31 December 2021, the following entities were established and joined Harmoney Corp Limited group:

Name	Date established and control gained
Harmoney ABS Trust 2021-1PP	29 September 2021
Harmoney Australia Warehouse No.2 Trust	23 November 2021

The Group entered wholesale funding agreements with financiers under which it purchases finance receivables through Harmoney ABS Trust 2021-1PP and Harmoney Australia Warehouse No.2 Trust (the Trusts). The Trusts are special purpose entities which were set up solely for the purpose of purchasing loans from the Originator (Harmoney Australia Pty Limited) under the Subscription Agreements with funding from the financiers. Harmoney Group subsidiaries have been appointed Manager, Servicer and residual income beneficiary. Under NZ IFRS 10 *Consolidated Financial Statements*, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As the Group controls the financing and operating activities of the Trusts and is the residual income beneficiary, the Trusts are considered to be controlled by the Group and are required to be consolidated into the Group financial statements.

14 Financial assets and liabilities

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value on a recurring basis:

	31 December 2021 $'000		
	Level 1	Level 2	Level 3
Financial Assets			
Derivative financial instruments			
Hedging derivatives - interest rate swaps	-	223	-

	30 June 2021 $'000		
	Level 1	Level 2	Level 3
Financial Liabilities			
Derivative financial instruments			
Hedging derivatives - interest rate swaps	-	85	-

There have been no transfers between levels in the period (June 2021: Nil).

Other than derivative financial instruments, which are held at fair value, all other financial assets are held at amortised cost. For these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

The total carrying amounts of the Group's financial assets and liabilities by category are detailed below:

	31 December 2021 $'000	30 June 2021 $'000
Financial assets at amortised cost		
Cash and cash equivalents	55,888	76,464
Trade and other assets	524	1,059
Finance receivables	437,071	294,821
	493,483	**372,344**
Financial liabilities at amortised cost		
Payables and accruals	7,499	5,403
Borrowings	424,141	291,541
Lease liability	162	717
	431,802	**297,661**
Financial assets at fair value		
Derivative financial instruments	223	-
	223	**-**
Financial liabilities at fair value		
Derivative financial instruments	-	85
	-	**85**

15 Contingent liabilities

There are no contingent liabilities as at 31 December 2021.

16 Events after the reporting period

There were no material events subsequent to period end.

Directors' Declaration

The unaudited condensed consolidated financial statements of the Harmoney Group for the six months ended 31 December 2021 were authorised for issue on 25 February 2022 in accordance with a resolution of the Directors. In accordance with ASX Listing Rule 4.2A.2A, the Directors declare that, as at that date, and in the Directors' opinion:

1. there are reasonable grounds to believe that Harmoney will be able to pay its debts as and when they become due and payable; and

2. the relevant condensed consolidated financial statements and notes comply with accepted accounting standards in New Zealand.

For and on behalf of the Board

Paul Lahiff
Director

Tracey Jones
Director

25 February 2022

Independent Auditor’s Review Report

pwc

Independent auditor’s review report

To the shareholders of Harmoney Corp Limited

Report on the condensed consolidated financial statements

Our conclusion

We have reviewed the condensed consolidated financial statements of Harmoney Corp Limited (the Company) and its controlled entities (the Group), which comprise the condensed consolidated statement of financial position as at 31 December 2021, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months ended on that date, and significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2021, and its financial performance and cash flows for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibility is further described in the *Auditor’s responsibility for the review of the condensed consolidated financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Group in the areas of tax related services, and audit-related services which include custody controls assurance, Net tangible assets (NTA) agreed upon procedures, Australian Financial Services License reporting and Australian Economics and Financial Statistics Collection Assurance Reporting. The provision of these other services has not impaired our independence.

Directors’ responsibility for the condensed consolidated financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these condensed consolidated financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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Auditor's responsibility for the review of the condensed consolidated financial statements

Our responsibility is to express a conclusion on the condensed consolidated financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34.

A review of condensed consolidated financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these condensed consolidated financial statements

Who we report to

This report is made solely to the Company's Shareholders, as a body. Our review work has been undertaken so that we might state to the Company's Shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

The engagement partner on the review resulting in this independent auditor's review report is Rob Spring.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 February 2022

Sydney

Corporate Information

NZBN 9429041215272

Directors

The following persons were Directors of Harmoney Corp Limited during the half-year and up to the date of this report unless otherwise stated:

David Flacks
Tracey Jones
Paul Lahiff
Neil Roberts
David Stevens

Registered Office

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Ground Floor, 79 Carlton Gore Road
Newmarket, Auckland 2013, New Zealand

Auditor

PricewaterhouseCoopers
Sydney
Australia

Share register

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Level 12, 680 George Street
Sydney NSW 2000, Australia

Stock exchange listing

Harmoney Corp Limited shares are listed in the Australian Securities Exchange (ASX) and New Zealand Exchange (NZX).