Harmoney

FY2024 Half Year Report

for the six months ended
31 December 2023

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 2023. The review of operations and Directors' report are not part of the financial statements and contain 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 2022 unless otherwise stated.

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Review of Operations

Financial performance

The table below sets out the profit and loss statement for the six months ended 31 December 2023 compared to the prior comparative period (pcp).

	6 months ended 31 December 2023 $'000	6 months ended 31 December 2022 $'000	Change $'000	Change %
Interest income	60,323	49,526	10,797	22%
Other income	70	549	(479)	(87%)
Total income	**60,393**	**50,075**	**10,318**	**21%**
Interest expense	26,026	17,957	8,069	45%
Incurred credit losses	15,643	10,027	5,616	56%
Risk adjusted income	**18,724**	**22,091**	**(3,367)**	**(15%)**
Customer acquisition expenses	5,414	6,539	(1,125)	(17%)
Net operating income	**13,310**	**15,552**	**(2,242)**	**(14%)**
Personnel expenses	5,297	5,512	(215)	(4%)
Customer servicing expenses	3,208	3,084	124	4%
Technology expenses	2,670	2,434	236	10%
General and administrative expenses	1,629	2,179	(550)	(25%)
Cash operating expenses	**12,804**	**13,209**	**(405)**	**(3%)**
Income tax expense	-	-	-	-
Cash NPAT	**506**	**2,343**	**(1,837)**	**(78%)**
Non-cash adjustments				
Movement in expected credit loss provision	533	(4,587)	5,120	N/A
Share-based payment expenses	(114)	-	(114)	N/A
Depreciation and amortisation expenses	(1,522)	(1,139)	(383)	(34%)
Statutory loss after income tax	**(597)**	**(3,383)**	**2,786**	**82%**

For the six months ended 31 December 2023 Harmoney reported Cash Net Profit After Tax (NPAT) of $0.5m (1H23: $2.3m), showcasing its ability to maintain both positive Cash NPAT and loan book growth through a rising interest rate cycle. With the roll out of Harmoney's new Stellare® 2.0 platform well underway, combined with Harmoney's enviably low 24% cost to income ratio, Harmoney believes it is well placed for the next phase of the economic cycle with central bank interest rate increases looking to have neared their peak.

Total income rose by 21% compared to the pcp, outpacing loan book growth with higher interest rates passed through on new lending lifting the average yield on the portfolio. Central bank rate hikes increased funding costs at a faster pace than the impact of new lending rates on the average portfolio interest rate, which, together with increased credit losses on a more seasoned portfolio (further explained in the risk adjusted income section), compressed risk adjusted income by 15% to $18.7m (1H23: $22.1m).

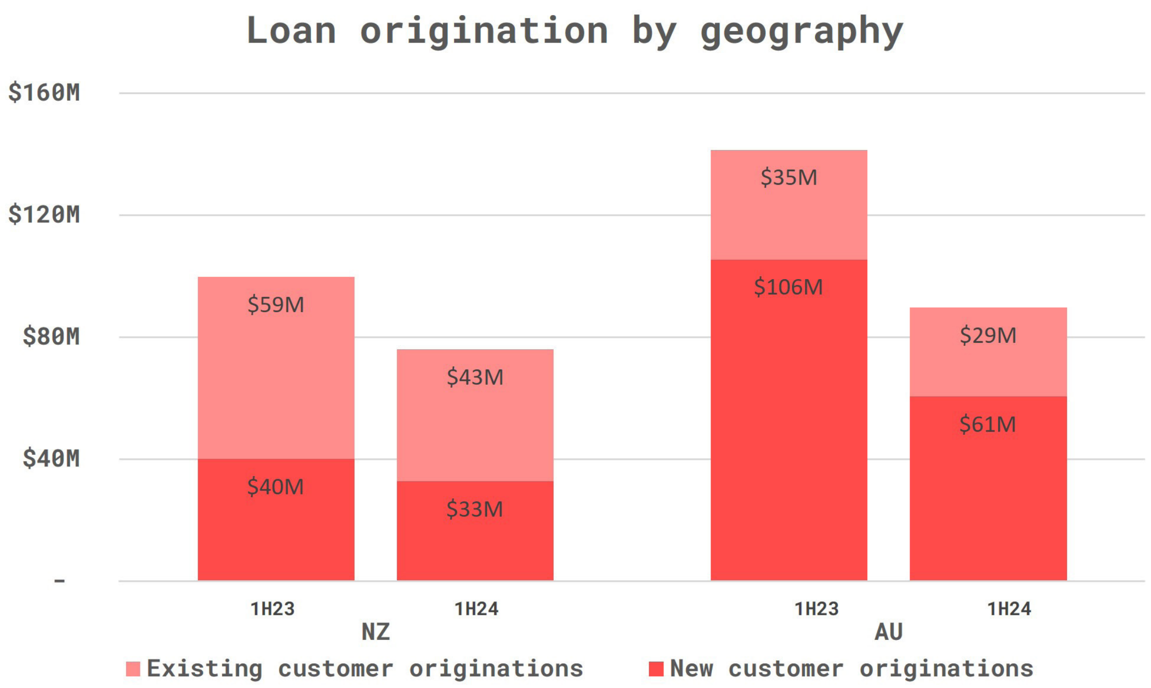
Customer acquisition costs reduced by $1.1m (17%) on pcp, with a focus on profitability and moderated growth during the rising interest rate cycle. Operating expenses reduced by 3% on pcp and Harmoney's enviable cost to income ratio continued to improve to 24% (1H23: 29%), both a testament to the high level of automation in Harmoney's Stellare® platform.

Loan originations

	6 months ended 31 December 2023	6 months ended 31 December 2022	Change	Change %
Total originations ($'000)	165,932	240,536	(74,604)	(31%)
New customer originations ($'000)	93,379	146,170	(52,791)	(36%)
Existing customer originations ($'000)	72,553	94,366	(21,813)	(23%)
Number of originations	10,562	14,621	(4,059)	(28%)
Average value of new customer originations ($)	20,256	21,521	(1,265)	(6%)
Average value of existing customer incremental originations ($)	12,190	12,053	137	1%

With increasing market interest rates constraining both the appetite and capacity for consumer borrowing, Harmoney leveraged its flexible consumer-direct marketing model to reduce customer acquisition expenses by 17%, moderating growth in favour of maintaining profitability. These consumer headwinds, combined with lower customer acquisition expenditure, resulted in total originations of $165.9m (1H23: $240.5m), down 31% on pcp.

Rising market interest rates impacted consumer borrowing appetite and capacity in both Australia and New Zealand, and impacted both new and existing customers. The smaller decrease in existing customer originations further illustrates the strength of the annuity income Harmoney is able to generate from the direct relationship Harmoney has with its customers. Harmoney's existing customer originations also have near zero acquisition costs due to that direct relationship.



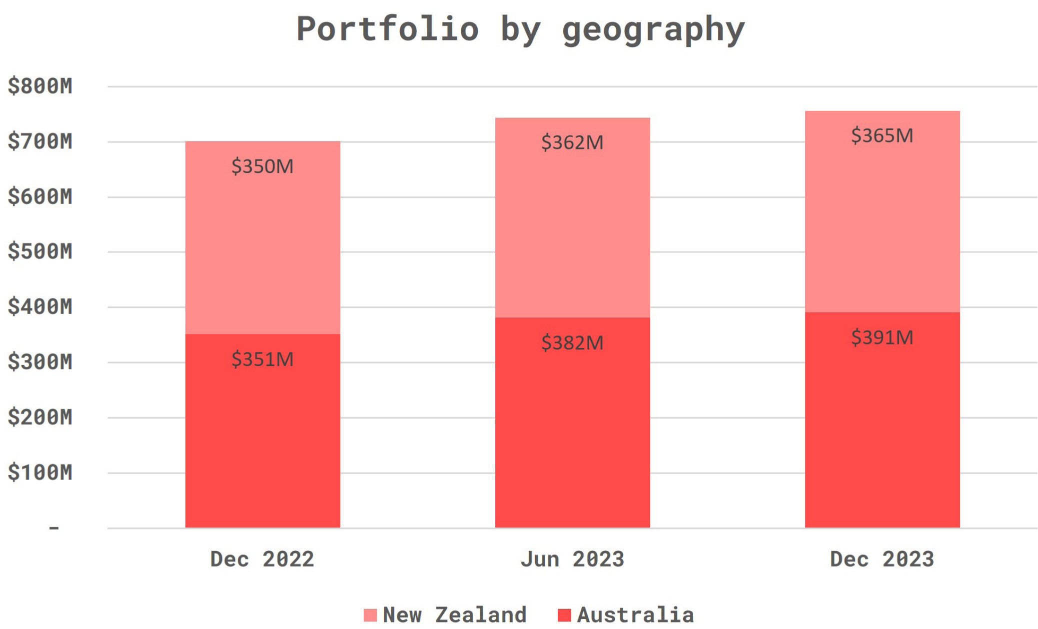
Portfolio

	6 months ended 31 December 2023	6 months ended 31 December 2022	Change	Change %
Loan book (period end) ($'000)	756,329	701,035	55,294	8%
Loan book (average) ($'000) - Group	748,939	643,371	105,568	16%
Loan book (average) ($'000) - Australia	384,174	317,547	66,627	21%
Loan book (average) ($'000) - New Zealand	364,765	325,823	38,942	12%

Despite lower than pcp originations the loan portfolio continued to grow in both countries, reaching $756.3m (1H23: $701.0m), up $12.3m from 30 June 2023.

The average "seasoning" (months elapsed since loan origination) of the portfolio increased in the half to 13 months (1H23: 9 months) as a consequence of lower originations. This increases the incurred credit loss to average gross loans (%), as described further in the risk adjusted income section.

Harmoney's expansion in Australia continued with the Australian loan book growing to 52% of the loan portfolio (1H23: 50%).



Risk adjusted income

	6 months ended 31 December 2023	6 months ended 31 December 2022	Change	Change %
Average interest rate (%)	16.1%	15.4%	70bps	N/A
Funding debt (period end) ($'000)	737,276	686,091	51,185	7%
Funding debt (average) ($'000)	721,846	626,578	95,268	15%
Average funding rate (%)	7.2%	5.7%	150bps	N/A
Net interest income (%)	9.2%	9.8%	(60bps)	N/A
Incurred credit loss ($'000)	15,643	10,027	5,616	56%
Incurred credit loss to average gross loans (%)	4.2%	3.1%	110bps	N/A
Risk adjusted income (%)	5.0%	6.7%	(170bps)	N/A

Risk adjusted income is Harmoney's income after funding costs and incurred credit losses. While interest income increased, both in dollars and as a percentage of the average loan portfolio, this was more than offset by the combined impact of increased funding costs and incurred credit losses, resulting in risk adjusted income reducing to $18.7m (1H23: $22.1m). Harmoney's risk adjusted income percentage, while down to 5.0% for the half (1H23: 6.7%), remains enviable within the consumer lending market, demonstrating the strength of Harmoney's underlying business model and its adaptability through the economic cycle.

Harmoney's 1H24 income grew by $10.3m from pcp to $60.4m (1H23: $50.1m) driven by growth in the average loan portfolio size and an increase in the average loan portfolio interest rate to 16.1% (1H23: 15.4%), as higher market interest rates have been passed through on new loan originations during this rising interest rate phase of the cycle.

Interest expense increased by $8.1m on pcp, driven by average portfolio growth and an increase in the average funding rate to 7.2% (1H23: 5.7%). Net interest income increased to $34.4m (1H23: $32.1m), however net interest income as a percentage of average loan book compressed 60bps from pcp to 9.2% (1H23: 9.8%) with the average funding rate increasing at a slightly faster pace than the impact of new lending rates on the average loan portfolio interest rate. Harmoney's diversified warehouse funding and securitisation program, and 89% hedging coverage at 31 December 2023, mean that Harmoney carries significant protection against future major market interest rate movements.

Incurred credit losses, representing actual losses on loans written off during the period, increased to $15.6m (1H23: $10.0m) predominantly driven by loan portfolio growth. The increase in the incurred credit loss to average gross loans to 4.2% (1H23: 3.1%) was in part driven by an increase in the average "seasoning" (months elapsed since loan origination) of the portfolio, which increased in the half to 13 months (1H23: 9 months) as a consequence of lower originations. Personal lending tends to reach "peak hazard" for loss during the period 12 to 18 months after origination, and a higher proportion of the loan book transitioned through this "peak hazard" period during the half, including the final cohorts of a less accurate earlier Australian credit scorecard, which was replaced over 18 months ago. The better performing current Australian credit scorecard is expected to reverse this trend in the second half of the year.

In anticipation of the cyclically driven lower risk adjusted income, Harmoney reduced both customer acquisition expenses and operating expenses, as discussed further below, to maintain cash profitability and preserve unrestricted cash reserves.

Credit provisioning

	6 months ended 31 December 2023	6 months ended 31 December 2022	Change	Change %
Movement in expected credit loss provision ($'000)	(533)	4,587	(5,120)	N/A
Provision rate (%)	4.8%	4.8%	0bps	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 reduced by $0.5m during the half to $36.5m (30 June 2023: $36.9m), with a 10bps reduction in the overall provision rate from 4.9% at 30 June 2023 to 4.8% offsetting additional provisioning driven by loan portfolio growth. The reduction in the provision rate to 4.8% represents a cautious improvement in outlook for future period credit losses, and brings the overall provision rate back to the 1H23 rate.

Customer acquisition metrics

	6 months ended 31 December 2023	6 months ended 31 December 2022	Change	Change %
Customer acquisition expenses to origination ratio	3.3%	2.7%	60bps	N/A
Customer acquisition expenses to income ratio	9.0%	13.1%	(410bps)	N/A

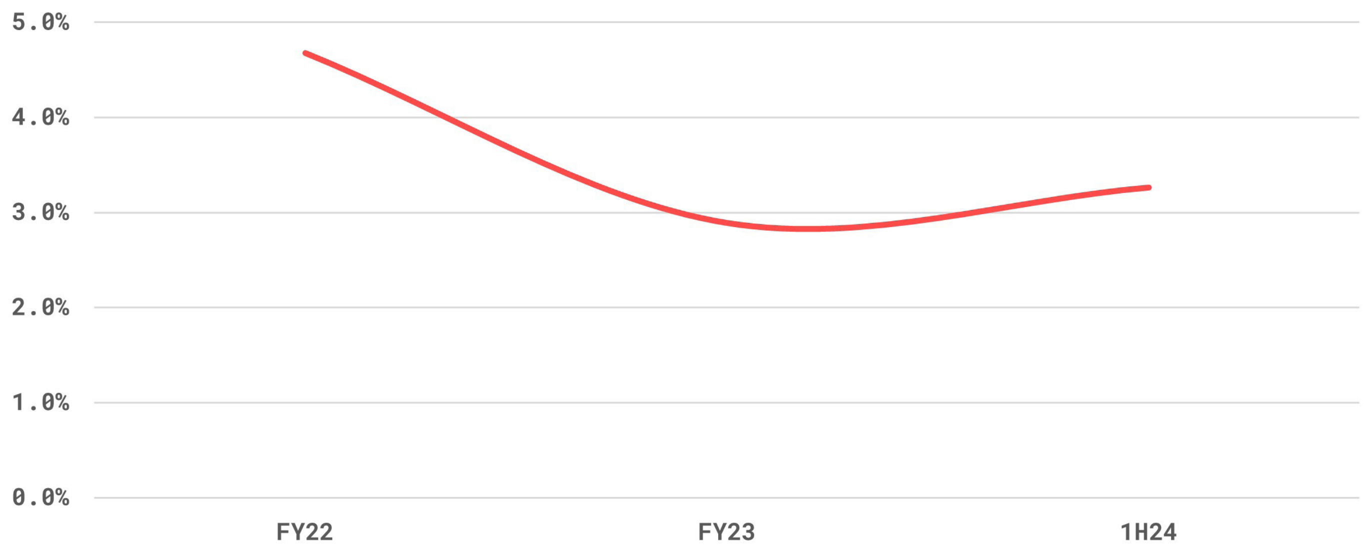
In anticipation of lower consumer appetite and capacity for borrowing during the rising interest rate phase of the economic cycle, Harmoney leveraged the flexibility inherent in its consumer-direct marketing model to reduce customer acquisition expenses by $1.1m (17%) on pcp, moderating growth in favour of maintaining cash profitability.

This strategy is illustrated by the improved customer acquisition expenses to income ratio of 9.0% (1H23: 13.1%), reflecting Harmoney's continued portfolio and revenue growth, despite moderating customer acquisition expenses.

As illustrated in the chart below, lower originations have however increased the customer acquisition expenses to origination ratio to 3.3%, up from 2.9% for FY23, but remaining well below the 4.7% achieved in FY22. The increase this half was driven by rising interest rates impacting originations to existing customers, as well as to new customers. Originations to existing customers have near zero acquisition costs, due to the direct relationship Harmoney already has with those customers. Therefore, when originations to existing customers reduce there is no commensurate cost reduction, just as there is not expected to be any commensurate cost increase when existing customer origination growth resumes.

Accordingly, the downward trend in this ratio is expected to resume once macro economic conditions allow for origination growth to return, and in particular as existing customer origination growth returns.

Customer acquisition expenses to originations ratio



Cost to income metrics

	6 months ended 31 December 2023	6 months ended 31 December 2022	Change	Change %
Cost to income ratio	23.9%	28.7%	(480bps)	N/A

Harmoney's enviable cost to income ratio continued improving during 1H24, down 480bps on pcp to 23.9% (1H23: 28.7%).

Harmoney's cost to income ratio includes all operating costs below net operating income (personnel, share-based payments, customer servicing, technology, administrative and depreciation and amortisation expenses). The continued improvement of the cost to income ratio is testament to the high level of automation in Harmoney's Stellare® platform, enabling Harmoney to grow its loan book and revenues at a significantly faster pace than operating costs. This trend is expected to continue.

Overall cash operating costs reduced by $0.4m on pcp to $12.8m (1H23: $13.2m).

This reduction was led by lower administrative expenses, down $0.6m on pcp, on Harmoney having completed its transition to warehouse funding and initiatives to streamline overheads.

Partly offsetting this reduction, technology costs increased $0.2m (10%) on pcp driven by expenditure on Harmoney's new Stellare® 2.0 platform in parallel with running its existing Stellare® 1.0 platform. This cost trend is expected to reverse as the Stellare® 1.0 platform is decommissioned.

Other cash operating expenses remained relatively stable as inflationary pressures eased over the half.

Financial position

	31 December 2023 $'000	30 June 2023 $'000	Change $'000	Change %
Assets				
Cash and cash equivalents	40,982	43,454	(2,472)	(6%)
Finance receivables	758,861	745,790	13,071	2%
Expected credit loss provision	(36,500)	(36,919)	419	1%
Other assets	30,614	33,397	(2,783)	(8%)
Total assets	**793,957**	**785,722**	**8,235**	**1%**
Liabilities				
Borrowings - Receivables funding	715,577	700,692	14,885	2%
Borrowings - Corporate debt facility	21,699	19,811	1,888	10%
Other liabilities	11,163	11,464	(301)	(3%)
Total liabilities	**748,439**	**731,967**	**16,472**	**2%**
Net assets	**45,518**	**53,755**	**(8,237)**	**(15%)**

Cash and cash equivalents of $40.9m consists of unrestricted cash of $20.7m (30 June 2023: $27.5m), and restricted cash of $20.3m (30 June 2023: $15.9m); the latter may only be used for funding finance receivables and other purposes defined in the relevant trust documents.

During 1H24 Harmoney invested $16.4m of its unrestricted cash to support loan portfolio growth and $2.3m in Stellare® 2.0 development, however unrestricted cash only reduced by $6.9m as these investments were significantly offset by $9.4m cash generated from operating activities and $2.5m of additionally drawn corporate debt, taking the total drawn corporate debt to $22.5m. In the table above, the $22.5m corporate debt is reduced by unamortised establishment costs. Harmoney's corporate debt was successfully refinanced in December 2023 with the total capacity on the new facility at $30m, an increase of $10m on the prior facility.

Net assets have seen a reduction of 15% on pcp to $45.5m, primarily driven by a $10.8m reduction in the value of derivative financial instruments, hedging tools against interest rate fluctuations, on market expectations for future interest rates shifting lower.

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 2023 (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
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.

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 2023.

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
22 February 2024

Financial Report

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2023

	Notes	6 months ended 31 December 2023 $'000	6 months ended 31 December 2022 $'000
Interest income		60,323	49,526
Other income		70	549
Total income		**60,393**	**50,075**
Interest expense	5	26,026	17,957
Impairment expense	6	15,110	14,614
Customer acquisition expenses		5,414	6,539
Personnel expenses		5,411	5,512
Customer servicing expenses		3,208	3,084
Technology expenses		2,670	2,434
General and administrative expenses		1,629	2,179
Depreciation and amortisation expenses		1,522	1,139
Loss before income tax		**(597)**	**(3,383)**
Income tax expense		-	-
Loss for the period attributable to shareholders of Harmoney Corp Limited		**(597)**	**(3,383)**
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		287	1,330
(Loss) / Gain on cash flow hedge reserve, net of tax		(7,644)	1,353
Other comprehensive (loss) / income for the period, net of tax		**(7,357)**	**2,683**
Total comprehensive loss for the period attributable to shareholders of Harmoney Corp Limited		**(7,954)**	**(700)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share		(1)	(3)
Diluted earnings per share		(1)	(3)

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 2023

	Notes	31 December 2023 $'000	30 June 2023 $'000
Assets			
Cash and cash equivalents	7	40,982	43,454
Trade and other assets		2,671	1,968
Finance receivables	8	722,361	708,871
Property and equipment		3,372	3,717
Intangible assets		12,831	11,568
Deferred tax assets	9	11,740	8,467
Derivative financial instruments		-	7,677
Total assets		**793,957**	**785,722**
Liabilities			
Payables and accruals		4,792	6,434
Borrowings	10	737,276	720,503
Provisions		-	1,524
Lease liability		3,280	3,506
Derivative financial instruments		3,091	-
Total liabilities		**748,439**	**731,967**
Net assets		**45,518**	**53,755**
Equity			
Share capital	11	124,561	123,985
Foreign currency translation reserve		(80)	(367)
Share-based payment reserve	12	2,961	3,820
Cash flow hedge reserve		(2,228)	5,416
Accumulated losses		(79,696)	(79,099)
Total equity		**45,518**	**53,755**

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 2023

	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 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		-	-	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**

	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 2023		**123,985**	**(367)**	**3,820**	**5,416**	**(79,099)**	**53,755**
Loss for the period		-	-	-	-	(597)	(597)
Other comprehensive income / (loss), net of income tax		-	287	-	(7,644)	-	(7,357)
Total comprehensive income / (loss)		**-**	**287**	**-**	**(7,644)**	**(597)**	**(7,954)**
Recognition of share-based payments	12	-	-	1,098	-	-	1,098
Transfer to share capital	12	576	-	(576)	-	-	-
Share option cancellations	12	-	-	(1,381)	-	-	(1,381)
Balance at 31 December 2023		**124,561**	**(80)**	**2,961**	**(2,228)**	**(79,696)**	**45,518**

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 2023

	Notes	6 months ended 31 December 2023 $'000	6 months ended 31 December 2022 $'000
Cash flows from operating activities			
Interest received		59,220	48,131
Interest paid		(27,527)	(17,359)
Fee income rebated		(1,076)	(797)
Payments to suppliers and employees		(21,169)	(20,617)
Net cash generated by operating activities		**9,448**	**9,358**
Cash flows from investing activities			
Net advances to customers		(25,302)	(119,376)
Payments for software intangibles and equipment		(2,330)	(2,417)
Net cash used in investing activities		**(27,632)**	**(121,793)**
Cash flows from financing activities			
Net proceeds from finance receivables borrowings		13,329	105,586
Net proceeds from debt financing		2,500	5,000
Principal element of lease payments		(250)	(254)
Net cash generated by financing activities		**15,579**	**110,332**
Cash and cash equivalents at the beginning of the period		43,454	56,805
Net decrease in cash and cash equivalents		**(2,605)**	**(2,103)**
Effects of exchange rate changes on cash and cash equivalents		133	1,184
Cash and cash equivalents at the end of the period	**7**	**40,982**	**55,886**

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 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 Securities Exchange (ASX). The Company was incorporated on 1 May 2014. The Company ceased to be an "FMC reporting entity" under the Financial Market Conducts Act 2013 when its peer-to-peer lending service licence was relinquished on 30 November 2023 as it is no longer required for current operations.

2. Material accounting policies

2.1. Basis of preparation

The condensed consolidated financial statements for the six months ended 31 December 2023 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 2023 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. Application of new and revised accounting standards

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 following amendments which apply for the first time effective 1 January 2023. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective:

- *Disclosure of Accounting Policies (Amendments to NZ IAS 1 and IFRS Practice Statement 2)*

  The amendments to NZ IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose 'significant accounting policies' with 'material accounting policy information'. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

  The amendments had no effect on the Group's interim condensed consolidated financial statements as they relate to disclosures of accounting policies in complete financial statements rather than interim financial statements. The amendments are expected to be applicable for the accounting policy disclosures in the annual consolidated financial statements of the Group.

- *Definition of Accounting Estimates (Amendments to NZ IAS 8)*

  The amendments to NZ IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies, and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

  The amendments had no impact on the Group's interim condensed consolidated financial statements.

- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to NZ IAS 12)*

  The amendments to NZ IAS 12 *Income Taxes* narrow the scope of the initial recognition exemption, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases.

  The amendments have resulted in the separate presentation of the Group's deferred tax on right-of-use assets and lease liabilities in the note disclosures. The Group previously presented the net deferred tax asset in the notes to the 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 2023.

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. Fair value measurement of derivatives

The fair value measurement of the Group's interest rate swaps is a significant accounting estimate. The details of the valuation method used and the interest rate sensitivity analysis were presented in the most recent annual consolidated financial statements.

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 Net Profit After Tax (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.

The following tables present income and loss information for the Group's operating segments for the six months ended 31 December 2023 and 2022, respectively.

Segmented income statement for the 6 months ended 31 December 2023 $'000

	Australia	New Zealand	Group
Interest income	30,308	30,015	60,323
Other income	-	70	70
Total income	**30,308**	**30,085**	**60,393**
Interest expense	10,194	15,832	26,026
Incurred credit losses	10,567	5,076	15,643
Customer acquisition expenses	3,743	1,671	5,414
Personnel expenses (excl. share-based payments)	426	4,871	5,297
Customer servicing expenses	1,603	1,605	3,208
Technology expenses	-	2,670	2,670
General and administrative expenses	322	1,307	1,629
Cash profit / (loss) before tax	**3,453**	**(2,947)**	**506**
Income tax expense	-	-	-
Cash NPAT	**3,453**	**(2,947)**	**506**
<u>Non-cash adjustments</u>			
Movement in expected credit loss provision	848	(315)	533
Share-based payments expenses	(1)	(113)	(114)
Depreciation and amortisation expenses	(25)	(1,497)	(1,522)
Statutory profit / (loss) after income tax	**4,275**	**(4,872)**	**(597)**

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

	Australia	New Zealand	Group
Interest income	24,610	24,916	49,526
Other 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
Customer acquisition expenses	4,843	1,696	6,539
Personnel expenses (excl. share-based payments)	155	5,357	5,512
Customer servicing expenses	1,462	1,622	3,084
Technology expenses	-	2,434	2,434
General and administrative expenses	616	1,563	2,179
Cash profit / (loss) before tax	**3,301**	**(958)**	**2,343**
Income tax expense	-	-	-
Cash NPAT	**3,301**	**(958)**	**2,343**
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)
Statutory loss after income tax	**(2,234)**	**(1,149)**	**(3,383)**

5. Interest expense

	6 months ended 31 December 2023 $'000	6 months ended 31 December 2022 $'000
Interest on receivables funding	24,329	16,833
Interest on corporate debt	1,555	1,120
Interest on lease liability	142	4
Total interest expense	**26,026**	**17,957**

6. Impairment expense

	6 months ended 31 December 2023 $'000	6 months ended 31 December 2022 $'000
Change in expected credit loss provision	(533)	4,587
Incurred credit loss	15,643	10,027
Total impairment expense	**15,110**	**14,614**

6.1. 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.

6.2. 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 2023 $'000	30 June 2023 $'000
Cash on hand and demand deposits	20,660	27,327
Short term deposits	-	185
Restricted cash	20,322	15,942
Total cash and cash equivalents	**40,982**	**43,454**

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 2023 $'000	30 June 2023 $'000
Finance receivables	756,329	744,000
Accrued interest	5,229	4,748
Deferred establishment fees	(2,697)	(2,958)
Expected credit loss (ECL) provision	(36,500)	(36,919)
Total finance receivables	**722,361**	**708,871**

8.1. 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, risk and responsible lending 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.

8.2. ECL Provision

The Group measures the allowance for ECL using an expected credit loss impairment model as required by NZ IFRS 9.

Forward-looking information (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 2023	Stage 1	Stage 2	Stage 3	Total
Expected loss rate	3.14%	28.56%	69.43%	4.79%
	$'000	**$'000**	**$'000**	**$'000**
Gross carrying amount	720,680	35,572	5,306	761,558
Expected credit loss provision	(22,656)	(10,160)	(3,684)	(36,500)
Net carrying amount	**698,024**	**25,412**	**1,622**	**725,058**

30 June 2023	Stage 1	Stage 2	Stage 3	Total
Expected loss rate	3.06%	52.32%	75.38%	4.93%
	$'000	**$'000**	**$'000**	**$'000**
Gross carrying amount	722,507	21,599	4,642	748,748
Expected credit loss provision	(22,119)	(11,301)	(3,499)	(36,919)
Net carrying amount	**700,388**	**10,298**	**1,143**	**711,829**

Movements in the expected credit loss provision are as follows:

	31 December 2023 $'000	30 June 2023 $'000
Opening balance	36,919	28,862
Decrease in economic overlay	(504)	(3,233)
Additional provision recognised	15,728	35,842
Finance receivables written off during the period as uncollectible	(15,643)	(24,552)
Total provision	**36,500**	**36,919**

9. Deferred tax

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

	31 December 2023 $'000	30 June 2023 $'000
Deferred tax assets	13,115	12,034
Deferred tax liabilities	(1,375)	(3,567)
Deferred tax assets	**11,740**	**8,467**

	31 December 2023 $'000	30 June 2023 $'000
Deferred tax assets		
Expected credit loss (ECL) provision	9,778	9,423
Accruals and other	1,078	1,387
Lease liability	918	975
Derivatives	863	-
Share-based payments	478	249
Deferred tax assets	**13,115**	**12,034**
Deferred tax liabilities		
Derivatives	-	(2,260)
Right of use asset	(864)	(944)
Distributing services	(59)	(61)
Plant & equipment and intangibles	(452)	(302)
Deferred tax liabilities	**(1,375)**	**(3,567)**
Net deferred tax assets	**11,740**	**8,467**

The Group has retrospectively restated its deferred tax assets and deferred tax liabilities in the comparative period in accordance with the amendments to NZ IAS 12 *Income taxes* (as explained in note 2.2) which has resulted in the separate presentation of the deferred tax on lease liabilities and right of use assets. The Group previously presented these on a net approach. The net deferred tax asset remains unchanged.

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 $21.1m at 31 December 2023 (June 2023: $21.2m) which have not been recognised as an asset in the statement of financial position and are available to offset future taxable profits of $75.0m (June 2023: $75.2m).

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 2023 $'000	30 June 2023 $'000
Receivables funding	715,577	700,692
Corporate debt	21,699	11,811
Convertible notes	-	8,000
Total borrowings	**737,276**	**720,503**

10.1. 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.

10.2. Corporate debt facility

The Group has refinanced and upsized its corporate debt facility in December 2023, to further support its expected loan book growth. The convertible notes attached to the previous facility were extinguished.

The new facility has market standard financial covenants and interest rates with no equity or convertible component attached, with a term of two and half years to June 2026 and a limit of $30m. As at 31 December 2023, $22.5m of the facility was drawn down.

The $22.5m corporate debt is reduced by unamortised prepaid establishment costs. Prepaid establishment costs are amortised over the expected term of the facility through interest expense.

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 2023.

10.3. Warehouse financing arrangements

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

Warehouse facilities	31 December 2023 $'000	30 June 2023 $'000
Total facilities	1,015,488	760,634
Drawn at reporting date	766,719	751,848
Undrawn at reporting date	248,769	8,786

The increase in total facilities is attributable to capacity added through Harmoney Australia Warehouse No.3 Trust (A$140m) and Harmoney NZ ABS 2023-1 Trust (NZ$200m) subsequent to 30 June 2023. This is partially offset by the closure of Harmoney ABS Trust 2021-1PP as mentioned in note 14.

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 2023 Number of shares	31 December 2023 Share capital $'000	30 June 2023 Number of shares	30 June 2023 Share capital $'000
Fully paid ordinary shares	101,964,147	124,561	101,555,587	123,985
Total issued capital	**101,964,147**	**124,561**	**101,555,587**	**123,985**

	Ordinary shares
As at 30 June 2023	101,555,587
Shares issued under share-based payment arrangements	408,560
As at 31 December 2023	**101,964,147**

11.1. Share issued under share-based payment arrangements

408,560 shares were issued in settlement of performance rights on 29 August 2023. The performance rights were settled for an exercise price of $Nil.

11.2. 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.

11.3. Unquoted equity securities

	Exercise price	Number on issue	Equity securities on conversion	Number of holders
Performance rights	$ nil	9,705,000	9,705,000	20

4,099,000 new performance rights were granted on 1 September 2023, with a $Nil exercise price and grant date fair value of $0.53.

12. Share based payment reserve

	31 December 2023 $'000	30 June 2023 $'000
Opening balance	3,820	3,146
Arising on equity settled benefits	1,098	3,009
Transferred to share capital	(576)	(720)
Share option cancellations	(1,381)	(1,615)
Closing balance	**2,961**	**3,820**

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 2023 $'000	Level 1	Level 2	Level 3
Financial Assets / (Liabilities)			
Derivative financial instruments			
Hedging derivatives - interest rate swaps	-	(3,091)	-

30 June 2023 $'000	Level 1	Level 2	Level 3
Financial Assets / (Liabilities)			
Derivative financial instruments			
Hedging derivatives - interest rate swaps	-	7,677	-

There have been no transfers between levels in the period (June 2023: 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 2023 $'000	30 June 2023 $'000
Financial assets at amortised cost		
Cash and cash equivalents	40,982	43,454
Trade and other assets	233	206
Finance receivables	722,361	708,871
	763,576	**752,531**
Financial liabilities at amortised cost		
Payables and accruals	3,537	4,435
Borrowings	737,276	720,503
Lease liability	3,280	3,506
	744,093	**728,444**
Financial assets at fair value		
Derivative financial instruments	-	7,677
	-	**7,677**
Financial liabilities at fair value		
Derivative financial instruments	3,091	-
	3,091	**-**

14. Controlled entities

Since the Group's last annual report, the following entities were established and joined the Harmoney Corp Limited group:

Name	Effective date
Harmoney Australia Warehouse No.3 Trust	16 May 2023
Harmoney NZ ABS 2023-1 Trust	18 May 2023

During the six months ended 31 December 2023, the following entity was wound up and left the Harmoney Corp Limited group:

Name	Effective date
Harmoney ABS Trust 2021-1PP	29 November 2023

15. Contingent liabilities and commitments

There are no contingent liabilities and capital commitments as at 31 December 2023.

16. Events after the reporting period

There were no material events subsequent to period end.

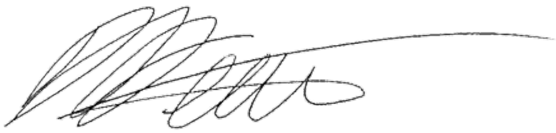
Directors' Declaration

The reviewed condensed consolidated financial statements of the Harmoney Group for the six months ended 31 December 2023 were authorised for issue on 22 February 2024 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

22 February 2024

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 14 to 28 do not:

i. Present fairly in all material respects the Group's financial position as at 31 December 2023 and its financial performance and cash flows for the six months 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 2023;
- the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended; and
- notes, including a summary of material 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.

KPMG

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

22 February 2024

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:

Monique Cairns
Tracey Jones (Resigned 15 November 2023)
Paul Lahiff
John Quirk
Neil Roberts
David Stevens

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).

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