Harmoney

We believe that the future is direct to consumer. It will be relationship driven and technology enabled. Doing things differently is the business we are in. Here are the results of our journey to date.

Annual Report 2021.

Contents

04 2021 highlights
06 Our timeline
08 From the Chair
10 From the CEO
13 Getting started with Harmoney
19 Review of operations
28 Directors' responsibility statement
29 Consolidated Group Financial Statements
66 Independent auditor's report
72 Shareholder information
74 Corporate information
78 Directory

2021 highlights

Group loan book grew to a record NZ$501 million.

$501M

GROUP LOAN BOOK

Break even pro forma Cash NPAT delivered thanks to attractive net lending margin and scalable platform.

Break even

PRO FORMA CASH NPAT.

Personalised rates driven by Libra's scorecard is producing an industry leading net interest margin.

10.6%

NET INTEREST MARGIN

Our Australian loan book reached a new milestone of AU$135 million.

$135M

AUSTRALIAN LOAN BOOK (AUD)

Group arrears continue to perform ahead of expectation and are at historical lows.

0.69%

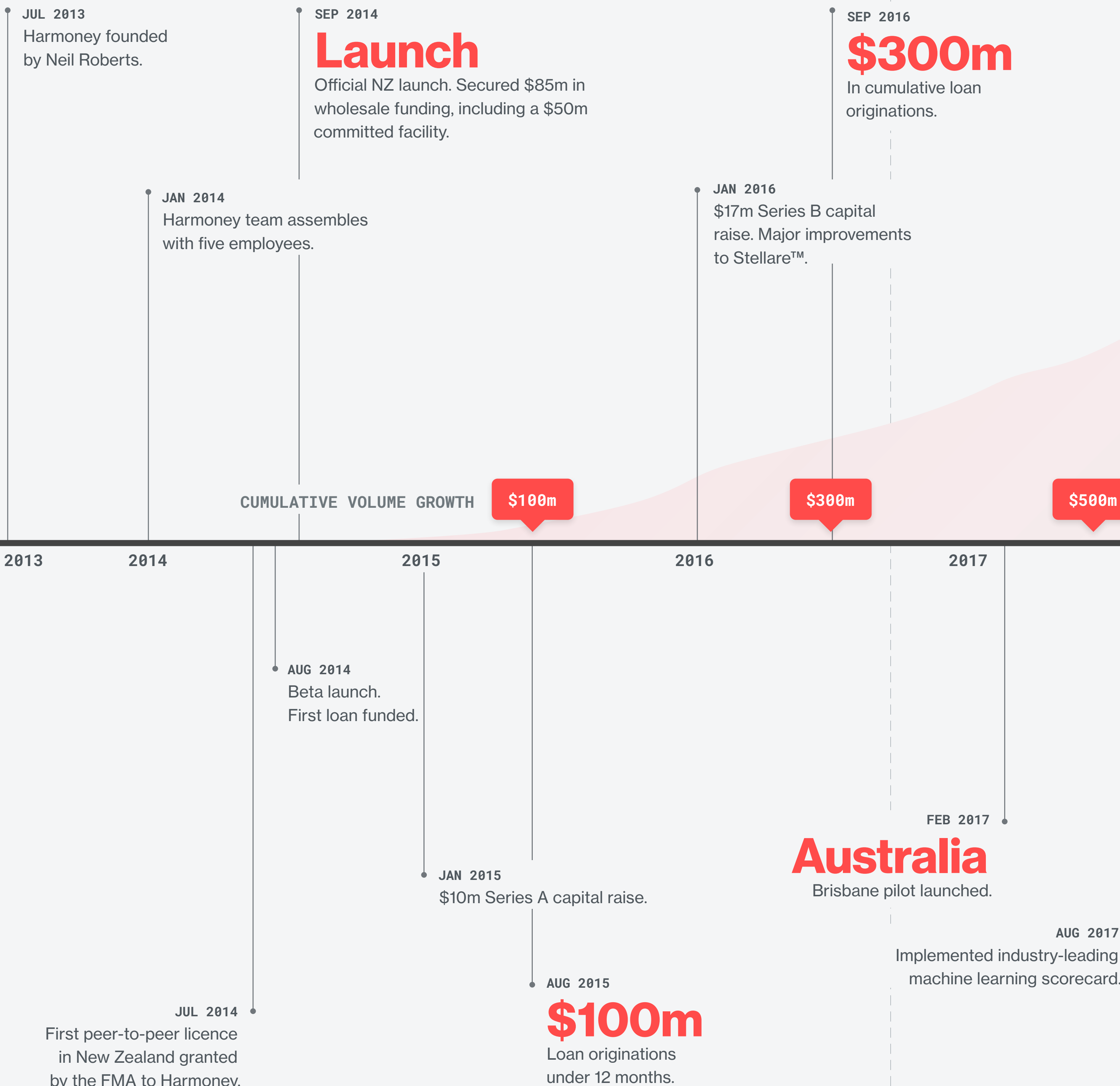
GROUP 90+ ARREARS

Harmoney's strong Net Lending Margin of 6.8% takes into account all lending related costs, including losses (charge-offs), demonstrating strength of underlying profit drivers.

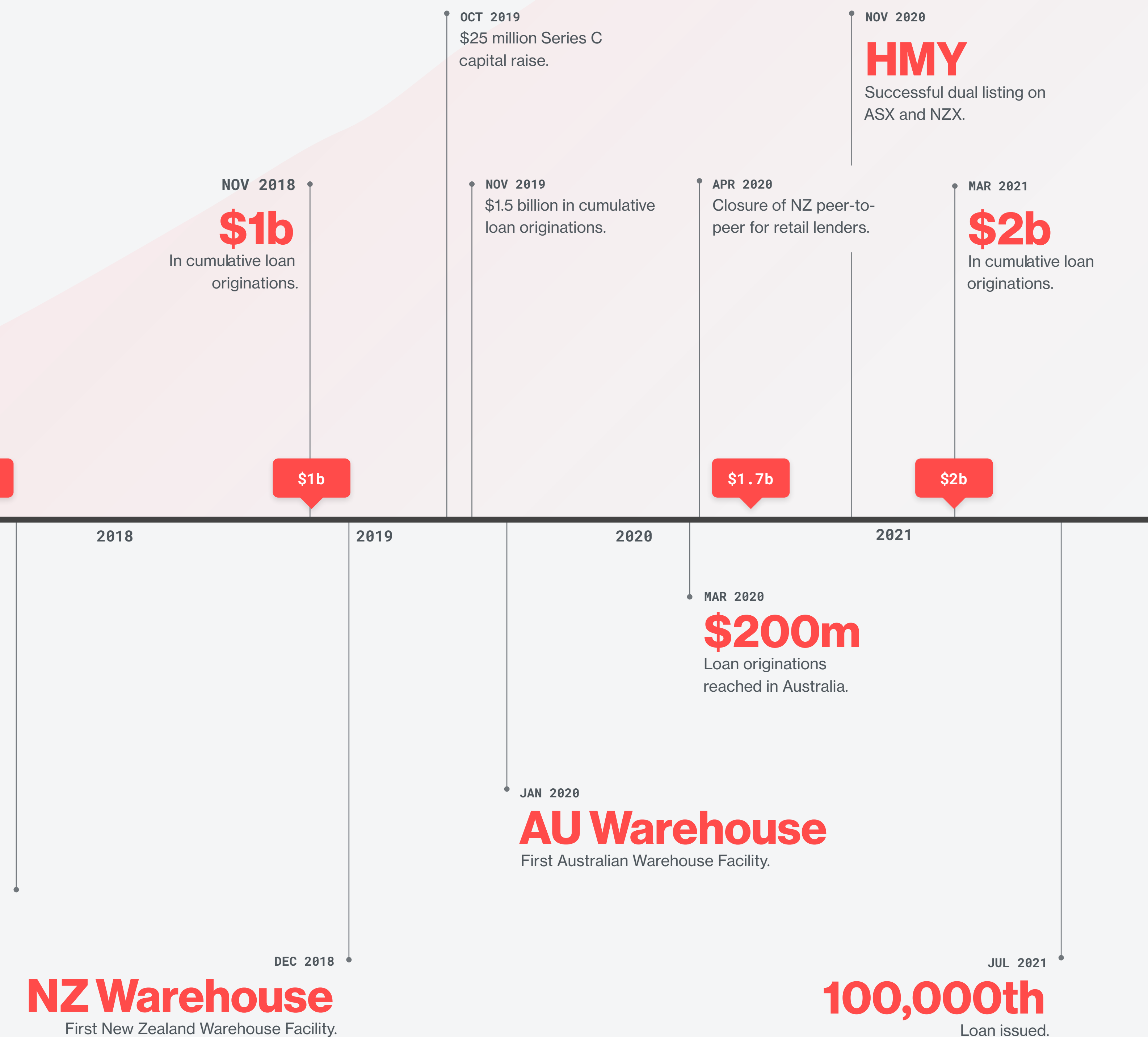
6.8%

NET LENDING MARGIN

Our journey.



sion



From the Chair

DAVID FLACKS

Dear Shareholder.

When Neil Roberts founded Harmoney in 2014 as an ambitious peer-to-peer lending startup, I was invited to join its Board. Neil had a pioneering vision for the company: to connect Kiwis who wanted to lend money with Kiwis who wanted to borrow it.

That seemingly simple proposition was encouraged by the government and represented a radical shake-up of New Zealand's personal lending market. It was an attempt to challenge the status quo and give New Zealander borrowers access to fairer, risk-based interest rates on loans that would help them get ahead; and New Zealand lenders access to retail funding opportunities.

At that point, Harmoney was basically Neil and a few other people (most of whom are still with the company) in a small office together. Seven years on, Harmoney's transformation is remarkable: loans totalling over NZ$2.1bn; over 80 employees in New Zealand and Australia; and a dual listing on the ASX and the NZX.

An important moment in Harmoney's journey came in late 2019, when Neil handed the CEO role to David Stevens. Dave brought a wealth of experience in the Australasian non-bank lending space and was instrumental in our successful IPO. This also freed Neil up to concentrate on Harmoney's continuing technological innovation, in his role as Chief Product Officer.

Like any startup that aims to disrupt an established market, we've faced significant headwinds to get to where we are today. We needed to educate the public and the regulators on what we were trying to achieve

for New Zealanders. It's taken time for us to be able to move on from the specific regulatory challenges we faced, but happily, those are now behind us. The entire Harmoney team also did an extraordinary job of getting through the initial shockwaves of Covid-19 in 2020.

Some of those headwinds contributed to us reshaping our business, away from a peer-to-peer model and towards simpler on-balance sheet lending. Nonetheless, the business is still based on its foundational principles of fair, risk-based interest rates, market-leading technology and direct-to-customer lending. We see tremendous opportunities to build on these foundations as we push deeper into the Australian market.

Harmoney is ideally placed for growth in Australia because of several key competitive advantages. First, we're the largest 100% consumer-direct money platform in Australia/New Zealand. By not using brokers, we achieve higher margins and can generate repeat business at minimal additional cost. Our new Australian scorecard has also given us a distinct customer data advantage. Not only is this increasing conversion, but it enables us to build more targeted and efficient digital marketing and communications.

Our tech-first credit scoring means most of our conversion process is automated as well as providing world-class accuracy, allowing us to achieve scale without significant increases in overhead costs. And after building a great brand presence in New Zealand, we are now focusing our efforts on Australia in the coming months, to build significant brand awareness.

Most of these strategic focuses were outlined in our IPO prospectus. I am proud of the way the company has executed its plan and strategy since listing. We are very grateful to our shareholders, and excited about the growth potential ahead of us.

With a view to our potential for expansion in Australia, we welcomed Paul Lahiff to Harmoney's Board this year. Paul has significant governance experience in the Australian financial services sector. Just as Neil recognised the ideal moment to hand the reins to David Stevens, I believe that this is the right time to step down as Chair, while remaining on the Board until a replacement Independent Director is appointed, and hand over to Paul. It has been a privilege to help establish Harmoney as one of Australasia's leading personal lenders. Paul is the ideal person to chair the company through the exciting growth phase ahead.

Finally, my thanks to David, Neil, my other fellow board members, and the Harmoney team for their hard work and dedication; and to all our shareholders for your support of Harmoney.

David Flacks,
Chair.

From the Chief Executive

DAVID STEVENS

The transition from private ownership to a public listing is a huge moment for any company. Harmoney's dual listing on the ASX and NZX last November was the next step in our continuing expansion, all the more pleasing because it came against the backdrop of an unprecedented global pandemic.

So I'd like to start by acknowledging the entire Harmoney team for the enormous effort and commitment they showed in achieving the IPO.

Harmoney's momentum grows.

Australia has been our core focus since going public, and demand for Harmoney's unique 100% direct-to-consumer model has been gratifyingly strong—loan originations in Australia increased 22% ($23m) from the previous year to $125m. But the real story is our momentum: our Australian originations grew 93% from $43m in the first half to $82m in the second half. This momentum was due to Harmoney's two key strategic advantages: our unequalled commitment to direct-to-consumer marketing, and Libra 1.7, our first behavioural scorecard designed specifically for the Australian market.

This is our unique point-of-difference: we are solely focused on a direct-to-consumer model. By building direct relationships with our consumers rather than relying on brokers, we are able to generate subsequent business from them for little or no additional marketing expense. We call this our "3R" approach: Repeat, Return, Renew. In New Zealand "3R" customers now make up a high proportion of total originations. We expect

the same in Australia as our portfolio grows. Better yet, our direct model also gives Harmoney direct consumer insights: we're simultaneously building data superiority that means every new Libra release is creating better-than-ever conversions and credit performance. As you'll see later in the report, because Libra automates so much of the credit scoring process very accurately, we can scale growth without scaling costs. It's a powerful model that's allowed us to dominate the New Zealand online personal lending market in a few short years.

A year of two halves.

This year was for us as it was for everyone else, a tale of two halves. During the first half, in response to the uncertainty of early COVID-19, tightened credit criteria and marketing expenditure slowed originations. Even so, our execution prior to that led to first-half originations of $194m, which was a 29% increase on the prior half. Then as economic conditions improved and marketing returned to normal levels our second half originations reached $250m, a further 29% increase on the first half of the year. For the year ended 30 June 2021 the Group reported break even pro forma Cash NPAT. Net lending margin improved by $2.8m (9%) to $33m. Post IPO we increased our investment in origination growth and development of our Stellare platform.

Our direct model also gives Harmoney direct consumer insights: we're simultaneously building data superiority that means every new Libra release is creating better-than-ever conversions and credit performance.

The loan portfolio ended the year at $501m, with Australia contributing strongly and New Zealand returning to growth in Q4. The portfolio movement largely tracked originations, with growth partly impacted by borrowers repaying their loans early, taking advantage of the low interest environment to refinance through home mortgages, particularly in New Zealand where historically low fixed rates were available.

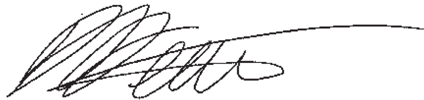
Harmoney's continued focus on balanced business fundamentals to support long-term growth has enabled us to maintain a strong net interest margin of 10.6% and, with lower credit losses as a percentage of the portfolio, increase our net lending margin to 6.8% from 5.8% last year.

We end the year with significant capacity to fund expansion, with NZ$205 million in undrawn capacity—$99m in Australia capacity (supported by a Big-4 Bank backed warehouse). In January 2021, a UK-based global insurer provided our second New Zealand warehouse. This ongoing support of our warehouse funders points to our prudent management and strong credit performance.

With strong brand momentum our 100% consumer-direct model and scale, Harmoney has an extremely positive growth trajectory for FY22 and beyond.

The opportunities ahead.

With strong brand momentum our 100% consumer-direct model and scale, Harmoney has an extremely positive growth trajectory for FY22 and beyond. It's worth noting that while the pandemic has created massive challenges for the global economy, it has also rapidly accelerated consumers' online adoption across all categories. It also saw them continue to abandon traditional banks for fast, simple, online personal lending, so there is no end to category growth in sight. This category growth combined with Harmoney's fundamental strategic advantages has meant constant improvements in book growth, revenue growth and conversion. As we further expand Harmoney's presence and brand awareness in Australia from 2022 onwards, we see significant opportunities ahead.



David Stevens,
CEO and Managing Director.

Getting started with Harmoney

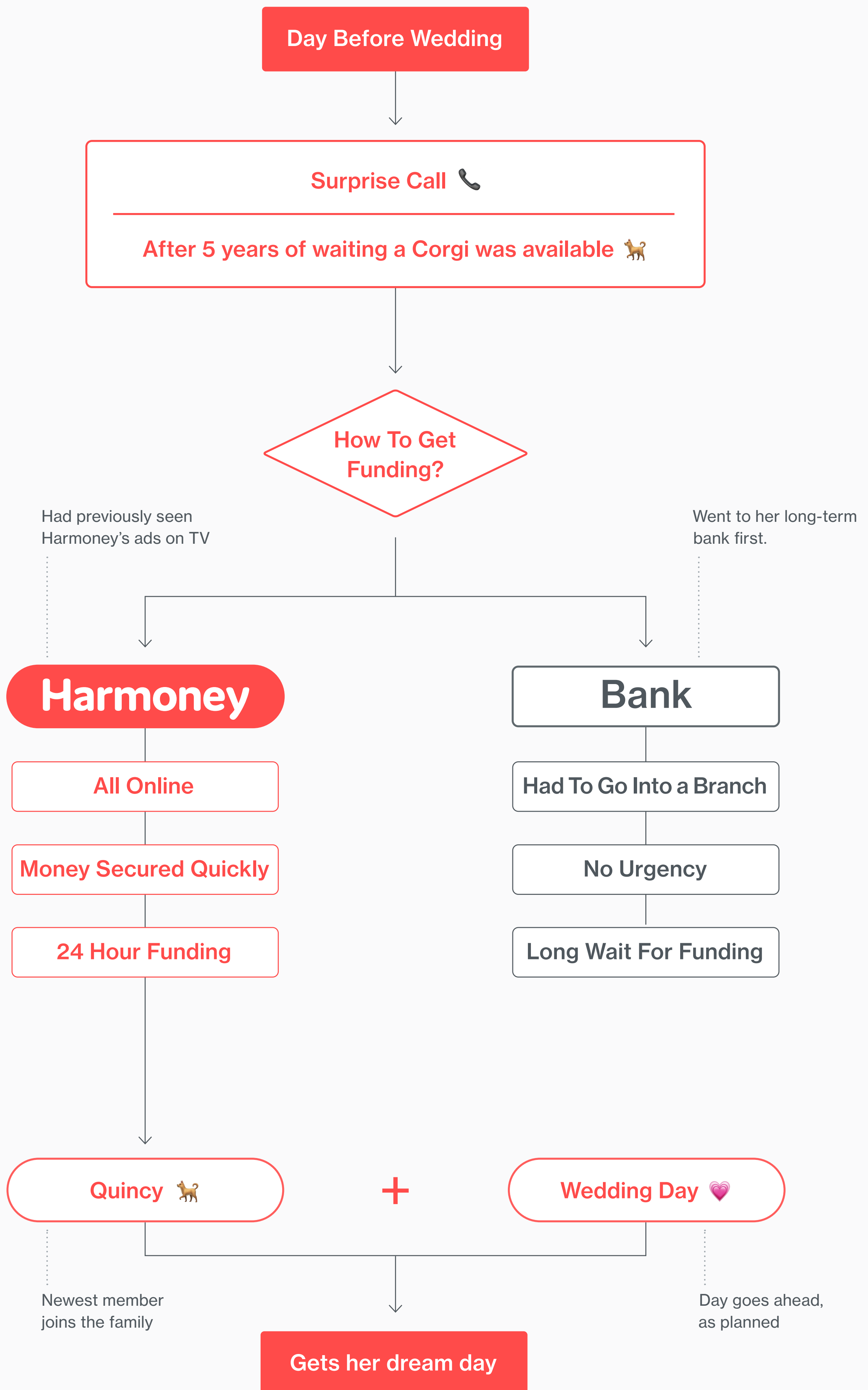
Customer case studies

Case Study

Hope's big days

Back in 2020, Hope had planned on two things: having her dream wedding with the love of her life, and the dog she'd always wanted. Making both of these things come true turned out to be a little more tricky than expected.

That is, until Hope turned to Harmoney for help.



Day Before Wedding
Surprise Call 📞
After 5 years of waiting a Corgi was available 🐕
How To Get Funding?
Had previously seen Harmoney's ads on TV
Went to her long-term bank first.
Harmoney
All Online
Money Secured Quickly
24 Hour Funding
Bank
Had To Go Into a Branch
No Urgency
Long Wait For Funding
Quincy 🐕
+
Wedding Day 💗
Newest member joins the family
Day goes ahead, as planned
Gets her dream day

Case Study

A creative space for kids

When his parents' old house came up for sale, Robert purchased it with a bank loan and converted it into studios where the passion and creative energy of young people are harnessed to host events and create videos for children.

It's both a tribute to his late wife and a way to help children in the community. When he needed to fund more work to the property, he applied online with Harmoney and had an approved loan the next day.

Converted his house into an outreach centre for children and young people in the community 🏡

From this, studios and a YouTube channel are created, where kids share their creative ideas and energy 🎥

Needs funds to do more work to the property

How to Get Funding?

Harmoney

Applied Online

Approved Loan <24hrs

Work to Property ✅

Bank

Bank Steps Back

The studios and YouTube channel continue to gain momentum

Review of operations.

Pro forma financial performance

The table below sets out the pro forma financial performance for the year compared with the prior year pro forma financial performance, as presented in the Company's prospectus dated 30 October 2020 ('Prospectus'). The pro forma results are intended to provide a more meaningful view of the Group's operating performance, normalising for differences in accounting treatment between warehouse and peer-to-peer funded loans. A reconciliation of the statutory consolidated statement of profit and loss is set out on page 25.

	Year ended 30 June 2021 Pro forma $'000	Year ended 30 June 2020 Pro forma $'000	Change	Change %
Interest income	78,560	85,220	(6,660)	(8%)
Other income	505	806	(301)	(37%)
Total income	**79,065**	**86,026**	**(6,961)**	**(8%)**
Interest expense	27,410	31,394	(3,984)	(13%)
Incurred credit losses	18,626	24,382	(5,756)	(24%)
Net lending margin	**33,029**	**30,250**	**2,779**	**9%**
Movement in expected credit loss provision	(436)	8,268	(8,704)	N/A
Net lending margin after loss provision	**33,465**	**21,982**	**11,483**	**52%**
Marketing expenses	16,475	12,601	3,874	31%
Verification and servicing expenses	4,006	3,428	578	17%
Net operating margin	**12,984**	**5,953**	**7,031**	**118%**
Personnel expenses	9,241	6,499	2,742	42%
Share based payment expenses	4,078	760	3,318	437%
Technology expenses	3,245	3,331	(86)	(3%)
General and administrative expenses	7,728	3,458	4,270	123%
Depreciation and amortisation expenses	1,046	1,617	(571)	(35%)
Total indirect expenses	**25,338**	**15,665**	**9,673**	**62%**
Loss before income tax	**(12,354)**	**(9,712)**	**(2,642)**	**(27%)**
Income tax benefit	3,459	2,719	740	27%
Loss after income tax	**(8,895)**	**(6,993)**	**(1,902)**	**(27%)**
Non-cash and other normalisation adjustments				
Movement in expected credit loss provision	(436)	8,268	(8,704)	N/A
Share based payment expenses	4,078	760	3,318	437%
Depreciation and amortisation expenses	1,046	1,617	(571)	(35%)
Borrower establishment fee rebate	4,000	3,000	1,000	33%
IPO Expenses	3,172	-	3,172	-
Income tax impact of adjustments	(3,321)	(3,821)	500	13%
Cash NPAT	**(356)**	**2,831**	**(3,187)**	**N/A**
Loan book (period end)	*500,831*	*499,346*	*1,485*	*0%*

For the year ended 30 June 2021 the Group reported a pro forma Cash NPAT of -$0.4m (2020: $2.8m), a reduction of $3.2m. Net lending margin[1] improved by $2.8m (9%), but was outweighed by increases to marketing ($3.9m), personnel ($2.7m) and administrative expenses ($1.5m). The increase in marketing expenses was driven by increased activity post the Group's initial public offering ('IPO') including the Group's rapid expansion in the Australian market. The increase in personnel costs was driven by investment in additional developers for the Group's proprietary Stellare™ platform, post the Group's IPO. The increase in administrative expenses was driven by costs associated with establishing more efficient funding structures and additional public company costs.

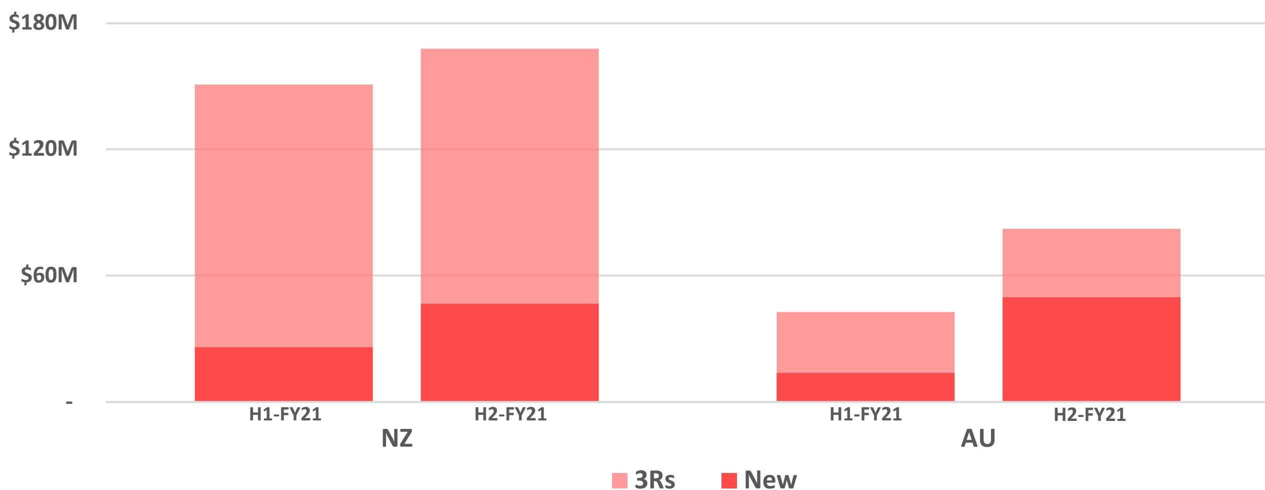
Loan originations

	Year ended 30 June 2021	Year ended 30 June 2020	Change	Change %
Originations ($'000)	444,044	420,107	23,937	6%
Number of originations	18,164	17,008	1,156	7%
Average value of originations ($)	24,446	24,701	(255)	(1%)

Loan originations for the year were $444m, an increase of $24m (6%) on the prior year. During the first half, in response to COVID-19, tightened credit criteria and marketing expenditure restrictions remained in place, slowing originations. These measures were progressively unwound as economic conditions improved, with marketing returning to normal levels in the second half of the year. First half originations were $194m, a 29% increase on the prior half. Second half originations were $250m, a further 29% increase on the first half of the year.

In the first half of the year, particularly in the first quarter, originations were focused on 3Rs[2] customers, reducing marketing expenditure, with the size and maturity of the New Zealand portfolio in particular, continuing to generate significant originations.

Loan origination by geography



Loan originations in New Zealand were $319m, an increase of $1m on the prior year. First half originations were $151m, increasing 11% to $168m in the second half. As normal marketing activity resumed in the second half of the year, the proportion of originations from 3Rs customers reduced from 83% in the prior half to 72%.

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

[2] 3Rs is a retention strategy involving direct communication with existing and former customers.

Loan originations in Australia were $125m, an increase of $23m on the prior year. First half originations were $43m, increasing 93% to $82m in the second half as Harmoney's direct to customer marketing program accelerated in Australia post its IPO and with the successful implementation of Harmoney's Libra 1.7 scorecard in February 2021. In the second half of the year new customer originations in Australia were $50m, comprising 60% of total Australian originations. This provides a strong pipeline for 3Rs originations, which lag new originations, as those new customers later return, seeking to borrow for further needs. As the Australian portfolio grows and matures it is expected to trend towards the New Zealand New/3Rs origination mix.

Pro forma portfolio

	Year ended 30 June 2021	Year ended 30 June 2020	Change	Change %
Loan book (period end) ($'000) [1]	500,831	499,346	1,485	0%
Loan book (average) ($'000) [1]	480,623	505,928	(25,305)	(5%)

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

The loan portfolio ended the year at $501m, up $1.5m on the prior year, but with a substantial variance between the COVID-19 impacted first half, where the portfolio contracted by $31m, and the post IPO second half, where the portfolio grew by $33m. The portfolio movement largely tracked originations however portfolio growth was also impacted by an elevated loan amortisation rate, being the rate at which loans are repaid, with an increase in borrowers refinancing with home mortgages, particularly in New Zealand where historically low fixed rates were available.

Pro forma net lending margin

	Year ended 30 June 2021	Year ended 30 June 2020	Change	Change %
Average interest rate (%)	16.3%	16.8%	(50bps)	N/A
Funding debt (period end) ($'000)	482,192	486,065	(3,873)	(1%)
Funding debt (average) ($'000)	473,376	499,483	(26,107)	(5%)
Warehouse funded % of book (period end) ($'000)	61%	27%	34%	N/A
Warehouse funded % of book (average) ($'000)	44%	20%	24%	N/A
Average funding rate (%)	5.8%	6.3%	(50bps)	N/A
Net interest margin (%)	10.6%	10.6%	0bps	N/A
Incurred credit loss ($'000)	18,626	24,382	(5,756)	(24%)
Incurred credit loss to average gross loans (%)	3.9%	4.8%	(90bps)	N/A
Net lending margin (%)	6.8%	5.8%	100bps	N/A

Interest income for the year was $78.6m, a decrease of $6.7m on the prior year driven by the lower average portfolio size over the period, due to the impacts of COVID-19 in the second half of FY20 and the first half of FY21.

The average interest rate, which represents interest income as a percentage of the portfolio, decreased to 16.3%, from 16.8% in the prior year, with growth in the Australian proportion of the portfolio, where interest rates (and funding costs) are lower.

The average funding rate, which represents interest expense as a percentage of the average funding debt, decreased to 5.8% from 6.3% in the prior year driven by continuation of the Group's transition to warehouse funding, reaching 61% of the portfolio being warehouse funded at 30 June 2021.

Incurred credit loss, which represent actual losses on loans written off during the period, were $18.6m, a decrease of $5.8m (24%) from the prior year. Incurred credit loss to average loan portfolio, which represents incurred credit loss as a percentage of the portfolio, decreased to 3.9% from 4.8% in the prior year.

Harmoney increased its net lending margin to $33.0m, up from $30.3m in the prior year, with funding efficiencies and improved credit performance outweighing lower interest income.

Pro forma credit provisioning

	Year ended 30 June 2021	Year ended 30 June 2020	Change	Change %
Movement in expected credit loss provision ($'000)	(436)	8,268	(8,704)	N/A
Provision rate (%)	5.6%	5.7%	(10bps)	N/A

The Group's expected credit loss (ECL) provision at 30 June 2021 was $28.3m, representing 5.6% of the portfolio, down from 5.7% of the portfolio at 30 June 2020.

The reduction in the ECL provision rate was primarily driven by improvement in the credit performance of the portfolio over the year. The ECL provision was also moderated by a reduction in the overlay applied by management to adjust for future macroeconomic factors not incorporated within the base provisioning model. This reduction in the economic overlay adjustment was in response to the easing of economic uncertainty associated with COVID-19 from the circumstances persisting at 30 June 2020, however the adjustment remains higher than pre-COVID-19 levels reflecting management's assessment that economic uncertainty remains elevated.

Pro forma direct expense metrics

	Year ended 30 June 2021	Year ended 30 June 2020	Change	Change %
Marketing to origination ratio	3.7%	3.0%	0.7%	N/A
Verification & servicing to origination ratio	0.8%	0.8%	0.0%	N/A
Marketing to income	20.8%	14.6%	6.2%	N/A
Verification & servicing to income	4.6%	4.0%	0.6%	N/A

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

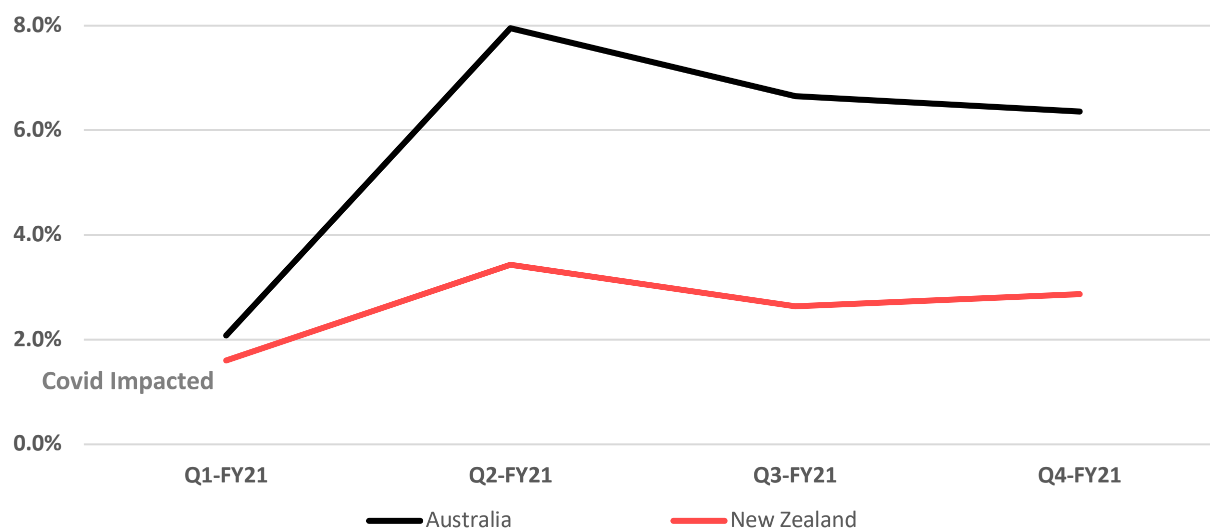
Marketing expenses increased to $16.5m in the year from $12.6m in the prior year. This was primarily driven by the Group's rapid post IPO scale up in the Australian market with average quarterly origination growth of 40% achieved during the year.

Customer verification and serving costs increased to $3.6m in the year from $3.4m in the prior year on increased originations.

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

For Harmoney, the timing difference between marketing expenditure and the revenue that it generates is compounded with Harmoney's successful 3Rs strategy, which generates subsequent originations from existing customers for little or no additional marketing expense, due to the direct relationship with the customer. The chart below illustrates that in the longer established New Zealand portfolio where 3Rs originations are a much higher proportion of total originations, the marketing expense to total originations ratio is significantly lower.

Marketing to originations ratio



Pro forma indirect expense metrics

	Year ended 30 June 2021	Year ended 30 June 2020	Change	Change %
Personnel to income ratio	12%	8%	4%	N/A
Technology to income ratio	4%	4%	0%	N/A
General and administrative to income	6%	4%	2%	N/A

Personnel expenses (excluding share based payments) increased to $9.2m in the year from $6.5m in the prior year on increased investment in Harmoney's proprietary Stellare™ technology platform, following its IPO in November.

Administrative expenses increased to $4.9m in the year from $3.5m in the prior year with the increase primarily driven by additional public company costs and costs associated with establishing more efficient funding structures, with three warehouse facilities currently operating across New Zealand and Australia and an additional New Zealand and Australian facility in advanced negotiations.

Statutory to pro forma reconciliation

The table below sets out the pro forma adjustments applied to the statutory consolidated income statement, for the year ended 30 June 2021 and the prior comparative period. The pro forma adjustments are consistent with those made in the Prospectus and are intended to provide a more meaningful view of the Group's operating performance, normalising for differences in statutory accounting treatment between warehouse and peer-to-peer funded loans.

	Year ended 30 June 2021			Year ended 30 June 2020			
	Statutory	Pro forma Adjustments	Pro forma	Statutory 15 Months	3 Month Adjustment	Pro forma Adjustments	Pro forma Year
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Interest income [1]	37,643	40,917	78,560	21,552	(2,521)	66,189	85,220
Fee income [2]	659	(659)	-	13,829	(7,240)	(6,589)	-
Other income [3]	845	(340)	505	2,099	-	(1,293)	806
Total income	**39,147**	**39,918**	**79,065**	**37,480**	**(9,761)**	**58,307**	**86,026**
Interest expense [4]	9,647	17,763	27,410	5,698	(553)	26,249	31,394
Impairment expense [5]	13,072	5,118	18,190	8,898	(638)	24,390	32,650
Marketing expenses	16,475	-	16,475	15,085	(2,484)	-	12,601
Verification and servicing expenses	4,006	-	4,006	4,185	(757)	-	3,428
Personnel expenses [6]	13,248	71	13,319	13,151	(2,730)	(3,162)	7,259
Technology expenses	3,245	-	3,245	4,135	(804)	-	3,331
Depreciation and amortisation expenses [7]	1,046	-	1,046	977	(173)	813	1,617
General and administrative expenses [8]	7,728	-	7,728	5,339	(692)	(1,189)	3,458
Loss before income tax	**(29,320)**	**16,966**	**(12,354)**	**(19,988)**	**(930)**	**11,206**	**(9,712)**
Income tax benefit [9]	2,286	1,173	3,459	4,616	616	(2,513)	2,719
Loss after income tax	**(27,034)**	**18,139**	**(8,895)**	**(15,372)**	**(314)**	**8,693**	**(6,993)**

Notes:

1. In the statutory income statement, loans funded via warehouse facilities are recorded on-balance sheet, while loans funded via the Group's peer-to-peer trusts are off-balance sheet for accounting purposes. As the Group is transitioning to full warehouse funding, this creates income statement comparability issues between periods. As such a pro forma adjustment has been made to present the income statement consistently with recognition of peer-to-peer funded loans on-balance sheet, indifferent to funding sources. In the statutory income statement, for loans funded by the Group's peer-to-peer trusts, expected lifetime fee income is recognised on loan origination, in contrast with warehouse funding where interest income and interest expense are recognised over the life of the loan. The interest income adjustment recognises interest income earned during the period from peer-to-peer funded loans.
2. For the reasons set out in note 1, the fee income adjustment removes fees earned from peer-to-peer funded loans with establishment fees being recognised in the pro forma income statement through interest income over the expected life of the loan and peer-to-peer lender fees being recognised in the pro forma as a deduction from interest expense. The fee income adjustment also reclassifies borrower dishonour and late fees to other income.
3. The other income adjustment reclassifies borrower dishonour and late fees from fee income in the statutory income statement to other income in the pro forma income statement and, for consistency with the pro forma income statement presented in the Prospectus, removes non-recurring benefit of the Wage Subsidy Scheme in New Zealand and the JobKeeper wage subsidy in Australia and in the prior comparative period removes grant income which the Group expects on a go forward basis it would not be eligible to receive on the revised application of its accounting policy for the capitalisation of eligible research and development applied from the current period.
4. For the reasons set out in note 1, the interest expense adjustment recognises net interest paid to peer-to-peer lenders after deducting impairments and fees owed to the Group and, for consistency with the pro forma income statement presented in the Prospectus, removes the interest expense relating to the corporate debt facility, which was repaid prior to the IPO.
5. For the reasons set out in note 1, the impairment expenses adjustment recognises, for peer-to-peer funded loans, both actual impairment costs and the movement in expected credit loss provision during the period.
6. For consistency with the pro forma income statement presented in the Prospectus, the personnel expenses have been adjusted to remove the impact of the salary reductions taken by employees and, in the prior comparative period, remove the portion of costs that the Group estimates could have been capitalised had the current period application of the Group's accounting policy for the capitalisation of eligible research and development expenditure applied.
7. For consistency with the pro forma income statement presented in the Prospectus, the depreciation and amortisation expenses for the prior comparative period adds the Group's estimate of amortisation of capitalised research and development expenditure had the Group's current period application of its accounting policy for the capitalisation of eligible research and development expenditure been applied in prior periods.
8. For consistency with the pro forma income statement presented in the Prospectus, the general and administrative expenses adjustment in the prior comparative period removes the establishment costs relating to the corporate debt facility, which was repaid prior to the IPO, and adds the Group's estimate of additional public company costs associated with being a publicly listed entity.
9. The income tax benefit adjustment represents the cumulative income tax expense on the pro forma adjustments at an effective income tax rate of 28%.

Director's 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 year ended, 30 June 2021 ("the Group").

Directors

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

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

For details of Directors during the year refer to the Company Information.

Principal activities

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

Dividends

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

For and on behalf of the Directors'

David Flacks
Chairman

Auckland

30 August 2021

Financial Report

Directors' Responsibility Statement

The directors are pleased to present the consolidated financial statements of Harmoney Corp Limited for the year ended 30 June 2021.

The directors are responsible for ensuring that the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2021 and its financial performance and cash flows for the year ended on that date.

The directors consider that the consolidated financial statements of the Group have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the consolidated financial statements with the Financial Reporting Act 2013.

Harmoney Corp Limited's directors do not have the power to amend these consolidated financial statements after issue.

The Board of Directors of Harmoney Corp Limited authorised the financial statements set out on pages 29-65 for issue on 30 August 2021.

For and on behalf of the Board

David Flacks
Director

Tracey Jones
Director

30 August 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2021

	Notes	Year ended 30 June 2021 $'000	15 months ended 30 June 2020 $'000
Interest income	6	37,643	21,552
Fee income	7	659	13,829
Other income	8	845	2,099
Total income		**39,147**	**37,480**
Interest expense	6	9,647	5,698
Impairment expense	9	13,072	8,899
Marketing expenses		16,475	15,085
Personnel expenses		13,248	13,150
Verification and servicing expenses		4,006	4,185
Technology expenses		3,245	4,135
General and administrative expenses		7,728	5,339
Depreciation and amortisation expenses	10	1,046	977
Loss before income tax		**(29,320)**	**(19,988)**
Income tax benefit	12	2,286	4,616
Loss for the period attributable to shareholders of Harmoney Corp Limited		**(27,034)**	**(15,372)**
Other comprehensive gain/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		898	(250)
Gain/(loss) on cash flow hedge	14	841	(818)
Other comprehensive income/(loss) for the period, net of tax		**1,739**	**(1,068)**
Total comprehensive loss for the period attributable to shareholders of Harmoney Corp Limited		**(25,295)**	**(16,440)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share	13	(29.0)	(20.6)
Diluted earnings per share	13	(29.0)	(20.6)

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	30 June 2021 $'000	30 June 2020 $'000
Assets			
Cash and cash equivalents	15	76,464	34,779
Trade and other assets	16	1,894	5,223
Finance receivables	17	294,821	129,222
Property and equipment	18	642	1,448
Intangible assets	19	3,455	-
Deferred tax assets	12	11,490	9,548
Total assets		**388,766**	**180,220**
Liabilities			
Payables and accruals	20	7,324	3,263
Borrowings	21	291,541	132,630
Provisions	22	13,405	12,832
Lease liability	18	717	1,684
Derivative financial instruments	14	85	926
Total liabilities		**313,072**	**151,335**
Net assets		**75,694**	**28,885**
Share capital	23	131,399	56,686
Foreign currency translation reserve		564	(334)
Share based payment reserve	24	216	2,825
Cash flow hedge reserve	14	(85)	(926)
Accumulated losses	24	(56,400)	(29,366)
Equity		**75,694**	**28,885**

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Notes	Share capital $'000	Foreign currency translation reserve $'000	Share based payment reserve $'000	Cash flow hedge reserve $'000	Accumulated losses $'000	Total $'000
Balance at 31 March 2019		**33,092**	**(84)**	**2,386**	**(108)**	**(13,994)**	**21,292**
Loss for the 15 month period ended 30 June 2020		-	-	-	-	(15,372)	(15,372)
Other comprehensive loss for the 15 month period ended 30 June 2020, net of income tax		-	(250)	-	(818)	-	(1,068)
Total comprehensive loss for the 15 month period ended 30 June 2020		**-**	**(250)**	**-**	**(818)**	**(15,372)**	**(16,440)**
Recognition of share based payments	24	-	-	564	-	-	564
Transfer to capital	24	125	-	(125)	-	-	-
Issue of share capital	23	23,469	-	-	-	-	23,469
Balance at 30 June 2020		**56,686**	**(334)**	**2,825**	**(926)**	**(29,366)**	**28,885**
Loss for the year ended 30 June 2021		-	-	-	-	(27,034)	(27,034)
Other comprehensive loss for the year ended 30 June 2021, net of income tax		-	898	-	841	-	1,739
Total comprehensive loss for the year ended 30 June 2021		**-**	**898**	**-**	**841**	**(27,034)**	**(25,295)**
Recognition of share based payments	24	-	-	4,553	-	-	4,553
Transfer to share capital	24	7,162	-	(7,162)	-	-	-
Issue of share capital, net of transaction costs	23	67,551	-	-	-	-	67,551
Balance at 30 June 2021		**131,399**	**564**	**216**	**(85)**	**(56,400)**	**75,694**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Notes	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Cash flows from operating activities			
Interest received		36,760	20,650
Interest paid		(9,773)	(5,576)
Other income		6,809	32,712
Payments to suppliers and employees		(35,384)	(41,616)
Net cash (used in)/generated by operating activities		**(1,588)**	**6,170**
Cash flows from investing activities			
Net advances to customers		(180,044)	(99,209)
Payments for intangibles and equipment		(3,694)	(33)
Net cash (used in) investing activities		**(183,738)**	**(99,242)**
Cash flows from financing activities			
Net proceeds from finance receivables borrowings		170,227	84,863
Net (repayment) / proceeds of debt financing		(10,694)	10,163
Proceeds from share issue, net of transaction costs		67,550	23,469
Principal element of lease payments		(969)	(189)
Net cash generated by financing activities		**226,114**	**118,306**
Cash and cash equivalents at the beginning of the period		34,779	9,531
Net increase / (decrease) in cash and cash equivalents		**40,788**	**25,234**
Effects of exchange rate changes on cash and cash equivalents		897	14
Cash and cash equivalents at the end of the period	15	**76,464**	**34,779**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

1 Corporate information

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

The results and position of each Group entity are expressed in New Zealand dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements, unless otherwise stated.

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

These consolidated financial statements are for the year ended 30 June 2021 while the comparative information is for the 15 month period ended 30 June 2020 and accordingly, the results are not directly comparable.

2 Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of Harmoney Corp Limited comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (GAAP). The Company is a for-profit entity for the purposes of complying with GAAP.

The Group has transitioned from NZ IFRS Reduced Disclosure Regime to NZ IFRS and International Financial Reporting Standards (IFRS). There were no recognition or measurement differences arising from the Group's transition.

The Consolidated group financial statements have been prepared following the historical cost convention, except where otherwise identified. Financial assets are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any expected credit loss allowance. The comparatives have been regrouped for consistency with the current year presentation. The comparatives have not been restated.

The Consolidated Statement of Financial Position has been prepared in order of liquidity, including the comparatives. All assets and liabilities are current unless otherwise stated in the notes. The disaggregation of amounts receivable and payable in the next twelve months and beyond is outlined in the accompanying notes to the financial statements and the maturity profile of financial liabilities is outlined in note 28.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The assets and liabilities of entities whose functional currency is not the New Zealand dollar are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the foreign currency translation reserve.

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3 Goods and services tax

Revenue, expenses, assets, and liabilities are recognised net of the amount of goods and services tax (GST) except:

- where the amount of GST incurred is not recovered from the taxation authority, the unrecoverable GST expense is included in the related expense item in the income statement.
- receivables and payables which are recognised inclusive of GST (the net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables).
- cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

2.4 Application of new and revised accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions. The Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39 will have no impact as the Group does not have any IBOR-based contracts.

3 Significant changes in the current reporting period

ASX Listing and Initial Public Offering (IPO)

On 19 November 2020, the Company completed an IPO and listed on the ASX with a secondary listing on the NZX. Refer to note 23 for further details.

4 Significant accounting judgements, estimates and assumptions

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 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 17 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 is described at note 17.

4.2 Determination of transaction price for distributing services

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

The Group measures the transaction price including variable consideration to determine income as required by NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15). The Group's accounting policy for the recognition and measurement of this income is described in note 7. The transaction price is determined based on models of expected customer behaviour which are informed by historical experience. An overlay has been applied to reduce the amount of income recognised to accommodate for the expected deviation from that base given current uncertainties.

4.3 Treatment of development costs incurred in the period

The Group has incurred and will continue to incur significant costs on software development projects. The directors believe that the costs fall within the definition of research and development within NZ IAS 38 Intangible Assets. Judgement has been applied in assessing these costs against the recognition and measurement criteria in that standard. The costs have been recorded as Intangible Assets on the balance sheet where the Group believes that they have met all the requirements of the recognition criteria outlined in the accounting policy (note 19) and expensed where they have not been met.

4.4 Deferred tax asset relating to tax losses

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

5 Segment reporting

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

5.1 Description of segments

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

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

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

5.2 Major customers

There are no customers who account for more than 10% of the Group’s revenue for the year ended 30 June 2021 (2020: 10% of the Group’s revenue was received from transactions with a single external customer).

The following tables present income and loss information for the Group's operating segments.

Segmented income statement for the Year ended 30 June 2021 $'000

	New Zealand	Australia	Group
Interest income	29,542	8,101	37,643
Fee income	(1,079)	1,738	659
Other income	715	130	845
Total income	**29,178**	**9,969**	**39,147**
Interest expense	5,748	3,899	9,647
Incurred credit losses	3,974	813	4,787
Movement in expected credit loss provision	5,939	2,346	8,285
Marketing expenses	8,671	7,804	16,475
Verification and servicing expenses	2,937	1,069	4,006
Personnel expenses (excl. share-based payments)	8,107	1,063	9,170
Share-based payments expenses	3,508	570	4,078
Technology expenses	3,240	5	3,245
Depreciation and amortisation expenses	914	132	1,046
General and administrative expenses	6,377	1,351	7,728
Loss before income tax	**(20,237)**	**(9,083)**	**(29,320)**
Income tax benefit/(expense)	1,028	1,258	2,286
Loss for the period attributable to shareholders of Harmoney Corp Limited	**(19,209)**	**(7,825)**	**(27,034)**
Non-cash and other normalisation adjustments			
Movement in expected credit loss provision	5,939	2,346	8,285
Share based payments expenses	3,508	570	4,078
Depreciation and amortisation expenses	914	132	1,046
Borrower establishment fee rebate	4,000	-	4,000
IPO related expenses	3,172	-	3,172
Income tax impact of adjustments	(4,908)	(914)	(5,822)
Cash NPAT	**(6,584)**	**(5,691)**	**(12,275)**

Segmented income statement for the 15 months ended 30 June 2020 $'000

	New Zealand	Australia	Group
Interest income	20,473	1,079	21,552
Fee income	8,030	5,799	13,829
Other income	2,067	32	2,099
Total income	**30,570**	**6,910**	**37,480**
Interest expense	4,183	1,515	5,698
Incurred credit losses	2,676	-	2,676
Movement in expected credit loss provision	5,036	1,187	6,223
Marketing expenses	8,789	6,296	15,085
Verification and servicing expenses	3,120	1,065	4,185
Personnel expenses (excl. share-based payments)	10,865	1,453	12,318
Share-based payments expenses	668	164	832
Technology expenses	4,131	4	4,135
Depreciation and amortisation expenses	931	46	977
General and administrative expenses	3,212	2,127	5,339
Loss before income tax	**(13,041)**	**(6,947)**	**(19,988)**
Income tax benefit	4,120	496	4,616
Loss for the period attributable to shareholders of Harmoney Corp Limited	**(8,921)**	**(6,451)**	**(15,372)**
Non-cash and other normalisation adjustments			
Movement in expected credit loss provision	5,034	1,187	6,221
Share based payments expenses	669	164	833
Depreciation and amortisation expenses	931	46	977
Borrower establishment fee rebate	3,000	-	3,000
Income tax impact of adjustments	(2,697)	(419)	(3,116)
Cash NPAT	**(1,985)**	**(5,473)**	**(7,458)**

The following tables present a disaggregation of the Group's fees income in operating segments.

Segment fee income statement for the Year ended 30 June 2021 $'000

	New Zealand	Australia	Group
Distributing services	1,082	982	2,064
Establishment services	921	752	1,673
Borrower establishment fee rebate	(4,000)	-	(4,000)
Protect fees	893	-	893
Other fees	25	4	29
Total fee income	**(1,079)**	**1,738**	**659**

Segment fee income statement for the 15 months ended 30 June 2020 $'000

	New Zealand	Australia	Group
Distributing services	3,810	4,013	7,823
Establishment services	4,709	1,730	6,439
Borrower establishment fee rebate	(3,000)	-	(3,000)
Protect fees	1,553	-	1,553
Other fees	958	56	1,014
Total fee income	**8,030**	**5,799**	**13,829**

6 Interest

Interest Income

	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Interest income	37,643	21,552

Interest Expense

	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Interest Expense		
Interest on receivables funding	8,960	4,973
Interest on corporate debt	624	628
Interest on lease liability	63	97
Total interest expense	**9,647**	**5,698**

Interest income and interest expense are recognised in the Income Statement for all financial assets and liabilities measured at amortised cost using the effective interest method. The effective interest method allocates interest income or interest expense over the life of the contract, or when appropriate a shorter period, using the effective interest rate. The effective interest rate is the discount rate at which the present value of the future cash flows equals the net carrying amount of the financial asset or liability. Where the Group is the lender, origination fees are required to be amortised over the expected life of the finance receivable in accordance with NZ IFRS 9 Financial Instruments. The deferred amount is recognised as a reduction to the finance receivable (note 17).

7 Fee Income

	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Borrower fee income		
Establishment services	1,673	6,439
Borrower establishment fee rebate	(4,000)	(3,000)
Protect fees	893	1,553
Other fees	29	1,014
Total borrower fee income	**(1,405)**	**6,006**
Lender fee income		
Distributing services	2,064	7,823
Total fee income	**659**	**13,829**

Establishment services
Establishment fees are a brokerage fee charged to borrowers on peer-to-peer loans for arranging the loan. The performance obligation of arranging the loan is fulfilled at the point in time the loan is matched. Given only one material performance obligation the transaction price is allocated to the single performance obligation. The Borrower establishment fee rebate relates to movements in the provision for rebate (note 22) and the basis for the rebate is disclosed in note 31.

Protect Fees
In New Zealand, some of the finance receivable assets have the payment protect feature attached. If the borrower under the loan contract has elected the payment protect feature and makes a successful claim within the required period, principal and interest repayments covered by the claim will be waived by the lender. No amounts are paid to the borrower in the event of a waiver.

Protect fee revenue is the amount charged to the borrower for the payment protect feature on finance receivables. This Protect fee revenue is recognised in the income statement from the attachment date over the period of the contract. Protect fee revenue is earned in accordance with the pattern of the underlying exposure to risk expected under the payment protect feature of the loan contract. The portion of Protect fee revenue included in the financial receivable asset but not yet earned as at the balance date is included in payables and accruals as waiver fee revenue in advance (note 20).

Where the loan is off balance sheet, the Protect fee revenue is the amount charged to the peer-to-peer lender for arrangement and management of the Protect loan. Given only one material performance obligation, the transaction price is allocated to the single performance obligation. At the point the performance obligation of matching the lender with a borrower is satisfied, the Group estimates and records as revenue the amount of variable consideration to the extent that it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The Group's estimate of rebateable amounts is included in provision as distributing services rebate provision (note 22).

Other fees
Other fees include fees charged when borrower repayments are dishonoured or in arrears. A performance obligation arises every time the credit event occurs. The Group performs the debt collection activity following every credit event and recognises revenue at the point in time the follow up activity is undertaken. Given only one material performance obligation the transaction price is allocated to the single performance obligation. Revenue is recognised only to the extent that it is likely that the amount will be recovered.

Distributing services

Distributing services refer to Harmoney facilitating the matching of credit worthy borrowers with off balance sheet lenders within criteria chosen by the lender. The fees charged for this service are recognised at the point matching is complete and to the extent that it is highly probable that a significant reversal will not occur. Given only one material performance obligation the transaction price is allocated to the single performance obligation.

Payment for distributing services is made by the lender via a combination of fees payable at the point of matching with a borrower when borrower repayments are received and on a monthly invoice cycle where fees are calculated based on lender portfolio performance.

Certain fees charged at the point of matching lenders with borrowers are rebateable if the lender does not achieve the required return on their investment. This is typically due to the borrower loan closing earlier than stated on their contract due to early repayment or default. At the point the performance obligation of matching the lender with a borrower is satisfied, the Group estimates and records as revenue the amount of variable consideration to the extent that it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The Group's estimate of rebateable amounts are booked as distributing services rebate provision note 22.

8 Other Income

	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Grant income	476	1,614
Wage subsidy	369	485
Total other income	**845**	**2,099**

Grant and wage subsidy

Grants from the New Zealand Government are recognised at their fair value where there is reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Harmoney received grants related to Research and Development activity as funded by Callaghan Innovation and the R&D Loss Tax Credit as funded by Inland Revenue. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

The Group received $239,006 (2020: $452,923) of wage subsidies funded by the Ministry of Social Development for New Zealand operations. The subsidy was part of the New Zealand Government's COVID-19 response plan. The wage subsidy was predicated on certain criteria which were considered in the Group's application. The Group also received $23,813 (2020: $32,185) of JobKeeper subsidies and $106,361 (2020: $Nil) of Cash flow boost grant funded by the Australian Tax Office, these are recognised as wage subsidies above. The subsidy and grant were predicated on certain criteria which were considered in the Group's application.

9 Impairment expense

	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Change in expected credit loss provision	8,285	6,223
Incurred credit loss	4,853	2,510
Change in protect waiver provision	(66)	166
Impairment expense	**13,072**	**8,899**

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 17). For example, due to the growth in the finance receivable.

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.

10 Depreciation and Amortisation

	Year ended 30 June 2021 $'000	15 months ended 30 June 2020 $'000
Depreciation charge on right-of-use assets		
Buildings	779	908
Equipment	8	11
Depreciation charge on Property Plant and Equipment		
Furniture and Fixtures	9	14
IT Equipment	23	37
Amortisation charge		
Software development	227	7
Total depreciation and amortisation expense	**1,046**	**977**
Amounts recognised in the statement of profit and loss relating to leases		
Interest expense (included in interest expense)	63	97
Expense relating to short-term leases	4	106
Cash outflows relating to leases		
Cash outflow for leases in the period	1,032	287

11 Research and Development

	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Research and development costs capitalised	3,682	-
Research and development costs expensed	544	6,425
Total research and development	**4,226**	**6,425**

Research and development costs capitalised are discussed in note 19. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

12 Income Taxes

12.1 Income tax recognised in profit or loss

The income tax expense for the period can be reconciled to the accounting profit/(loss) as follows:

	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Current tax		
In respect of the current period	27	36
Deferred tax		
In respect of the current period	(2,313)	(4,652)
Total income tax benefit recognised in the period	**(2,286)**	**(4,616)**

	Year ended 30 June 2021 $000	15 months ended 30 June 2020 $000
Loss before tax from continuing operations	**(29,320)**	**(19,988)**
Income tax benefit calculated	(8,333)	(5,698)
Effect of expenses that are not deductible	(8,227)	453
Research and Development Tax Credits	476	392
Movement in temporary differences	263	142
Income tax benefit not recognised	13,503	-
Other	32	95
Income tax benefit recognised in profit or loss	**(2,286)**	**(4,616)**

The tax rate used for the reconciliation above is the corporate tax rate of 28% payable by corporate entities in New Zealand and 30% for those in Australia, on taxable profits under tax law in their respective jurisdictions.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from 'profit/(loss) before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that there is convincing other evidence that taxable profits will be available against which those deductible temporary differences can be utilised.

12.2 Deferred tax balances

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

	30 June 2021 $'000	30 June 2020 $'000
Deferred tax assets		
Losses	6,800	7,494
Deferred R&D expenses	2,283	4,355
Share based payments	-	901
Accruals and other	5,342	2,284
Deferred tax assets	**14,425**	**15,034**
Deferred tax liabilities		
Distributing services	(2,870)	(2,143)
Plant & equipment and intangibles	(65)	(5)
Deferred tax liabilities	**(2,935)**	**(2,148)**
Net deferred tax assets	**11,490**	**12,886**

The recognised tax losses are subject to meeting the requirements of the applicable tax legislation. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset recognised to be utilised. The Group has further tax losses of $11.9m at 30 June 2021 (June 2020: nil) which have not been recognised and are available to offset future taxable profits.

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

12.3 Amounts recognised directly in equity

	30 June 2021 $'000	30 June 2020 $'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited equity:		
Share based payments	371	269

13 Earnings per share

	30 June 2021 $'000	30 June 2020 $'000
Loss after tax for the period attributable to the owners of the Group	(27,034)	(15,372)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	93,358,795	74,576,613
Weighted average number of ordinary shares used in calculating diluted earnings per share	93,358,795	74,576,613
	Cents	**Cents**
Basic earnings per share	(29)	(21)
Diluted earnings per share	(29)	(21)
	Number	**Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	93,358,795	74,576,613
Adjustments for calculation of diluted earnings per share:		
Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**93,358,795**	**74,576,613**

Options

Performance rights (zero strike price options) under the Groups Long Term Incentive Plan ('LTIP') as detailed in note 24 are considered to be potentially ordinary shares. They have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The calculation of diluted earnings per share does not include 4,224,000 options granted on 15 June 2021 because they are antidilutive for the year ended 30 June 2021. These options could potentially dilute basic earnings per share in the future.

14 Cash flow hedge

Cash flow hedge reserve

The Group borrows funds (note 21) in order to purchase finance receivables (note 17). The interest rate payable on the borrowings is floating while the interest receivable is fixed at the point the funds are lent. The interest rate risk is managed and mitigated through the use of interest rate swaps, which exchange floating interest payments with fixed interest payments. The swaps are entered into to match the maturity profile of estimated repayments of the Group's borrowings. These are accounted for at trade date.

The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives (interest rate swaps) that are designated and qualify as cash flow hedges.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The valuations for New Zealand were based on market rates at 30 June 2021 of 0.26% for the 1-month BKBM and 1.35% for the 5-year swap rate for (2020: 0.27% and 0.36%) and for Australia 0.01% for the 1-month BBSW and 0.92% for the 5-year swap rate (2020: 0.09% and 0.27%).

15 Cash and cash equivalents

Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	30 June 2021 $'000	30 June 2020 $'000
Cash on hand and demand deposits	44,343	10,266
Short term deposits	-	17,139
Restricted cash	32,121	7,374
Total cash and cash equivalents	**76,464**	**34,779**

No adjustment has been made for counterparty credit risk in cash and cash equivalents as the risk of impairment is not expected to be material.

Short term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest.

Restricted cash is held by Harmoney Warehouse Trust No. 1, Harmoney Warehouse No.2 Trust and Harmoney Australia Warehouse No. 1 Trust, controlled entities (note 26). These funds may only be used for purposes defined in the Trust documents, and therefore not available for general use by the Group.

Reconciliation of (loss)/profit for the period to net cash generated by operating activities

	Year ended 30 June 2021 $'000	15 months ended 30 June 2020 $'000
Loss for the period	(27,034)	(15,372)
Non-cash adjustments:		
Impairment expense	13,072	8,899
Share-based payments	4,925	832
Depreciation and amortisation	1,046	59
Change in deferred establishment fee	1,471	268
Warehouse establishment fees	(497)	263
Other movements	2	(8)
Change in operating assets and liabilities:		
Decrease in trade and other assets	3,329	7,493
Increase in deferred tax assets	(2,316)	(4,651)
Increase in payables and accruals	4,783	2,354
Increase in provisions	640	6,546
Increase in accrued interest	(1,009)	(513)
Net cash (used in)/generated by operating activities	**(1,588)**	**6,170**

Non-cash transactions

During the current period, the Group did not enter into any non-cash investing and financing activities (2020: Nil).

Changes in liabilities arising from financing activities

	Borrowings $'000	Lease liability $'000	Total $'000
Balance at 1 April 2019	**(36,952)**	**-**	**(36,952)**
Operating cash flows	396	-	396
Financing cash flows	(95,556)	287	(95,269)
Non-cash adjustments	(518)	(97)	(615)
New leases	-	(1,874)	(1,874)
Balance at 30 June 2020	**(132,630)**	**(1,684)**	**(134,314)**
Operating cash flows	985	-	985
Financing cash flows	(159,533)	1,030	(158,503)
Non-cash adjustments	(363)	(63)	(426)
Balance at 30 June 2021	**(291,541)**	**(717)**	**(292,259)**

16 Trade and other assets

	30 June 2021 $'000	30 June 2020 $'000
Trade receivables	1,059	4,253
Prepayments	654	327
GST receivable	87	625
Current tax assets	94	18
Total trade and other assets	**1,894**	**5,223**

In 2020 trade receivables included $1.25m, which was the portion of distributing services fees held by the lender in a bank account controlled by them which could only be withdrawn once certain conditions were met. The conditions did not require further performance obligations to be satisfied by the Group.

No adjustment has been made for counterparty credit risk in the financial assets above as all counterparties are considered to be of good credit standing and the risk of impairment is expected to be not material.

17 Finance receivables

	30 June 2021 $'000	30 June 2020 $'000
Finance receivables	310,124	134,917
Accrued interest	2,051	1,168
Protect receivables	389	1,109
Deferred establishment fees	(2,368)	(897)
Expected credit loss (ECL) provision	(15,375)	(7,075)
Total finance receivables	**294,821**	**129,222**

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.

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

ECL Provision

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

Under the ECL model, the Group applies a three-stage approach to measuring the ECL based on credit migration between the stages. The ECL model is based on loan performance history calculated separately for New Zealand and Australia. As the product is unsecured personal loans there is no further segmentation. Management then applies a further adjustment to incorporate future macroeconomic factors using forward looking inputs.

Stage 1: 12 month ECL - No significant increase in credit risk

Finance receivables in this category have not had a significant increase in credit risk since initial recognition. ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Stage 2: Lifetime ECL - Significantly increased credit risk

An assessment of whether credit risk has increased significantly since initial recognition is performed at the end of each reporting period by considering the change in the risk of default occurring over the remaining life of the finance receivable. Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due but less than 90 days past due, or where a payment deferral has been granted following a successful hardship application. A lifetime ECL provision is recorded for stage 2 receivables.

Stage 3: Lifetime ECL - Credit-impaired

The Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Movement between stages

The Group determines that loans may move in both directions through the stages of the impairment model. Loans previously in Stage 2 may move back to Stage 1 if it is no longer considered that there has been a significant increase in credit risk. Similarly, loans in Stage 3 may move back to Stage 1 or Stage 2 if they are no longer assessed to be nonperforming.

Forward-looking economic inputs (FLI)

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

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

The Group expects there to be further impacts as a result of the COVID-19 pandemic, including anticipated increases in delinquencies, as Government stimulus and other measures are progressively removed, and we potentially see continued outbreaks of the virus leading to Government mandated restrictions on activity. These impacts would flow through to the modelled expected loss provision, but currently due to the evolving economic impact of the pandemic, may not be fully captured in the modelled outcome. Over time, it is anticipated the economic overlay will need to be adjusted as additional factors are embedded into the base case of the modelled provision.

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

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

30 June 2020	Stage 1	Stage 2	Stage 3	Total
Expected loss rate	4.08%	10.47%	93.43%	5.20%
	$'000	$'000	$'000	$'000
Gross carrying amount	122,345	12,965	775	136,085
Expected credit loss provision	(4,993)	(1,358)	(724)	(7,075)
Net carrying amount	**117,352**	**11,607**	**51**	**129,010**

Movements in the expected credit loss provision are as follows:

	30 June 2021 $'000	30 June 2020 $'000
Opening balance	7,075	830
Additional provision recognised due to:		
(Decrease)/Increase in economic overlay	(831)	1,900
Increase in gross finance receivables	13,984	6,855
Finance receivables written off during the period as uncollectible	(4,853)	(2,510)
Total provision	**15,375**	**7,075**

The reconciliation of the provision for ECL and finance receivables by stage are presented below. The key line items in the reconciliation are:

- The "transfers between stages" lines represent transfers between Stage 1, Stage 2 and Stage 3 prior to remeasurement of the provision for ECL.
- The "business activity during the year" line represents new accounts originated during the year net of those that were derecognised due to final repayments during the year.
- The "net remeasurement of provision for ECL" line represents the impact on the provision for ECL due to changes in credit quality during the year (including transfers between stages) and changes due to forward-looking economic scenarios.
- "Incurred credit loss" represent a reduction in the provision for ECL as a result of derecognition of exposures where there is no reasonable expectation of full recovery

		Performing	Non Performing	
	Stage 1	Stage 2	Stage 3	Total
	$'000	$'000	$'000	$'000
Total provisions for ECL on loans as at 31 March 2019	791	39	-	830
Transfers to Stage 1	2,008	(1,482)	(526)	-
Transfers to Stage 2	(374)	474	(100)	-
Transfers to Stage 3	-	(1,851)	1,851	-
Business activity during the year	3,491	112	175	3,778
Net remeasurements of provision for ECL	(841)	4,336	1,482	4,977
Incurred credit loss	(82)	(270)	(2,158)	(2,510)
Exchange rate and other adjustments	-	-	-	-
Total provisions for ECL on loans as at 30 June 2020	**4,993**	**1,358**	**724**	**7,075**
Transfers to Stage 1	3,142	(2,460)	(682)	-
Transfers to Stage 2	(689)	892	(203)	-
Transfers to Stage 3	-	(3,601)	3,601	-
Business activity during the year	9,685	(158)	-	9,527
Net remeasurements of provision for ECL	(4,553)	6,475	1,685	3,607
Incurred credit loss	(82)	(460)	(4,311)	(4,853)
Exchange rate and other adjustments	17	1	1	19
Total provisions for ECL on loans as at 30 June 2021	**12,513**	**2,047**	**815**	**15,375**

	Stage 1 12-month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	Total $'000
Gross carrying amount as at 31 March 2019	38,363	100	-	38,463
Movements with P&L impact				-
Transfers from Stage 1 to Stage 2	(11,409)	11,409	-	-
Transfers from Stage 1 to Stage 3	-	-	-	-
Transfers from Stage 2 to Stage 1	5,317	(5,317)	-	-
Transfers from Stage 2 to Stage 3	-	(4,298)	4,298	-
Transfers from Stage 3 to Stage 1	862	-	(862)	-
Transfers from Stage 3 to Stage 2	-	152	(152)	-
Net of new financial assets and repayments during the year	89,292	11,110	(22)	100,380
FX movements	-	-	-	-
Incurred credit loss	(80)	(191)	(2,487)	(2,758)
Gross carrying amount as at 30 June 2020	**122,345**	**12,965**	**775**	**136,085**
Movements with P&L impact				-
Transfers from Stage 1 to Stage 2	(12,334)	12,334	-	-
Transfers from Stage 1 to Stage 3	-	-	-	-
Transfers from Stage 2 to Stage 1	5,509	(5,509)	-	-
Transfers from Stage 2 to Stage 3	-	(4,770)	4,770	-
Transfers from Stage 3 to Stage 1	670	-	(670)	-
Transfers from Stage 3 to Stage 2	-	179	(179)	-
Net of new financial assets and repayments during the year	184,067	(2,546)	147	181,668
FX movements	445	3	-	448
Incurred credit loss	(1,502)	(837)	(3,687)	(6,026)
Gross carrying amount as at 30 June 2021	**299,200**	**11,819**	**1,156**	**312,175**

18 Property and equipment

	30 June 2021 $'000	30 June 2020 $'000
Right of use asset	534	1,319
Furniture and fixtures	62	71
IT equipment	46	58
Total property and equipment	**642**	**1,448**

Property and equipment is recognised at historic cost less depreciation. Depreciation is calculated on a diminishing balance method using the following rates:

Furniture and fixtures 13-50%
IT equipment 30-50%

	30 June 2021 $'000	30 June 2020 $'000
Cost	416	405
Depreciation	(308)	(276)
Net book amount	**108**	**129**
Opening net book amount	129	371
Additions	287	34
Depreciation	(308)	(276)
Closing net book amount	**108**	**129**

Leases

The balance sheet shows the following amounts relating to leases:

Right of use asset	30 June 2021 $'000	30 June 2020 $'000
Buildings	519	1,296
Equipment	15	23
Total right of use asset	**534**	**1,319**

Lease liabilities	30 June 2021 $'000	30 June 2020 $'000
Current lease liabilities	710	969
Non-current lease liabilities	7	715
Total lease liability	**717**	**1,684**

The lease payments are discounted using the incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security, and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

19 Intangible assets

The intangible assets held consist of internally developed software. The carrying amount of the Groups' software is:

	30 June 2021 $'000	30 June 2020 $'000
Cost	4,546	864
Accumulated amortisation	(1,091)	(864)
Net book amount	**3,455**	**-**
Opening net book amount	-	7
Additions - internal development	3,682	-
Amortisation charge	(227)	(7)
Closing net book amount	**3,455**	**-**

The Group has incurred and will continue to incur significant costs on software development projects.

Internally developed software is capitalised using an internal framework, which was established in March 2017. Following the evolution of the Groups' technical capability and delivery process, the capitalisation criteria is met much earlier in the delivery process and development phases are now able to be capitalised.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

For capitalised development costs which are considered work in progress, amortisation of the asset begins when the development is complete, and the asset is available for use.

The Group amortises development with a limited useful life using straight-line method over 5 years.

20 Payables and accruals

	30 June 2021 $'000	30 June 2020 $'000
Accruals	4,450	1,162
Employee benefits accrual	1,531	461
Trade and other payables	954	531
Waiver fee revenue in advance	389	1,109
Total payables and accruals	**7,324**	**3,263**

Employee benefits accrual

	30 June 2021 $'000	30 June 2020 $'000
Current employee incentives		
Employee incentive accrual	767	17
Annual leave accrual	693	444
Long service leave accrual	63	-
Total current employee incentives	**1,523**	**461**
Non-current employee incentives		
Long service leave accrual	8	-
Total employee benefits accrual	**1,531**	**461**

21 Borrowings

	30 June 2021 $'000	30 June 2020 $'000
Receivables funding	291,541	121,636
Corporate debt	-	10,994
Total borrowings	**291,541**	**132,630**

The receivables funding relates to borrowings specific to the warehouse entities and are secured by their assets. The maturity profile of the receivables funding borrowings are aligned with the receivables held in the relevant warehouse facilities, and therefore considered current. As detailed in note 28, 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 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.

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

The corporate debt borrowings were repaid on 18 November 2020 and the Group has subsequently been released from the associated guarantees.

Warehouse facilities	30 June 2021 $'000	30 June 2020 $'000
Total facilities	543,214	263,380
Used at reporting date	338,371	140,559
Unused at reporting date	204,843	122,821

The unused amount of the warehouse facilities relates to amounts that are available for drawdown from funders but does not include restricted cash that has already been drawn but has not yet been utilised for funding purposes. Refer to note 15 for further information.

22 Provisions

	30 June 2021 $'000	30 June 2020 $'000
Distributing services rebate provision	6,305	9,666
Borrower establishment fee rebate provision	7,000	3,000
Protect claims provision	100	166
Total provisions	**13,405**	**12,832**
Carrying amount at start of the period	12,832	3,120
Charged/(credited) to profit or loss		
- additional provisions recognised	6,667	20,777
Amounts used during the period	(6,094)	(11,065)
Carrying amount at end of the period	**13,405**	**12,832**

Distributing services rebate provision

The distributing services rebate provision represents an estimate of distributing services revenue which may be rebated as at reporting date. The estimate has been made on the basis of historical trends across the existing loan portfolio and may vary. These amounts have not been discounted for the purposes of measuring the provision because the effect is not material.

Borrower establishment fee rebate provision

The basis for the borrower establishment fee rebate is disclosed in note 31.

Protect claims provision

The protect claims provision is measured as the central estimate of the value of expected future payments under payment protect contracts issued by the Group, with an additional risk margin to allow for inherent uncertainty in the central estimate.

The claims provision has been estimated based on claims history experienced with this product by a similar portfolio of finance receivables with the same repayment waiver feature attached and an increase for the likely impact of current and future economic scenarios.

The estimated cost of claims includes direct expenses to be incurred in settling claims i.e., the amount of finance receivable principal that will be waived. The following table discloses the amount and number of finance receivables with payment protect.

Payment protect receivables	30 June 2021	30 June 2020
Finance receivables with payment protect ($'000)	9,888	22,808
Number of contracts with payment protect	610	1,165

23 Share capital

	30 Jun 2021 Number of shares	30 Jun 2021 Share capital $'000	30 Jun 2020 Number of shares	30 Jun 2020 Share capital $'000
Fully paid ordinary shares	100,912,724	131,399	141,967,409	8,100
Fully paid Series A shares	-	-	26,256,128	8,146
Fully paid Series B shares	-	-	33,768,253	16,971
Fully paid Series C shares	-	-	58,203,070	23,469
Total issued capital	**100,912,724**	**131,399**	**260,194,860**	**56,686**

	Ordinary shares	Series A	Series B	Series C
As at 30 June 2020	141,967,409	26,256,128	33,768,253	58,203,070
Shares issued under share based payment arrangements	27,397,192	-	-	-
Share conversion	118,227,451	(26,256,128)	(33,768,253)	(58,203,070)
Share consolidation	(215,694,035)	-	-	-
Shares issued under share based payment arrangements	9,014,707	-	-	-
Shares issued upon IPO	20,000,000	-	-	-
As at 30 June 2021	**100,912,724**	**-**	**-**	**-**

Share consolidation and conversion

On 29 October 2020, all Series A, B and C classes of shares were converted to ordinary shares and a 4:1 share consolidation occurred for no consideration, decreasing the total number of shares held by equity holders.

ASX listing and Initial Public Offering

On 19 November 2020, the Company completed an IPO and listed on the ASX with a secondary listing on the NZX.

Shares issued under share based payment arrangements

27,397,192 shares (6,849,298 shares post 4:1 share consolidation) were issued in settlement of the options on or before 18 September 2020. 9,014,707 shares were issued in settlement of the options on 16 November 2020. The options were net settled on a cashless basis based on the exercise price of each option. See note 24 for details.

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.

24 Accumulated losses and reserves

Foreign Currency Translation Reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. NZD) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

Share Based Payments Reserve

	30 June 2021 $'000	30 June 2020 $'000
Opening balance	2,825	2,386
Arising on equity settled benefits	4,925	833
Deferred tax on share based payments	(372)	(269)
Transferred to share capital	(7,162)	(125)
Closing balance	**216**	**2,825**

In relation to share options plan settled in the year, the Group recognised an expense of $3.9m within the consolidated income statement for the year ended 30 June 2021.

Share-based compensation plan

The Group receives services from employees and directors as consideration for equity instruments (zero strike price options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the relevant vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statements, with a corresponding adjustment to equity. When the options are exercised, the company issues new shares, or purchases shares from the market.

Set out below are summaries of options granted by the Group.

	Year ended 30 June 2021		15 months ended 30 June 2020	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at the start of the period		65,524,733		29,287,605
Granted during the year	$ nil	8,900,000	$ nil	38,737,794
Share consolidation		(27,044,121)		
Exercised during the year	$0.02	(38,436,338)	$ nil	(601,500)
Forfeited during the year	$ nil	(44,274)	$0.01	(1,899,166)
As at 30 June		**8,900,000**		**65,524,733**

The weighted average share price at the date of exercise of options exercised during the year the year ended 30 June 2021 was $2.64 (2020: $0.38).

No options expired during the periods covered by the table above.

The following table provides details of the options granted by the Group as remuneration to employees and directors.

30 June 2021								Number of share options	
Grant date	Exercise price	Grant date fair value	Opening balance 01/07/2020	Granted	Share consolidation	Exercised	Forfeited	Closing balance 30/06/2021	Vested & exercisable
Post IPO Scheme									
15 Jun 2021	$ nil	$ 1.51	-	8,900,000	-	-	-	8,900,000	-
Scheme 2									
28 Feb 2020	$ nil	$ 0.11	36,103,102	-	(27,044,121)	9,014,707	44,274	-	-
Scheme 1									
1 Apr 2020	$ nil	$ 0.26	1,634,692	-	-	1,634,692	-	-	-
24 Feb 2020	$ nil	$ 0.26	750,000	-	-	750,000	-	-	-
21 May 2018	$ 0.16	$ 0.09	2,000,000	-	-	2,000,000	-	-	-
21 Aug 2017	$ nil	$ 0.17	8,860,423	-	-	8,860,423	-	-	-
21 Aug 2017	$ 0.10	$ 0.11	2,384,000	-	-	2,384,000	-	-	-
21 Aug 2017	$ 0.17	$ 0.09	1,792,516	-	-	1,792,516	-	-	-
Other options									
1 Mar 2014	$ nil	$ 0.00	12,000,000	-	-	12,000,000	-	-	-
Total			**65,524,733**	**8,900,000**	**(27,044,121)**	**38,436,338**	**44,274**	**8,900,000**	**-**

On 29 October 2020, all Series A, B and C classes of shares were converted to ordinary shares and a 4:1 share consolidation occurred for no consideration.

30 June 2020							Number of share options	
Grant date	Exercise price	Grant date fair value	Opening balance 01/04/2019	Granted	Exercised	Forfeited	Closing balance 30/06/2020	Vested & exercisable
Scheme 2								
28 Feb 2020	$ nil	$ 0.11	-	36,103,102	-	-	36,103,102	-
Scheme 1								
1 Apr 2020	$ nil	$ 0.26	-	1,634,692	-	-	1,634,692	817,346
24 Feb 2020	$ nil	$ 0.26	-	1,000,000	250,000	-	750,000	250,000
21 May 2018	$ 0.16	$ 0.09	2,000,000	-	-	-	2,000,000	2,000,000
21 Aug 2017	$ nil	$ 0.17	10,938,315	-	351,500	1,726,392	8,860,423	8,860,423
21 Aug 2017	$ 0.10	$ 0.11	2,436,000	-	-	52,000	2,384,000	2,384,000
21 Aug 2017	$ 0.17	$ 0.09	1,913,290	-	-	120,774	1,792,516	-
Other options								
1 Mar 2014	$ nil	$ 0.00	12,000,000	-	-	-	12,000,000	12,000,000
Total			**29,287,605**	**38,737,794**	**601,500**	**1,899,166**	**65,524,733**	**26,311,769**

Current schemes at 30 June 2021

Post IPO Scheme

The Post IPO scheme was approved by the board on 27 April 2021. The plan is designed to provide long-term incentives for senior managers to attract, motivate and retain talent while also aligning interests of management and shareholders with regards to Company performance. The Board may determine which persons will be eligible to participate in the plan from time to time and will invite them to participate.

The amount of performance rights that will vest depends on the achievement of applicable performance hurdles over the relevant period and continued employment. The performance hurdles are designed to align participants' objectives with the fundamental values of the Company and reward achievements which will deliver significant long-term value to the shareholders of the Company. The hurdles relate to revenue and loan book growth as well as strategic initiatives. The rights expire 5 years from grant date.

Options are granted under the plan for no consideration and carry no dividends or voting rights.

The fair value at grant date of options granted on 15 June 2021 $1.51 based on the share price at grant date.

Other Options

The Company has granted warrants to an investment group pursuant to an agreement dated 15 February 2016 enabling them to subscribe for shares at a strike price of $2.03 per share within five years of grant date. The grant of the warrants formed part of the investment group's remuneration for its services to the Company. Of the 187,587 warrants granted, 6,223 have expired and the remaining have a final expiration date of 30 June 2022.

Completed schemes at 30 June 2021

Scheme 2

On 28 February 2020 share options were granted under a performance rights based long term incentive plan. The allocation of rights provided participants with an opportunity to be rewarded for company performance and aligned employee interests with the interests of shareholders. The fair value at grant date was determined using a Monte Carlo simulation model that took into account the exercise price, the term of the option, the share price at grant date, the vesting hurdles, the expected price volatility of the underlying share, the expected dividend yield, and the risk-free interest rate for the term of the option.

Scheme 1

The scheme 1 share option plan was designed to provide long-term incentives for Directors and senior management to deliver long-term shareholder returns. Under the plan, participants were granted options which vested when certain performance standards were met.

Options were granted in August 2017, May 2018, February 2020 and April 2020 with their fair value determined using a Black-Scholes option pricing model which took into account the exercise price, the term of the option, the share price at grant date, expected price volatility of the underlying share and the risk-free interest rate for the term of the option. For options granted in August 2017 the share price on grant date was based on a discounted cash flow valuation. For subsequent options granted the share price on grant date was based on comparable arm's length transactions.

Other options

These options were granted in March 2014. As they carried a nil exercise price their value on grant date was determined as equivalent to the Company's share price at grant date, which was calculated as a single share of the midpoint of the Company's net assets and its capital.

25 Related party transactions

Balances and transactions between the Company, its subsidiaries, and controlled entities which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Key management personnel (KMP) are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, and include the Executive Directors, Independent Directors and the Chief Financial Officer.

The aggregate compensation made to KMP of the Group is set out below:

	30 June 2021 $'000	30 June 2020 $'000
Short-term employee benefits	2,193	1,805
Share-based payments	1,698	494
Post-employment benefit	83	152
Long-term benefits	-	-
Total remuneration of key management personal	**3,974**	**2,451**

Under the terms of the historical share-based compensation plan, at IPO, vesting of options was accelerated. This resulted in all unrecognised expense in relation to outstanding options being recognised as an expense in the period. The expense for option related share-based payments is therefore at an elevated level in 2021.

26 Controlled entities

Details of the Group's material subsidiaries and controlled entities at the end of the reporting period are as follows.

	Date of incorporation	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2021	2020
Subsidiary				
Harmoney Limited	15-May-14	New Zealand	100%	100%
Harmoney Services Limited	16-May-14	New Zealand	100%	100%
Harmoney Investor Trustee Limited	9-Jul-14	New Zealand	100%	100%
Harmoney Australia Pty Ltd	20-Feb-15	Australia	100%	100%
Harmoney Services Australia Pty Limited	22-Sep-15	Australia	100%	100%
Harmoney Nominee Limited	28-Nov-17	New Zealand	100%	100%
Harmoney Warehouse Limited	14-Mar-18	New Zealand	100%	100%
Harmoney Australia Warehouse No.1 Trust	4-Dec-19	Australia	100%	100%
Controlled entity				
Harmoney Warehouse Trust No.1*	3-Dec-18	New Zealand	n/a	n/a
Harmoney Warehouse No.2 Trust*	22-Dec-20	New Zealand	n/a	n/a
Harmoney Collections Trust*	22-Dec-20	New Zealand	n/a	n/a

* Management have determined that Harmoney Warehouse No.1 Trust, Harmoney Warehouse No.2 Trust, and Harmoney Collections Trust are controlled entities. Harmoney Group subsidiaries have been appointed Manager, Servicer, and residual income beneficiary in each entity. Under NZ IFRS 10: Consolidated Financial Statements, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As the Group controls the financing and operating activities of the Trusts and is the residual income beneficiary, the controlled entities are controlled by the Group and are required to be consolidated into the Group financial statements.

27 Financial assets and liabilities

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

	30 June 2021 $'000	30 June 2020 $'000
Financial assets at amortised cost		
Cash and cash equivalents	76,464	34,779
Trade and other receivables	1,059	4,253
Finance receivables	294,821	129,222
	372,344	**168,255**
Financial liabilities at amortised cost		
Payables and accruals	5,403	2,152
Borrowings	291,541	132,630
Lease liability	717	1,686
	297,661	**136,468**
Derivative financial instruments		
Used for hedging	85	926

NZ IFRS 9 requires financial asset debt instruments to be classified based on two criteria:

a) the business model within which financial assets are managed; and

b) their contractual cash flow characteristics (whether the cash flows represent solely payment of principal and interest (SPPI)).

There are three resulting classifications of financial asset debt instruments under NZ IFRS 9:

a) Amortised cost: financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to collect their contractual cash flows are measured at amortised cost;

b) Fair value through other comprehensive income (FVTOCI): financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to both collect their contractual cash flows and to sell are measured at FVTOCI; and

c) Fair value through profit or loss (FVTPL): financial assets with contractual cash flows that do not represent SPPI, or which are held under a different business model are measured at FVTPL. Financial assets can also be designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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

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

			June 2020 $'000
	Level 1	Level 2	Level 3
Financial Liabilities			
Derivative financial instruments			
Hedging derivatives - interest rate swaps	–	926	–

There have been no transfers between levels in the period (June 2020: Nil).

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period.

The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Fair value

The interest rate swaps are initially recognised at fair value through profit and loss on the date the derivative contract is entered into and are subsequently measured at their fair value at each reporting date. All significant inputs required to measure their fair value are observable, therefore the swaps are level 2 in the fair value hierarchy.

The fair value of the interest rate swaps are determined from valuations prepared by independent advisors. These are calculated using a discounted cash flow model using forward interest rates extracted from observable yield curves. Discount rates include an adjustment for counterparty credit risk.

28 Financial risk management

Financial risk management objectives

The Group's activities expose it to a variety of financial risks, primarily market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's risk management program focuses on understanding drivers of financial risk and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses derivative financial instruments (interest rate swaps) to hedge interest rate risk. Derivatives are exclusively used for hedging purposes i.e. not as trading or other speculative instruments.

The Board have overall responsibility for the establishment and oversight of the risk management framework. The Board is responsible for developing and monitoring risk management policies. Risk management procedures are established by the Board and carried out by management to identify and analyse the risks faced by the Group and to set controls and monitor risks.

Market risk

Market risk is the risk that changes in market prices such as interest rates that will affect the Group's income or the value of holdings in its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

Interest rate risk is the risk that changes interest rates negatively impact the Group's financial performance. The Group's main interest rate risk arises from cash at bank, term deposits and borrowings. Cash at bank, term deposits and borrowings obtained at variable rates expose Harmoney to interest rate risk. Cash at bank and term deposits obtained at fixed rates expose Harmoney to fair value interest rate risk.

Harmoney originates loans to customers that have fixed interest rates that are repaid over a relatively short period.

At 30 June 2021, the Group had the following financial assets and liabilities exposed to variable interest rate risk.

	30 June 2021 $'000	30 June 2020 $'000
Financial assets		
Cash on hand and demand deposits	44,343	10,266
Short term deposits	-	17,139
Restricted cash	32,121	7,374
Total financial assets	**76,464**	**34,779**
Financial liabilities		
Borrowings	(291,541)	(121,637)

Receivables funding are variable rate borrowings where the rates are reset monthly to current market rates. Interest rate risk is managed on these borrowings by entering interest rate swaps, whereby Harmoney pays fixed rate and receives floating rate. The contracts require settlement monthly of net interest receivable or payable. The settlement dates coincide with the dates on which interest is payable on the underlying borrowings.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the cash flow hedge reserve, to the extent that the hedge is effective. It is reclassified into the Income Statement when the hedged item effects it. In the year ended 30 June 2021, no amount was reclassified into profit or loss (2020: Nil) due to hedge ineffectiveness.

Harmoney's policy is to hedge a portion of the variability in future cash flows attributable to the interest rate risk on floating rate borrowings using interest rate swaps. As at 30 June 2021, the notional value of swaps was 33% (2020: 64%) of floating rate borrowings.

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

	Year ended 30 June 2021 $'000	15 months ended 30 June 2020 $'000
Carrying amount held in derivative financial instruments	(85)	(926)
Notional amount	95,629	77,416
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments during the period	841	(818)
Change in fair value of outstanding hedged item used to determine hedge effectiveness	841	818

The interest rate sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period and assumes that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2020 would decrease/increase by $1.0m (2020: $0.2m). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange risk

Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's main foreign exchange risk arises from inter-company receivables and payables which do not form part a net investment in a foreign operation.

The Group has not hedged any foreign exchange risk during the period.

The Group has the following exposure to Australian dollars, expressed in New Zealand dollars. The Group's exposure to foreign currency changes for all other currencies is not material.

	AUD Exposure	
	30 June 2021	30 June 2020
	$'000	$'000
Financial assets		
Foreign currency payable	3,075	6,627
Foreign currency receivable	(5,788)	(6,614)
Net exposure	**(2,713)**	**13**

The following table demonstrates the sensitivity to a 5% increase or decrease in the Australian dollar exchange rate, which represents management's assessment of the reasonably possible change in this exchange rate. The impact on the Group's loss before tax is due to changes in the fair value of monetary assets and liabilities.

	Impact on post-tax profit	
	Year ended 30 June 2021	15 months ended 30 June 2020
	$'000	$'000
NZD/AUD +5%	136	(1)
NZD/AUD -5%	(136)	1

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has a diversified funding model and currently comprises of a mix of cash reserves and committed undrawn credit facilities to meet anticipated funding requirements for new business. In addition, the Group can redraw against its committed credit limits if the principal outstanding is reduced. Details of unused available loan facilities are set out in note 21.

The Group manages operational liquidity risk by maintaining cash reserves and available borrowing facilities and by continuously monitoring actual and forecast cash flows. The Group seeks to have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Contractual maturities of financial liabilities at June 2021	Less than 1 year	1 to 2 years	More than 2 years	Total
	$'000	$'000	$'000	$'000
Non-derivatives				
Non-interest bearing				
Payables and accruals	5,403	-	-	5,403
Interest bearing				
Borrowings	141,229	155,591	-	296,820
Lease liability	722	9	-	731
Total non-derivatives	**147,354**	**155,600**	**-**	**302,954**
Derivatives				
Interest rate swaps	225	(71)	(70)	84
Total derivatives	**225**	**(71)**	**(70)**	**84**

Contractual maturities of financial liabilities at June 2020	Less than 1 year	1 to 2 years	More than 2 years	Total
	$'000	$'000	$'000	$'000
Non-derivatives				
Non-interest bearing				
Payables and accruals	2,152	-	-	2,152
Interest bearing				
Borrowings	118,599	24,228	14,714	157,541
Lease liability	1,031	728	-	1,759
Total non-derivatives	**121,782**	**24,956**	**14,714**	**161,452**
Derivatives				
Interest rate swaps	550	270	108	928
Total derivatives	**550**	**270**	**108**	**928**

Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and to maintain an optimal capital structure to facilitate growth in the business while reducing the cost of capital. The Group's capital structure comprises equity raised by the issue of ordinary shares and external borrowings. There is significant capacity to fund finance receivables growth with warehouse facility headroom of $205m (2020: $123m).

29 Fees paid to auditors

	Year ended 30 June 2021 $'000	15 months ended 30 June 2020 $'000
Fees paid for audit and assurance services		
Statutory annual audit fees	351	248
Statutory half-year review	113	-
Other non-audit assurance services	95	60
Total audit and assurance services fees	**559**	**308**
Fees paid for other services		
Investigating Accountant assurance services *	426	-
Tax related services paid in respect of the ASX IPO*	283	-
Tax related services paid in respect of warehouse facilities	102	-
Preparation of tax returns and other services	57	100
Total other services fees	**868**	**100**
Total fees paid to auditors	**1,427**	**408**

* The portion of these fees related to the issue of new shares is included within equity transaction costs.

30 Contingent liabilities

There are no contingent liabilities as at 30 June 2021.

31 Events after the reporting period

The New Zealand Commerce Commission filed charges against the Group in 2017, alleging that the loan establishment fee it charged to borrowers in New Zealand was a credit fee subject to the Credit Contracts and Consumer Finance Act 2003 (CCCFA), and that this fee exceeded the amount of the reasonable costs which were recoverable under the CCCFA.

The proceedings were due to take place in the New Zealand High Court in September 2021. However, the parties entered into a settlement agreement on 26 August 2021. Under the agreement, the Commerce Commission agreed to discontinue the proceedings, and to not issue any other legal proceedings against the Group in respect of establishment fees charged up to the date of this agreement. The Group agreed to: admit breaching the CCCFA and consent to the Court making declarations; pay total compensation of $7m to eligible borrowers over a two year period; and set its go-forward establishment fee at no more than $165 for five years.

The compensation amount is fully provided for in these financial statements as the borrower establishment fee rebate (note 22).

There were no other material events subsequent to year end.

Independent auditor's report

Independent auditor's report

To the shareholders of Harmoney Corp Limited

Our opinion

In our opinion, the accompanying Consolidated Group Financial Statements of Harmoney Corp Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Consolidated Group Financial Statements comprise:

- the Consolidated Statement of Financial Position as at 30 June 2021;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended; and
- the Notes to the Consolidated Financial Statements, which includes Significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Consolidated Group Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (*including International Independence Standards*) (*New Zealand*) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of investigating accountant assurance services and tax related services in respect of the IPO, warehouse facilities and the preparation of tax returns. The provision of these other services has not impaired our independence as auditor of the Group.

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

Our audit approach

Overview

Overall Group materiality: $1.94 million, which represents approximately 0.5% of total assets.

We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We utilised a 0.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

We have determined that there are three key audit matters:

- Expected credit loss provisions on finance receivables (note 17, $15.4m)
- Deferred tax assets (note 12, $11.5m)
- Interest income (note 6, $37.6m)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Consolidated Group Financial Statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the Consolidated Group Financial Statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Consolidated Group Financial Statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the Consolidated Group Financial Statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the Consolidated Group Financial Statements as a whole.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Consolidated Group Financial Statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Group Financial Statements of the current year. These matters were addressed in the context of our audit of the Consolidated Group Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter

Expected credit loss provisions on finance receivables (note 17, $15.4m)
 	
This was a key audit matter because the determination of the provision was driven by subjective judgements made by the Group in predicting expected credit losses (ECL).
 	
The majority of the customer loan balances were low value and therefore the provision was modelled and calculated on a collective basis. Key elements in determining ECL include:
 	
• Judgements applied in setting the assumptions used in the ECL models, including the application of expected loss rates applied to each underlying portfolio segment.
 	
• Judgements applied model changes, to reflect emerging trends or particular situations which are not otherwise captured.
 	
• Judgements applied in incorporating forward-looking impacts, which use macroeconomic forecasts for a range of scenarios that are weighted to consider the potential economic outcomes that may impact ECL
 	
• Judgements applied in determining exposures that have had a significant increase in credit risk, which is assessed by the Group based on the delinquency or hardship status of an account.
	We have performed the following procedures, amongst others:
	
	• Together with PwC credit modelling experts
	
	  ○ examined and assessed the ECL model developed by the Group in considering key judgements and assumptions supporting ECL, focusing on changes and new developments
	
	  ○ assessed the appropriateness of modelled outcomes over time by comparing its outcomes, and underlying expected loss rates, to actual losses
	
	  ○ re-performed the automated calculation for ECL as at 30 June 2021
	
	  ○ assessed the appropriateness of forward-looking information incorporated into the impairment calculations by assessing macroeconomic assumptions and probability weightings applied, and comparing them to external evidence where applicable
	
	• Assessed the integrity of data used as inputs into the models, including delinquency and hardship data, by tracing a sample of inputs used in the models to underlying audit evidence
	
	• Assessed the reasonableness of the Group's disclosures in the financial report in light of the requirements of NZ IFRS.

Key audit matter	*How our audit addressed the key audit matter*
Deferred tax assets (note 12, $11.5m) The Group was subject to taxation in each location in which it operated. The assessment of the amounts expected to be paid in the future to tax authorities was considered by the Group in respect of recognising deferred tax assets (DTAs), including those related to tax losses, at 30 June 2021. This was a key audit matter due to the extent of judgement involved by the Group.	Our procedures included evaluating the tax analysis performed by the Group, which set out the basis for judgements made in respect of DTAs by: • Considering the appropriateness of forecasting methods used by management to calculate future taxable profits • Assessing certain judgements and, where relevant, comparing them to available internal and external data on a sample basis • Assessing management's forecasting accuracy over time by comparing previous forecasts to actual outcomes • Agreeing relevant input data to supporting records on a sample basis. • Assessed the reasonableness of the Group's disclosures in the financial report in light of the requirements of NZ IFRS.
Interest income (note 6, $37.6m) The Group's main stream of revenue is interest income from providing loans to customers. The recognition of interest income over time requires the Group to apply judgement and determine an effective interest rate to be applied in accordance with NZ IFRS. This was a key audit matter because of the significance of interest income in the context of the performance of the Group, and the judgement involved in determining an effective interest rate.	We performed the following procedures, amongst others: • Re-performed the automated calculation for 100% of interest income from loans to customers • Assessed the Group's methodology for recognising revenue in light of the requirements of NZ IFRS • Inspected that the effective interest rate applied was determined in line with the methodology used by the Group and assessed its consistency with internal information • Inspected and compared contract data contained in the product system to a sample of contracts, including interest rates and loan period.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Consolidated Group Financial Statements and our auditor's opinion thereon.

Our opinion on the Consolidated Group Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Group Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Group Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Group Financial Statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the Consolidated Group Financial Statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of Consolidated Group Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Consolidated Group Financial Statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Rob Spring.
For and on behalf of:

PricewaterhouseCoopers

Rob Spring
Partner

Sydney
30 August 2021

Shareholder Information

The shareholder information set out below was applicable as at 31 July 2021.

Distribution of equitable securities

Analysis of number of equitable holders by size of holding.

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	146	0.07	-	-
1,001 to 5,000	310	0.91	-	-
5,001 to 10,000	185	1.41	-	-
10,001 to 100,000	220	6.14	-	-
101,001 and over	48	91.47	-	-
Total	**909**	**100**	**-**	**-**

There were 46 holders of less than a marketable parcel of ordinary shares.

Equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

Number of holders	% of total shares issued
Neil Roberts Trustee Company Limited	18.44
Michael Lookman and 187 Bridge Trustees 53 Limited	8.99
Kirwood Capital Partners IB Pty Limited	8.65
Heartland Group Holdings Limited	8.44
Trade Me Limited	7.55
National Nominees Limited	5.10
Alternative Credit Investments PLC	3.90
HSBC Custody Nominees (Australia) Limited	3.11
Citicorp Nominees Pty Limited	2.99
Ventures Harmoney Holdings Limited	2.19
Brad Hagstrom, Renai Hagstrom and Guy Hagstrom	2.10
CS Third Nominees Pty Limited	1.90
David John Stevens and C R Trustees Limited	1.85
Heartland Group Holdings Limited	1.70
Tap Capital Pty Ltd	1.34
Monde Five Limited	1.08
Duncan Gross	0.99
Andrew Cathie	0.98
Mono Lake Trustee Limited	0.90
New Zealand Depository Nominee	0.86
Total	**83.06**

Unquoted equity securities

	Number on issue	Number of holders
Options issued under post IPO employee long term incentive scheme	8,900,000	17
Options issued to Blue Line Ventures, LLC	181,364	1

Substantial holders

Substantial holders in the Company are set out below:

Name of holder	Number held	% of total shares issued	Date of notice
Neil Roberts Business Trust	18,611,152	18.4	23-Nov-20
Heartland Group Holdings Limited	10,197,693	10.1	7-Jul-21
Lookman Family Trust	9,069,618	9.0	19-Nov-20
Kirwood Capital Partners IB Pty Limited	8,730,461	8.7	19-Nov-20
Trade Me Limited	7,620,959	7.6	19-Nov-20

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and, upon a poll, each share shall have one vote.

There are no other classes of equity securities.

Securities subject to voluntary escrow

Class	Expiry date [1]	Number of shares
Fully paid ordinary shares	4:15pm on the trading day after Harmoney releases its full-year results to ASX and NZX for the financial year ending 30 June 2021.	28,259,331
Fully paid ordinary shares	4:15pm on the trading day after Harmoney releases its half-year results to ASX and NZX for the half year ending 31 December 2021.	28,259,328
Fully paid ordinary shares	4:15pm on the trading day after Harmoney releases its full-year results to ASX and NZX for the financial year ending 30 June 2022.	16,433,356
Total		**72,952,015**

1. The expiry date is the day that the escrowed shares can be released.

Corporate Information

For the year ended 30 June 2021

Directors

The following persons held office as Directors of the Company and the Company's subsidiaries during the year ended 30 June 2021.

Harmoney Corp Limited

Richard Dellabarca	(Resigned 30 October 2020)
David Flacks	
Luke Forster	(Resigned 13 July 2020)
Udhav Goenka	(Appointed 27 July 2020, Resigned 30 October 2020)
Tracey Jones	
Paul Lahiff	(Appointed 15 February 2021)
Neil Roberts	
David Stevens	(Appointed 30 October 2020)
Andrew Yeadon	(Resigned 30 October 2020)

Harmoney Australia Pty Ltd

David Nesbitt	
Brad Hagstrom	
Ben Taylor	
Simon Ward	(Appointed 28 April 2021)

Harmoney Services Australia Pty Limited

Brad Hagstrom	
David Nesbitt	(Appointed 28 April 2021)
Ben Taylor	
Simon Ward	(Appointed 28 April 2021)

Harmoney Investor Trustee Limited

Brad Hagstrom
Neil Roberts
Simon Ward

Harmoney Limited

Brad Hagstrom
Neil Roberts
Simon Ward

Harmoney Services Limited

Brad Hagstrom
Neil Roberts
Simon Ward

Harmoney Nominee Limited

Brad Hagstrom
Neil Roberts
Simon Ward

Harmoney Warehouse Limited

Brad Hagstrom
Neil Roberts
Simon Ward

Employee Remuneration

Remuneration	Number of employees
110,000 - 120,000	6
120,000 - 130,000	2
130,000 - 140,000	4
140,000 - 150,000	5
150,000 - 160,000	5
160,000 - 170,000	1
180,000 - 190,000	1
200,000 - 210,000	2
210,000 - 220,000	4
230,000 - 240,000	1
260,000 - 270,000	1
270,000 - 280,000	1
280,000 - 290,000	1
310,000 - 320,000	1
320,000 - 330,000	1
350,000 - 360,000	1
400,000 - 410,000	3
430,000 - 440,000	1
520,000 - 530,000	1
570,000 - 580,000	1
700,000 - 710,000	1
880,000 - 890,000	1
2,340,000 - 2,350,000	1

Under the terms of the historical share-based compensation plan, at IPO, vesting of options was accelerated. This resulted in all unrecognised expense in relation to outstanding options being recognised as an expense in the period. The expense for option related share-based payments is therefore at an elevated level in 2021 and included in the remuneration and other benefits values reported above.

Directors' Interests

The following are particulars of general disclosures of interest by Directors of Harmoney Corp Limited holding office at 30 June 2021, pursuant to section 140(2) of the Companies Act 1993. Where applicable, the disclosures also include directorships of subsidiaries of the relevant companies.

David Flacks	
AFT Pharmaceuticals Limited	Chair
Asteron Life Limited	Chair
Collaborative Advanced Genetic Technologies Limited	Director
Flacks & Wong Limited	Director
Harmoney Share Sale Company Limited	Director
Project Janszoon Trust Company	Director
The Todd Corporation Limited	Director
Todd Offshore Limited	Director
Vero Insurance New Zealand Limited	Chair
Vero Liability Limited	Chair
Zero Invasive Predators Limited	Director
NZX Regulatory Governance Committee	Chair (ceased)

Brad Hagstrom	
Hagstrom Family Trust	Trustee

Tracey Jones	
Cove Road Soapworks Limited	Director
Harmoney Share Sale Company Limited	Director
Jones Family Office Partners Ltd	Director
Kepa Investments Ltd	Director
N'Godwi Trust	Trustee
New Plymouth PIF Guardians Ltd	Director (ceased)
Nikko Asset Management NZ Limited	Chair
Petal Foundation	Trustee and Chair
RC Custodian Ltd	Director
Sandat Consulting Ltd	Director
Tutanekai Investments Ltd	Director

Paul Lahiff	
86 400 Holdings Ltd	Chair
86 400 Ltd	Director
86 400 Technology Pty Ltd	Director
AUB Group Limited	Director
Lahiff Consulting Australia Pty Ltd	Director
NESS Super Pty Ltd	Chair
P&R Lahiff Pty Ltd	Director
RSW Lane Cove Pty Ltd	Director
Sezzle Inc.	Director

David Nesbitt	
Neslan Pty Ltd as trustee for the Nesbitt Family Trust	Trustee

Neil Roberts	
Minc Limited	Director
Harmoney Share Sale Company Limited	Director
Neil Roberts Trustee Company Ltd	Director
Neil Roberts Business Trust	Trustee
Roberts Family Trust	Trustee
Fintech NZ Executive Council	Co Chair (Ceased)

David Stevens	
Harmoney Share Sale Company Ltd	Director
Liquid Asset Enterprises Pty Ltd	Director
Liquid Asset Trust	Trustee

Ben Taylor	
Tap Capital Pty Limited	Director

Simon Ward	
Monde Five Ltd	Director

Indemnities and insurance

Pursuant to section 162 of the Companies Act 1993 and the Constitution, Harmoney Corp Limited has entered into insurance for the directors of the Group to indemnify them, against liabilities which they may incur in the performance of their duties as directors of any company within the Group.

Remuneration and other benefits received by Directors during the period

	Directors' fees $
Richard Dellabarca	17,417
David Flacks	155,000
Tracey Jones	74,500
Paul Lahiff	44,083

Donations

The Group made no donations in the current period (2020: $8,635).

Directory

Registered Office

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

Auditor

PricewaterhouseCoopers
One International Towers,
Watermans Quay
Barangaroo
NSW 2000
Australia

Share register

Link Market Services Limited
ACN 083 214 537
Capital Markets Manager,
Link Market Services,
Level 21, 10 Eagle Street,
Brisbane,
QLD 4000,
Australia

Stock exchange listing

Harmoney Corp Limited shares are listed in the Australian Securities Exchange (ASX) and New Zealand Exchange (NZX). The Company was admitted to the official list of the ASX and NZX on 19 November 2020 (ASX issuer code HMY).

Notice of Annual General Meeting

The Annual General Meeting of Harmoney Corp Limited will be held on 30 November 2021.

Corporate Governance Statement

https://www.harmoney.com.au/investor