FY2023 Half Year Report

for the six months ended 31 December 2022.

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 2022. 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 Australian dollars (AUD) except where indicated, and comparatives relate to the six months ended 31 December 2021 unless otherwise stated.

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Review of Operations.

Financial performance

The table below sets out the financial results for the six months ended 31 December 2022 compared to the prior comparative period (pcp). Effective 1 July 2022, the Group has changed its presentation currency from New Zealand dollars (NZD) to Australian dollars (AUD). Therefore, all amounts presented in this report are in AUD except where otherwise indicated.

	6 months ended 31 December 2022 $'000	6 months ended 31 December 2021 $'000	Change $'000	Change %
Interest income	49,526	29,814	19,712	66%
Other income	549	2,425	(1,876)	(77%)
Total income	**50,075**	**32,239**	**17,836**	**55%**
Interest expense	17,957	6,440	11,517	179%
Incurred credit losses	10,027	3,900	6,127	157%
Risk adjusted income	**22,091**	**21,899**	**192**	**1%**
Movement in expected credit loss provision	4,587	2,625	1,962	75%
Risk adjusted income after expected credit loss provision	**17,504**	**19,274**	**(1,770)**	**(9%)**
Customer acquisition expenses	6,539	10,147	(3,608)	(36%)
Net operating income	**10,965**	**9,127**	**1,838**	**20%**
Personnel expenses	5,512	4,847	665	14%
Share-based payment expenses	-	1,396	(1,396)	(100%)
Customer servicing expenses	3,084	2,273	811	36%
Technology expenses	2,434	1,924	510	27%
General and administrative expenses	2,179	2,822	(643)	(23%)
Depreciation and amortisation expenses	1,139	679	460	68%
Operating expenses	**14,348**	**13,941**	**407**	**3%**
Loss before income tax	**(3,383)**	**(4,814)**	**1,431**	**30%**
Income tax expense	-	-	-	-
Loss after income tax	**(3,383)**	**(4,814)**	**1,431**	**30%**
Non-cash adjustments				
Movement in expected credit loss provision	4,587	2,625	1,962	75%
Share-based payment expenses	-	1,396	(1,396)	(100%)
Depreciation and amortisation expenses	1,139	679	460	68%
Cash NPAT	**2,343**	**(114)**	**2,457**	**N/A**

For the six months ended 31 December 2022 the Group reported Cash NPAT of $2.3m (1H22: -$0.1m), a $2.4m increase on the pcp, with annualised cash return on equity of 8%.

Total income grew by 55% to $50.1m driven by continuing strong loan portfolio growth, which crucially was achieved with a 36% reduction in customer acquisition expenses, illustrating the operating leverage delivered by Harmoney's data driven marketing platform and consumer-direct origination model.

Risk adjusted income of $22.1m for the half-year was in line with the pcp (1H22: $21.9m), with rising market interest rates increasing funding costs at a faster pace than the impact of increased new lending rates on the average portfolio interest rate.

Customer acquisition cost efficiencies, and disciplined management of other costs, saw overall costs reduce by $2.3m, despite inflationary pressures.

Loan originations

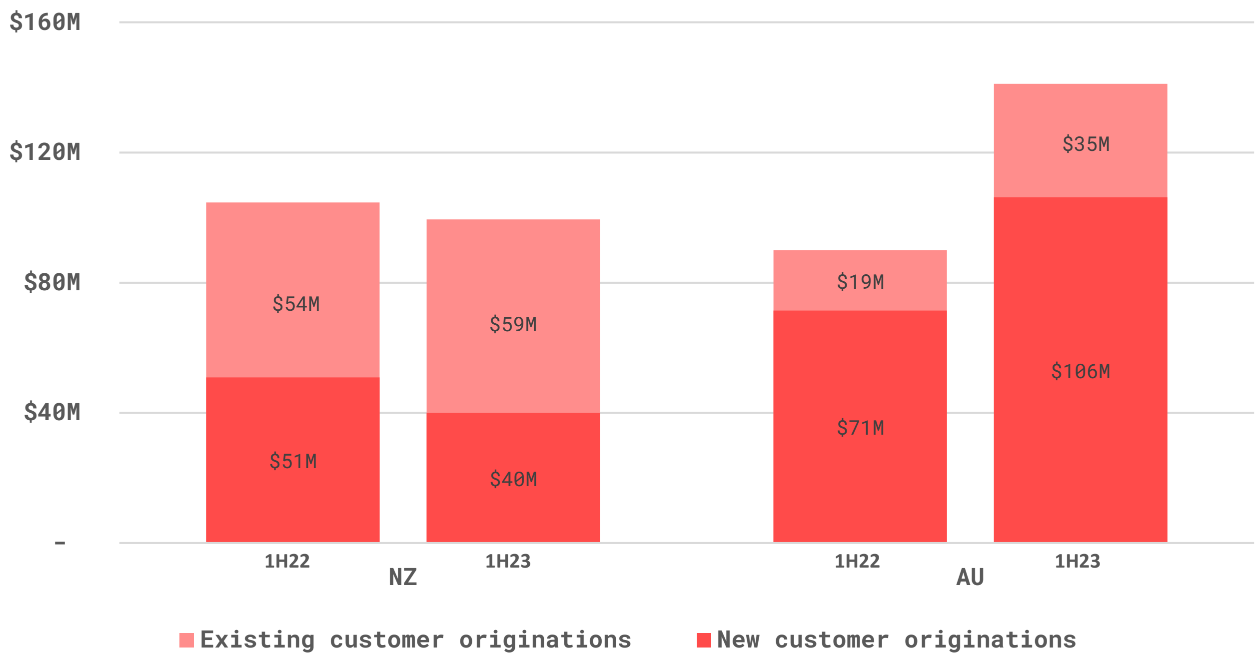
	6 Months ended 31 December 2022	6 Months ended 31 December 2021	Change	Change %
Total originations ($'000)	240,536	195,123	45,413	23%
New customer originations ($'000)	146,170	122,300	23,870	20%
Existing customer originations ($'000)	94,366	72,823	21,543	30%
Number of originations	14,621	12,940	1,681	13%
Average value of new customer originations ($)	21,521	19,364	2,157	11%
Average value of existing customer incremental originations ($)	12,053	10,994	1,059	10%

Loan originations for the half-year were $241m, up 23% on the pcp, with new customer originations of $146m, up 20% on the pcp and existing customer originations of $94m, up 30% on the pcp.

Importantly, the 20% improvement in new customer originations was achieved with a 36% reduction in customer acquisition expenses, as Harmoney's data-driven, machine learning proprietary Stellare® marketing platform continued to attract high-intent and eligible new customers with growing efficiency.

Existing customer originations continue to build, following on from sustained new customer growth in earlier periods as those customers return for subsequent borrowing needs. Due to Harmoney's direct customer relationship, these existing customer originations have minimal additional customer acquisition costs, demonstrating the inherent leverage in Harmoney's consumer-direct model.

Loan origination by geography



During the half-year Harmoney dynamically directed its new customer acquisition activity in pursuit of the most efficient opportunity across both the Australian and New Zealand markets. In Australia, new customer originations grew by 49% to

$106m, whereas in the smaller New Zealand market, where Harmoney has a much larger number of existing customers, new customer originations reduced by 22% to $40m.

Australian existing customer originations continued to grow at an exceptional pace, up 84% on the pcp to $35m, following the expected pattern where strong new customer growth in earlier periods flows through to those customers returning for subsequent borrowing needs.

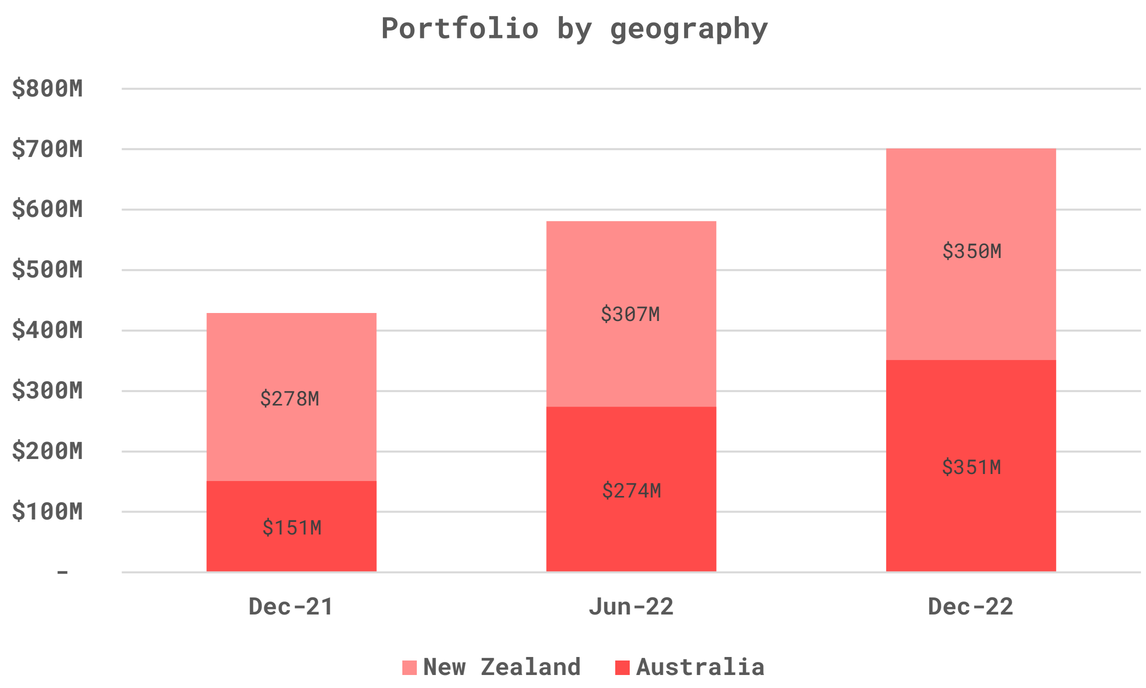
New Zealand existing customer originations continued to perform well, up 9% on the pcp to $59m.

Portfolio

	6 Months ended 31 December 2022	6 Months ended 31 December 2021	Change	Change %
Loan book (period end) ($'000)	701,035	429,194	271,841	63%
Loan book (average) ($'000) - Group	643,371	358,277	285,094	80%
Loan book (average) ($'000) - Australia	317,547	110,839	206,708	186%
Loan book (average) ($'000) - New Zealand	325,823	247,439	78,384	32%

At 31 December 2022 the loan portfolio was $701m, up $120m (21%) from 30 June 2022.

During 1H23 the Australian loan portfolio grew 28% to $351m, while the New Zealand loan portfolio grew 14% to $350m, with the ongoing strong growth in the Australian loan portfolio seeing it exceed the New Zealand loan portfolio for the first time in like-for-like currency. In addition to strong originations, the loan portfolios in both countries also benefited from reduced levels of early repayments as mortgage refinancing became less attractive to consumers.



Risk adjusted income

	6 Months ended 31 December 2022	6 Months ended 31 December 2021	Change	Change %
Average interest rate (%)	15.4%	16.6%	(120bps)	N/A
Funding debt (period end) ($'000)	686,091	399,372	286,719	72%
Funding debt (average) ($'000)	626,578	327,269	299,309	91%
Average funding rate (%)	5.7%	3.9%	180bps	N/A
Net interest income (%)	9.8%	13.0%	(320bps)	N/A
Incurred credit loss ($'000)	10,027	3,900	6,127	157%
Incurred credit loss to average gross loans (%)	3.1%	2.2%	90bps	N/A
Risk adjusted income (%)	6.7%	10.9%	(420bps)	N/A

Risk adjusted income, being interest revenue after funding costs and incurred credit losses, reduced to 6.7% for the half, down from 8.2% for 2H22 and 10.9% for the pcp 1H22, driven predominantly by sustained market funding rate increases over the past year as central banks have sought to combat inflation. Rising market interest rates have increased funding costs at a faster pace than the impact of increased new lending rates on the average portfolio interest rate. Despite this, risk adjusted income in dollar terms has remained in line with pcp at $22.1m for the half-year (1H22: $21.9m), with increased interest income from the larger portfolio offsetting the increases to increased funding costs.

Interest income for the half-year was $49.5m, up $19.7m on the pcp with the higher average portfolio size over the period partially offset by a lower average interest rate of 15.4% (1H22: 16.6%). The reduction in the average interest rate was due to the weighted age of the portfolio shifting to loans originated during the lower interest rate post-COVID period and the portfolio balance shifting towards Australia where interest rates (and funding costs) are lower than New Zealand. Interest rate increases for new lending during calendar year 2022 began lifting the average portfolio rate during the later stages of the half.

Interest expense for the half-year was $18.0m, up $11.5m on the pcp driven by both the increased average portfolio size and by a material upward shift in market interest rates with the Australian and New Zealand official cash rates increasing by 300bps and 350bps respectively from the end of the pcp in Dec 2021. Swap hedging rates climbed even higher on expectations of further central bank increases to come. Diversified warehouse funding facilities and efficient hedging strategies enabled Harmoney to limit its average funding rate to 5.7% for the half-year, an increase of 180bps on the pcp.

Incurred credit losses, which represent actual losses on loans written off during the period, were $10.0m for the half-year, up $6.1m from the pcp, predominantly due to portfolio growth but also due to a higher average level of non-payment in Australia driven by the increased weighted average age "seasoning" of the portfolio following the strong growth post Harmoney's initial public offering in November 2020. Personal lending tends to reach "peak hazard" for loss during the period 12 to 18 months after origination. The incurred credit loss to average loan portfolio rate consequently increased to 3.1% from 2.2% in 1H22.

Credit provisioning

	6 Months ended 31 December 2022	6 Months ended 31 December 2021	Change	Change %
Movement in expected credit loss provision ($'000)	4,587	2,625	1,962	75%
Provision rate (%)	4.8%	3.9%	90bps	N/A

The expected credit loss ("ECL") provision represents Harmoney's modelled expectation of future period credit losses to occur from the current portfolio. The provision does not account for future period interest income that Harmoney also expects to derive from the current portfolio. Movements in the provision are driven by changes in the size of the loan portfolio and changes in Harmoney's expectation of the level of future period loss to occur from within that portfolio. As movements in the provision do not impact cash, it is excluded from the calculation of Cash NPAT, which recognises only credit losses actually incurred during the period.

Harmoney's ECL provision at 31 December 2022 was $33.8m, representing 4.8% of the portfolio, down from 4.9% of the portfolio at 30 June 2022 and up from 3.9% at 31 December 2021. The movement in the expected credit loss provision during the half-year was predominantly driven by loan portfolio growth, partially offset by the slight reduction in the provision rate since 30 June 2022.

Customer acquisition metrics

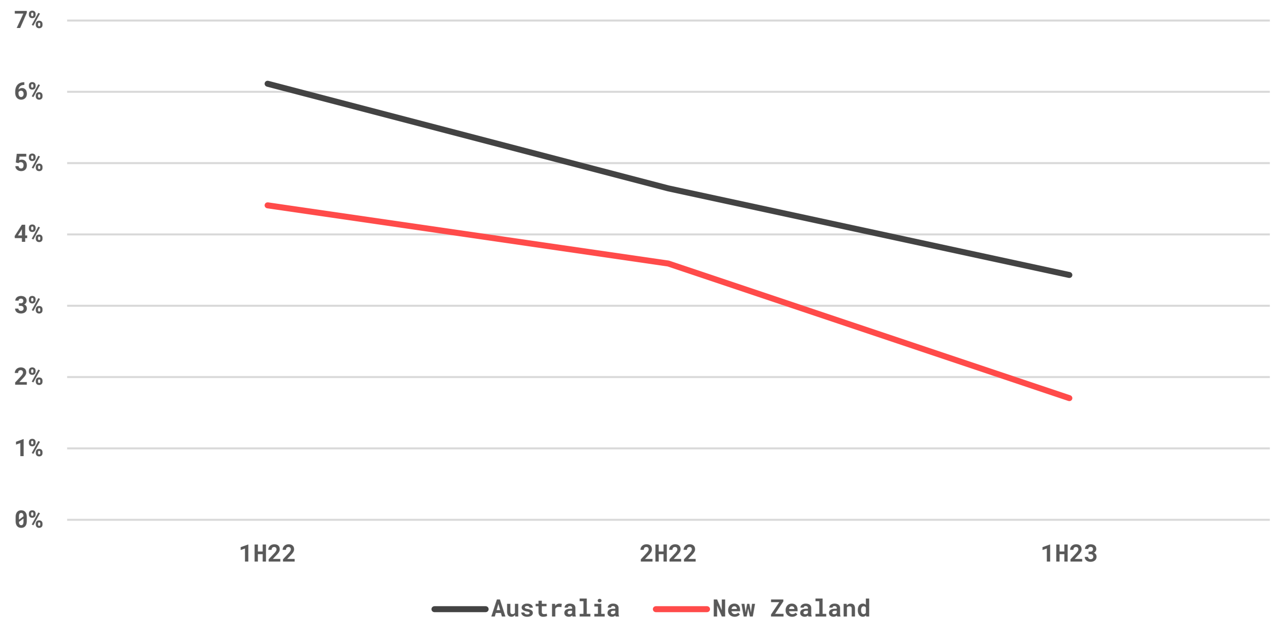
	6 Months ended 31 December 2022	6 Months ended 31 December 2021	Change	Change %
Customer acquisition expenses to origination ratio	2.7%	5.2%	(2.5%)	N/A
Customer acquisition expenses to income ratio	13.1%	31.5%	(18.4%)	N/A

Customer acquisition expenses decreased by 36% to $6.5m in 1H23, down from $10.1m 1H22 while simultaneously delivering a 20% increase in new customer loan originations. This result illustrates the operating leverage available from Harmoney's data-driven, machine learning, proprietary Stellare® marketing platform, which continues to attract more and more high-intent, eligible new customers with growing efficiency.

A reporting headwind Harmoney faces with its consumer-direct model when compared with broker intermediated origination models is that Harmoney's customer acquisition expenses are recognised when incurred, rather than spread over the expected life of the loans originated. This causes Harmoney's customer acquisition expenses to significantly lead the associated interest income generated. Accordingly, Harmoney believes that for customer acquisition expenditure, the cost to loan origination ratio, comparing expenditure in the period to the loans originated in the period, is the most appropriate performance measure. The customer acquisition expenses to origination ratio for 1H23 decreased to 2.7%, almost halving from 5.2% in 1H22.

This reporting headwind is further exacerbated by Harmoney's consumer-direct model, which consistently generates further income from subsequent loans to existing customers for little or no additional customer acquisition expense due to Harmoney's direct relationship with the customer. 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 customer acquisition expenses to total originations ratio is significantly lower. Both Australia and New Zealand have shown significant improvement in this ratio and it is expected that as the Australian portfolio develops and the proportion of existing customer loan originations increases, Australia will continue to trend towards New Zealand's lower ratio.

Customer acquisition expenses to originations ratio



Cost to income metrics

	6 Months ended 31 December 2022	6 Months ended 31 December 2021	Change	Change %
Cost to income ratio	28.7%	43.2%	(14.5%)	N/A

Harmoney's cost to income ratio fell to 29% for the half-year, down from 43% in the pcp, with revenue increasing by 55% while operating expenses, with inflationary pressures, increased by 3%. This improving cost to income ratio demonstrates the operating leverage Harmoney is able to generate from its highly automated Stellare® platform as its loan portfolio grows.

Harmoney's cost to income ratio includes its personnel expenses, customer servicing expenses, technology expenses and administrative expenses. Personnel expenses (excluding share-based payments) were $5.5m in 1H23, up from $4.8m in 1H22, driven by investment in additional development capabilities as well as inflationary pressure on salaries.

Customer servicing costs were $3.1m in 1H23, up from $2.3m in 1H22, driven by growth in the number of originations and the overall loan portfolio.

Technology expenses increased $0.5m on the pcp to $2.4m, driven by costs associated with capability enhancements to the Group's proprietary Stellare® platform.

Administrative expenses decreased to $2.2m in 1H23, down $0.6m from the pcp with the reduction driven by savings from one-off costs in 1H22 that were associated with establishing new funding facilities which have remained operational.

Financial position

	31 December 2022 $'000	30 June 2022 $'000	Change $'000	Change %
Assets				
Cash and cash equivalents	55,886	56,805	(919)	(2%)
Finance receivables	701,712	580,309	121,403	21%
Expected credit loss provision	(33,840)	(28,862)	(4,978)	(17%)
Other assets	30,605	26,658	3,947	15%
Total assets	**754,363**	**634,910**	**119,453**	**19%**
Liabilities				
Borrowings - Receivables funding	666,347	549,496	116,851	21%
Borrowings - Corporate debt facility	19,744	14,715	5,029	34%
Other liabilities	10,585	11,574	(989)	(9%)
Total liabilities	**696,676**	**575,785**	**120,891**	**21%**
Net assets	**57,687**	**59,125**	**(1,438)**	**(2%)**

Cash and cash equivalents of $55.9m consists of unrestricted cash of $30.3m (30 June 2022: $31.2m), and restricted cash of $25.5m (30 June 2022: $25.6m); the latter may only be used for funding finance receivables and other purposes defined in the relevant trust documents.

During the half-year Harmoney invested $13.8m of its unrestricted cash to support loan portfolio growth and $2.4m in Stellare® development, however unrestricted cash only reduced by $0.9m with these investments being largely offset by $9.4m cash generated from operating activities and $5m drawn on Harmoney's corporate debt facility, taking the total drawn on that facility to $20m.

Finance receivables increased 21% to $702m at 31 December 2022, up from $580m at 30 June 2022. This increase was driven by continued strong origination growth and lower levels of early repayments as mortgage refinancing became less attractive to consumers. The related expected credit loss provision only grew by a lower 17% due to the provision rate reducing to 4.8% at December 2022 from 4.9% at June 2022.

Other assets consist of software intangibles, derivative financial instruments, deferred tax assets and trade and other assets. The largest increases in this category were software intangibles, which grew by $1.8m with ongoing investment in Harmoney's proprietary Stellare® platform, and derivative financial instruments which grew by $1.9m, reflecting increases in the mark-to-market value of interest rate swaps with market interest rates now above the fixed rates of the historical swaps.

Receivables funding borrowing increased 21% to $666m at 31 December 2022, up from $549m at 30 June 2022, in line with the increase in finance receivables.

Other liabilities consist of payables, accruals, non-credit provisions and lease liabilities.

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 2022 ("the Group").

Directors

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

Paul Lahiff	Independent Chairman
Monique Cairns	Independent Director
Tracey Jones	Independent Director
John Quirk	Independent Director
Neil Roberts	Founder, Chief Strategy Officer and Executive Director
David Stevens	Chief Executive Officer and Managing Director

Principal activities

Harmoney provides customers with secured and 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.

Change in presentation currency

Effective 1 July 2022, the Group changed the currency in which it presents its consolidated financial statements from New Zealand dollars (NZD) to Australian dollars (AUD), to reflect the growth in the Group's Australian loan book and to provide better comparability with industry peers.

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 2022.

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
27 February 2023

Financial Report.

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2022

	Notes	6 months ended 31 December 2022 A$'000	6 months ended 31 December 2021 A$'000
Interest income		49,526	29,814
Fee income		549	2,425
Total income		**50,075**	**32,239**
Interest expense	5	17,957	6,440
Impairment expense	6	14,614	6,525
Customer acquisition expenses		6,539	10,147
Personnel expenses		5,512	6,243
Customer servicing expenses		3,084	2,273
Technology expenses		2,434	1,924
General and administrative expenses		2,179	2,822
Depreciation and amortisation expenses		1,139	679
Loss before income tax		**(3,383)**	**(4,814)**
Income tax expense		-	-
Loss for the period attributable to shareholders of Harmoney Corp Limited		**(3,383)**	**(4,814)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		1,330	216
Gain on cash flow hedge reserve, net of tax		1,353	289
Other comprehensive income for the period, net of tax		**2,683**	**505**
Total comprehensive loss for the period attributable to shareholders of Harmoney Corp Limited		**(700)**	**(4,309)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share		(3)	(5)
Diluted earnings per share		(3)	(5)

THE ABOVE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES.

Condensed Consolidated Statement of Financial Position

as at 31 December 2022

	Notes	31 December 2022 A$'000	30 June 2022 A$'000	30 June 2021 A$'000
Assets				
Cash and cash equivalents	7	55,886	56,805	71,122
Trade and other assets		2,495	1,665	1,762
Finance receivables	8	667,872	551,447	274,225
Property and equipment		148	352	598
Intangible assets		10,354	8,524	3,213
Deferred tax assets	9	7,868	8,269	10,687
Derivative financial instruments		9,740	7,848	-
Total assets		**754,363**	**634,910**	**361,607**
Liabilities				
Payables and accruals		6,918	6,198	6,813
Borrowings	10	686,091	564,211	271,174
Provisions		3,667	5,160	12,469
Lease liability		-	216	667
Derivative financial instruments		-	-	79
Total liabilities		**696,676**	**575,785**	**291,202**
Net assets		**57,687**	**59,125**	**70,405**
Equity				
Share capital	11	123,985	123,265	123,112
Foreign currency translation reserve		1	(1,329)	(101)
Share-based payment reserve	12	1,688	3,146	217
Cash flow hedge reserve		6,914	5,561	(79)
Accumulated losses		(74,901)	(71,518)	(52,744)
Total equity		**57,687**	**59,125**	**70,405**

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 2022

	Notes	Share capital A$'000	Foreign currency translation reserve A$'000	Share-based payment reserve A$'000	Cash flow hedge reserve A$'000	Accumulated losses A$'000	Total A$'000
Balance at 30 June 2021		**123,112**	**(101)**	**217**	**(79)**	**(52,744)**	**70,405**
Loss for the period		–	–	–	–	(4,814)	(4,814)
Other comprehensive income, net of income tax		–	216	–	289	–	505
Total comprehensive income / (loss)		**–**	**216**	**–**	**289**	**(4,814)**	**(4,309)**
Recognition of share-based payments		–	–	1,653	–	–	1,653
Transfer to share capital	12	153	–	(153)	–	–	–
Share option cancellations	12	–	–	(360)	–	–	(360)
Balance at 31 December 2021		**123,265**	**115**	**1,357**	**210**	**(57,558)**	**67,389**

	Notes	Share capital A$'000	Foreign currency translation reserve A$'000	Share-based payment reserve A$'000	Cash flow hedge reserve A$'000	Accumulated losses A$'000	Total A$'000
Balance at 30 June 2022		**123,265**	**(1,329)**	**3,146**	**5,561**	**(71,518)**	**59,125**
Loss for the period		–	–	–	–	(3,383)	(3,383)
Other comprehensive income, net of income tax		–	1,330	–	1,353	–	2,683
Total comprehensive income / (loss)		**–**	**1,330**	**–**	**1,353**	**(3,383)**	**(700)**
Recognition of share-based payments	12	–	–	877	–	–	877
Transfer to share capital	12	720	–	(720)	–	–	–
Share option cancellations	12	–	–	(1,615)	–	–	(1,615)
Balance at 31 December 2022		**123,985**	**1**	**1,688**	**6,914**	**(74,901)**	**57,687**

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

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Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2022

	Notes	6 months ended 31 December 2022 A$'000	6 months ended 31 December 2021 A$'000
Cash flows from operating activities			
Interest received		48,131	30,099
Interest paid		(17,359)	(6,666)
Fee income rebated		(797)	(1,754)
Payments to suppliers and employees		(20,617)	(21,498)
Net cash generated by operating activities		**9,358**	**181**
Cash flows from investing activities			
Net advances to customers		(119,376)	(142,575)
Payments for software intangibles and equipment		(2,417)	(2,685)
Net cash used in investing activities		**(121,793)**	**(145,260)**
Cash flows from financing activities			
Net proceeds from finance receivables borrowings		105,586	116,688
Net proceeds from debt financing		5,000	10,000
Principal element of lease payments		(254)	(507)
Net cash generated by financing activities		**110,332**	**126,181**
Cash and cash equivalents at the beginning of the period		56,805	71,122
Net decrease in cash and cash equivalents		**(2,103)**	**(18,898)**
Effects of exchange rate changes on cash and cash equivalents		1,184	399
Cash and cash equivalents at the end of the period	7	**55,886**	**52,623**

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

KPMG

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 Australian dollars, which is the presentation currency for the consolidated financial statements, unless otherwise stated. The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which that entity operations (the functional currency). All amounts disclosed in the financial statements and notes have been rounded to the nearest thousand Australian 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 the Australian Stock Exchange (ASX) 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 2022 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 2022 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. Presentation currency – change in accounting policy

Effective 1 July 2022, the Group changed the currency in which it presents its consolidated financial statements from New Zealand dollars (NZD) to Australian dollars (AUD), to reflect the growth in the Group's Australian loan book and to provide better comparability with industry peers.

A change in presentation currency is a change in accounting policy, which is accounted for retrospectively. The financial information included in this report, previously reported in NZD, has been restated into AUD using the procedures outlined below:

- Assets and liabilities denominated in currencies other than AUD were translated into AUD at the closing rates of exchange on the last day of the relevant accounting period.
- Revenues and expenses in currencies other than AUD were translated into AUD at average exchange rates.
- Share capital and reserves were translated at the historic rates prevailing at the transaction dates, except for the cash flow hedge reserve. Cash flow hedge reserve has been translated at the closing rates for each reporting period with the resulting exchange differences from re-translation recognised in the foreign currency translation reserve.
- The effects of translating the Group's financial performance and financial position are recognised in the foreign currency translation reserve.

2.3. Other 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, except for the change in accounting policy outlined above.

The Group has not early adopted any standards, interpretations 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 2022.

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. 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.

4. Segment information

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

The CODM considers the business from a geographical operating perspective and has identified two reportable segments: New Zealand and Australia. 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 items. It is intended as a supplementary measure of operating performance for readers to understand the underlying performance of the Group. Cash NPAT does not have a standard meaning prescribed by GAAP and therefore may not be comparable to information presented by other entities.

Intersegment revenue and expenses are not considered by the CODM and is accordingly excluded from segment reporting. Operating expenses are attributed to New Zealand unless they are direct incremental costs of the Australian operation. This reclassifcation has been reflected in the comparative period.

The following tables present income and loss information for the Group's operating segments for the six months ended 31 December 2022 and 2021, respectively.

Segmented income statement for the 6 months ended 31 December 2022 A$'000

	Australia	New Zealand	Group
Interest income	24,610	24,916	49,526
Fee income	24	525	549
Total income	**24,634**	**25,441**	**50,075**
Interest expense	7,535	10,422	17,957
Incurred credit losses	6,722	3,305	10,027
Movement in expected credit loss provision	5,511	(924)	4,587
Customer acquisition expenses	4,843	1,696	6,539
Personnel expenses (excl. share-based payments)	155	5,357	5,512
Share-based payments expenses	-	-	-
Customer servicing expenses	1,462	1,622	3,084
Technology expenses	-	2,434	2,434
General and administrative expenses	616	1,563	2,179
Depreciation and amortisation expenses	24	1,115	1,139
Loss before income tax	**(2,234)**	**(1,149)**	**(3,383)**
Income tax expense	-	-	-
Loss for the period attributable to shareholders of Harmoney Corp Limited	**(2,234)**	**(1,149)**	**(3,383)**
Non-cash adjustments			
Movement in expected credit loss provision	5,511	(924)	4,587
Share-based payments expenses	-	-	-
Depreciation and amortisation expenses	24	1,115	1,139
Cash NPAT	**3,301**	**(958)**	**2,343**

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

	Australia	New Zealand	Group
Interest income	8,806	21,008	29,814
Fee income	353	2,072	2,425
Total income	**9,159**	**23,080**	**32,239**
Interest expense	1,691	4,749	6,440
Incurred credit losses	1,252	2,648	3,900
Movement in expected credit loss provision	3,357	(732)	2,625
Customer acquisition expenses	5,535	4,612	10,147
Personnel expenses (excl. share-based payments)	106	4,741	4,847
Share-based payments expenses	-	1,396	1,396
Customer servicing expenses	692	1,581	2,273
Technology expenses	-	1,924	1,924
General and administrative expenses	1,051	1,771	2,822
Depreciation and amortisation expenses	61	618	679
Loss before income tax	**(4,586)**	**(228)**	**(4,814)**
Income tax expense	-	-	-
Loss for the period attributable to shareholders of Harmoney Corp Limited	**(4,586)**	**(228)**	**(4,814)**
Non-cash adjustments			
Movement in expected credit loss provision	3,357	(732)	2,625
Share-based payments expenses	-	1,396	1,396
Depreciation and amortisation expenses	61	618	679
Cash NPAT	**(1,168)**	**1,054**	**(114)**

5. Interest expense

	6 months ended 31 December 2022 A$'000	6 months ended 31 December 2021 A$'000
Interest on receivables funding	16,833	6,414
Interest on corporate debt	1,120	19
Interest on lease liability	4	7
Total interest expense	**17,957**	**6,440**

6. Impairment expense

	6 months ended 31 December 2022 A$'000	6 months ended 31 December 2021 A$'000
Change in expected credit loss provision	4,587	2,625
Incurred credit loss	10,027	3,924
Other	-	(24)
Total impairment expense	**14,614**	**6,525**

Change in expected credit loss provision

The expense is recognised when there is a movement in the provision due to the composition of the finance receivables (note 8). For example, due to the growth in the finance receivables, change in likelihood of credit loss from the standard modelled provision, and change in macroeconomic conditions.

Incurred credit loss

Financial assets are written off when there is no reasonable expectation of recovery, such as the borrower failing to engage in a repayment plan with the Group. The Group categorises a finance receivable as incurred credit loss when the borrower fails to make contractual payments more than 120 days past due. Where finance receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

7. Cash

	31 December 2022 A$'000	30 June 2022 A$'000
Cash on hand and demand deposits	30,344	31,238
Restricted cash	25,542	25,567
Total cash and cash equivalents	**55,886**	**56,805**

Restricted cash is held by the trusts controlled by the Group. These funds may only be used for purposes defined in the trust documents, and are therefore not available for general use by the Group.

8. Finance receivables

	31 December 2022 A$'000	30 June 2022 A$'000
Finance receivables	701,035	580,971
Accrued interest	4,124	3,002
Deferred establishment fees	(3,447)	(3,664)
Expected credit loss (ECL) provision	(33,840)	(28,862)
Total finance receivables	**667,872**	**551,447**

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's main exposure to credit risk arises from finance receivables. The finance receivable credit risk management framework comprises underwriting and risk policies; anti-money laundering (AML) and counter-terrorism financing (CTF) protocols; collection and recovery policies; a proprietary credit scorecard; a risk-based pricing model; and fraud detection services.

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).

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

31 December 2022	Stage 1	Stage 2	Stage 3 [1]	Total
Expected loss rate	3.31%	55.11%	81.10%	4.80%
	A$'000	A$'000	A$'000	A$'000
Gross carrying amount	686,574	15,352	3,233	705,159
Expected credit loss provision	(22,757)	(8,461)	(2,622)	(33,840)
Net carrying amount	**663,817**	**6,891**	**611**	**671,319**

30 June 2022	Stage 1	Stage 2	Stage 3 [1]	Total
Expected loss rate	3.71%	60.04%	99.69%	4.94%
	A$'000	A$'000	A$'000	A$'000
Gross carrying amount	572,595	9,411	1,967	583,973
Expected credit loss provision	(21,251)	(5,650)	(1,961)	(28,862)
Net carrying amount	**551,344**	**3,761**	**6**	**555,111**

[1] The stage 3 expected loss rate is higher in the prior period, as an economic overlay was applied in addition to the standard modelled provision at 30 June 2022. The economic overlay is no longer applied to stage 3 from the current period, as the standard provision already considers lifetime expected credit losses for finance receivables 90 days past due, and from the Group's experience, a further adjustment is no longer required. Harmoney has a monthly process to sell finance receivables where there is no reasonable expectation of other recovery, further reducing the stage 3 expected loss rate.

Movements in the expected credit loss provision are as follows:

	31 December 2022 A$'000	30 June 2022 A$'000
Opening balance	28,862	14,301
Additional provision recognised due to		
(Decrease)/Increase in economic overlay	(3,009)	2,327
Increase in gross finance receivables	18,014	22,940
Finance receivables written off during the period as uncollectible	(10,027)	(10,706)
Total provision	**33,840**	**28,862**

9. Deferred tax

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

	31 December 2022 A$'000	30 June 2022 A$'000
Deferred tax assets	10,895	10,608
Deferred tax liabilities	(3,027)	(2,339)
Deferred tax assets	**7,868**	**8,269**

31 December 2022	Opening balance A$'000	Recognised in profit or loss A$'000	Recognised in equity A$'000	Closing balance A$'000
Deferred tax assets/(liabilities) in relation to				
Expected credit loss (ECL) provision	8,417	679	104	9,200
Accruals and other	1,563	(151)	16	1,428
Share-based payments	369	(113)	11	267
Losses	259	(266)	7	-
Derivatives	(2,287)	-	(539)	(2,826)
Distributing services	(46)	(16)	-	(62)
Plant & equipment and intangibles	(6)	(133)	-	(139)
	8,269	**-**	**(401)**	**7,868**

30 June 2022	Opening balance A$'000	Recognised in profit or loss A$'000	Recognised in equity A$'000	Closing balance A$'000
Deferred tax assets/(liabilities) in relation to				
Expected credit loss (ECL) provision	4,097	4,320	-	8,417
Accruals and other	872	896	(205)	1,563
Share-based payments	-	369	-	369
Losses	6,325	(6,066)	-	259
Deferred R&D expenses	2,123	(2,123)	-	-
Derivatives	-	-	(2,287)	(2,287)
Distributing services	(2,670)	2,624	-	(46)
Plant & equipment and intangibles	(60)	54	-	(6)
	10,687	**74**	**(2,492)**	**8,269**

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 and temporary differences of $20.4m at 31 December 2022 (June 2022: $18.5m) which have not been recognised as an asset in the statement of financial position and are available to offset future taxable profits of $72.5m (June 2022: $65.9m).

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 2022 A$'000	30 June 2022 A$'000
Receivables funding	666,347	549,496
Corporate debt	11,744	8,715
Convertible notes	8,000	6,000
Total borrowings	**686,091**	**564,211**

Receivables funding

The receivables funding relates to borrowings specific to the warehouse trusts and are secured by their assets. The maturity profile of the receivables funding borrowings is aligned with the receivables held in the relevant warehouse trusts, 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 trusts 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.

Corporate debt facility

The corporate debt and convertible notes relate to a A$20m facility entered into in December 2021 which expires in June 2025. The facility is structured as 60% debt notes and 40% convertible notes.

The $12m corporate debt is reduced by unamortised prepaid establishment costs. Prepaid establishment costs are amortised over the expected term of the facility through interest expense.

As at 31 December 2022, A$20m of the facility was drawn down including A$8m of convertible notes. The maximum number of shares that would be issued on conversion of the drawn down convertible notes would be 3,333,333, at a conversion price of A$2.40.

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

Under the terms of the corporate debt and warehouse facilities, the Group is required to comply with financial and non-financial covenants. Harmoney has complied with these covenants as at 31 December 2022.

Warehouse financing arrangements

Unrestricted access was available at reporting date to the warehouse facilities as detailed below:

Warehouse facilities	31 December 2022 A$'000	30 June 2022 A$'000
Total facilities	934,700	885,879
Drawn at reporting date	714,236	593,322
Undrawn at reporting date	220,464	292,557

The undrawn 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. Refer to note 7 for further information.

11. Share capital

	31 December 2022 Number of shares	31 December 2022 Share capital A$'000	30 June 2022 Number of shares	30 June 2022 Share capital A$'000
Fully paid ordinary shares	101,555,587	123,985	101,018,964	123,265
Total issued capital	**101,555,587**	**123,985**	**101,018,964**	**123,265**

	Ordinary shares
As at 30 June 2022	101,018,964
Shares issued under share-based payment arrangements	536,623
As at 31 December 2022	**101,555,587**

Share issued under share-based payment arrangements

536,623 shares were issued in settlement of options on 20 September 2022. The options were net settled on a cashless basis. The exercise price was $Nil.

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.

Unquoted equity securities

	Exercise price	Number on issue	Equity securities on conversion	Number of holders
Performance rights	$ nil	7,028,500	7,028,500	16
Convertible notes	$ 2.40	8,000,000	3,333,333	3

12. Share based payment reserve

	31 December 2022 A$'000	30 June 2022 A$'000
Opening balance	3,146	217
Arising on equity settled benefits	877	3,442
Transferred to share capital	(720)	(153)
Share option cancellations	(1,615)	(360)
Closing balance	**1,688**	**3,146**

13. 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 2022 A$'000	Level 1	Level 2	Level 3
Financial Assets			
Derivative financial instruments			
Hedging derivatives - interest rate swaps	-	9,740	-

30 June 2022 A$'000	Level 1	Level 2	Level 3
Financial Assets			
Derivative financial instruments			
Hedging derivatives - interest rate swaps	-	7,848	-

There have been no transfers between levels in the period (June 2022: 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 2022 A$'000	30 June 2022 A$'000
Financial assets at amortised cost		
Cash and cash equivalents	55,886	56,805
Trade and other assets	45	45
Finance receivables	667,872	551,447
	723,803	**608,297**
Financial liabilities at amortised cost		
Payables and accruals	5,182	4,426
Borrowings	686,091	564,211
Lease liability	-	216
	691,273	**568,853**
Financial assets at fair value		
Derivative financial instruments	9,740	7,848
	9,740	**7,848**

14. Controlled entities

The following entities were amalgamated into Harmoney Services Limited (a subsidiary of Harmoney Corp Limited):

Name	Effective date
Harmoney Investor Trustee Limited	30 December 2022
Harmoney Limited	30 December 2022
Harmoney Warehouse Limited	30 December 2022
Harmoney Nominee Limited	31 January 2023

15. Contingent liabilities

There are no contingent liabilities and capital commitments as at 31 December 2022.

The Group has commenced a new lease for its Auckland office effective January 2023 which has not been recognised in the financial statements as the commencement date of the lease is after reporting date. The undiscounted estimated lease liability at commencement will be $4,679,444 with a right-of-use asset of the same amount.

16. Events after the reporting period

There were no material events subsequent to period end.

KPMG

Directors' Declaration

The reviewed condensed consolidated financial statements of the Harmoney Group for the six months ended 31 December 2022 were authorised for issue on 27 February 2023 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
Chairman

David Stevens
Chief Executive Officer and Managing Director

27 February 2023

Independent Review Report

To the shareholders of Harmoney Corp Limited

Report on the interim condensed consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements on pages 15 to 30 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2022 and its financial performance and cash flows for the 6 month period ended on that date; and

ii. comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim condensed consolidated financial statements which comprise:

— the condensed consolidated statement of financial position as at 31 December 2022;

— the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of interim condensed consolidated financial statements in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Harmoney Corp Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual consolidated financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the group.

Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent 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 work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the interim condensed consolidated financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the interim condensed consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of interim condensed consolidated financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the interim condensed consolidated financial statements

Our responsibility is to express a conclusion on the interim condensed financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim condensed financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG
Auckland

27th February 2023

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:

Paul Lahiff

Tracey Jones

Neil Roberts

David Stevens

Monique Cairns (Appointed 1 August 2022)

John Quirk (Appointed 1 August 2022)

David Flacks (Retired 1 August 2022)

Registered office

Harmoney Corp Limited

Level 3, 110 Customs Street West

Auckland Central, Auckland 1010, New Zealand

Auditor

KPMG

Auckland

New Zealand

Share register

Link Market Services Limited

ACN 083 214 537

Level 12, 680 George Street

Sydney NSW 2000, Australia

Stock exchange listing

Harmoney Corp Limited shares are listed in the Australian Securities Exchange (ASX).