Harmoney Limited

Disclosure Statement

Under the Financial Markets Conduct Act 2013 (**Act**) and the Regulations under the Act, Harmoney is required to provide a disclosure statement in respect of its licensed peer-to-peer lending service to retail investors who are investing using Harmoney's service. This document is Harmoney's disclosure statement.

This disclosure statement is dated 22 September 2016.

Introduction

This document is a summary only, and therefore reference should be made to the Harmoney website at www.harmoney.com (**Website**) which sets out the detailed basis on which Harmoney provides a peer-to-peer lending service (and associated services) in New Zealand.

Licensing and registration

Harmoney is licensed under the Act by the Financial Markets Authority to provide a peer-to-peer lending service in New Zealand.

Harmoney is also registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 to provide a broking service.

What is the service which Harmoney provides?

Harmoney provides a peer-to-peer lending service, under which individuals may seek loans to be funded by retail investors and/or wholesale investors through this service. Some of the loans may include an optional service, such as the repayment waiver feature noted under "Payment Protect" below. Harmoney may also provide or make available ancillary services to its peer-to-peer lending service, such as credit checking.

Full details of the terms on which Harmoney provides its peer-to-peer lending service, and of the terms that apply to loans and optional services arranged or provided through the Website, are set out in the following documents, which are available on the Website:

- Privacy Policy
- Investor Agreement
- Platform Agreement
- Form of Loan Contract
- Additional Loan Contract Terms for Payment Protect
- Things you need to know about your Loan Contract
- Fair Dealing Policy
- Conflict of Interest Policy.

What are the key risks of using this service?

Participating in peer-to-peer loans through Harmoney's service has the potential to provide Investors with greater returns, but may also carry a higher level of risk and provide for less liquidity, than traditional investments such as bank deposits and investment-grade bonds. It may therefore not be suitable for all investors.

Accordingly, prospective investors should assess for themselves whether investing through Harmoney's peer-to-peer lending service is suitable for them in light of their particular financial circumstances and goals, and should if necessary obtain independent financial advice.

Key risks of lending on Harmoney's platform which investors should consider include:

- Credit risk

  The primary risk inherent in peer-to-peer lending is that Investors may lose part or all of their principal due to loan defaults.

  Harmoney has appropriate systems and processes for determining the suitability of a Borrower and his or her ability to afford loan repayments. The sole recourse for repayment is to the Borrower as there is no security for the loan, and no person guaranteeing the loan, Where a Borrower fails to make payments Investors will not receive part or all of their principal and interest payments that are due to them.

- Fraud risk

  Harmoney has a thorough and robust identity verification process to guard against fraudulent applications. However, a possibility remains that Borrowers may be fraudulent, with no intention to repay.

  Borrowers may be the victims of identity theft, in which case the person receiving the money has misappropriated the details of the person whose identity has been used to apply for the loan.

  Borrowers may understate their expenses or liabilities, or overstate their income. In such cases, they may be unable to afford to repay a loan and may default on their loan obligations. It may also mean that Harmoney assigns a risk grade which does not accurately reflect the Borrower’s risk and therefore that Borrower's ability to meet his or her loan obligations.

- Liquidity risk

  Liquidity risk is the potential for loss through being unable to trade an investment in order to convert the investment to cash, should the funds be required early. Loan investments cannot be traded without Harmoney's consent, and Harmoney's licence terms currently do not permit secondary trading of investments.

- Macro risks

  There are several factors that may affect Harmoney's business activities over which Harmoney has little control. These include an economic recession, political turmoil, changes in interest rates, natural disasters, and terrorist attacks, all or some of which may affect a Borrower's ability to make loan repayments.

  Harmoney regularly monitors New Zealand and the global economic and business conditions in order to identify and assess any potential risks that may affect Harmoney's business operations. However, economic conditions are not always predictable, and significant changes in the New Zealand economy could have an impact on Harmoney's business.

- Hacking risk

  Harmoney is an online web-based business. As such, Harmoney relies heavily on information technology and computer based-systems that operate to provide protection from illegal hackers. Harmoney is very aware of this risk and therefore has security measures and systems in place that are designed to ensure the system's security. A security breach is a possibility and should this occur it may materially affect Harmoney's ability to operate and to provide access to loan information and loan recoveries.

- Operational risk

  Harmoney regularly monitors and updates its internal systems to seek to gain efficiencies and improve service standards and experiences. However, there is a risk of financial loss and/or damage to Harmoney's reputation if there is a failure of Harmoney's information technology systems, internal processes, people, or operating systems. This could also arise from external factors such as failure of a supplier to provide a service at agreed service levels or some unforeseen disaster. Should any of those events occur, this could have a material adverse effect on Harmoney's financial performance and on the performance of a loan.

- Legislative and regulatory risk

  Failure by Harmoney to comply with, or changes in, laws, regulations, codes of conduct, and policies could result in loss of Harmoney's peer-to-peer licence, in legal action, and in financial loss.

- Early repayment

  A Borrower can repay his or her loan at any time. Should a Borrower decide to repay early, then an Investor will not receive the total interest income it anticipated when the loan was made. Current experience shows that a substantial proportion of loans are repaid before maturity.

- Risks with Payment Protect

  Investors who fund a loan that has Payment Protect have the potential to earn a greater return on it, but also face additional risks, as detailed under "Payment Protect" below.

- Concentration risk

  Investors who do not diversify their investment across loans and risk grades could face exposure to a concentration of Borrowers of the same type. Having a spread of investments across various Borrowers and risk grades should provide an Investor some protection from a Borrower default.

- Funds deployment risk

  There may be insufficient new loans available that meet an Investor's criteria for investing, and consequently the Investor's available cash (being the cash it deposits in the Investor Account for investment, together with any repaid principal and interest held for it in the Investor Account for reinvestment) may not be able to be invested. To ensure this situation does not arise, an Investor should regularly monitor its account with Harmoney so that the Investor can decide what to do with those funds.

How do potential investors apply for and obtain access to the Harmoney service?

Investors can be either individuals or corporate entities.

Any person wishing to access and use the Harmoney service as a retail Investor must complete the Investor application process set out on the Website, which requires the person to:

- provide details about themselves (including full name and contact details, IRD number, New Zealand bank account number);
- provide suitable documentary evidence of their identity; and
- agree to the terms of the Privacy Policy, Disclosure Statement and the Investor Agreement.

Harmoney can refuse to accept any person as an Investor if that person:

- has not completed the registration process to Harmoney's satisfaction; or
- does not satisfy the eligibility criteria for being an Investor (as set out below).

Harmoney's eligibility criteria for registering a person as an Investor are as follows:

- The person must satisfy Harmoney's "know your customer" requirements.
- In addition, if the person is an individual, he or she must:
  - be a New Zealand resident (which Harmoney will verify through the person having a New Zealand residential address and a bank account with a registered New Zealand bank); and
  - be 18 years of age or older when registering.

Harmoney may terminate (or in some circumstances, suspend) a person's status as an Investor at any time in accordance with the Investor Agreement.

How do potential borrowers apply for and obtain access to the Harmoney service?

Only individuals can be Borrowers.

Any person wishing to access and use the Harmoney service as a Borrower must complete the Borrower application process set out on the Website, which requires the person to:

- provide details about themselves (including full name and contact details and New Zealand bank account number);
- provide suitable documentary evidence of their identity;
- agree to the terms of the Privacy Policy, the Loan Statement, the standard terms for a loan contract and the Platform Agreement.

Harmoney can refuse to accept any person as a Borrower if that person has not completed the registration process to Harmoney's satisfaction, or does not satisfy the eligibility criteria for being a Borrower (as set out below).

Harmoney's eligibility criteria for registering any person as a Borrower are that the potential Borrower:

- must be an individual (that is, not a company, partnership, incorporated society, trust or other legal entity);
- must be a New Zealand resident, which Harmoney will verify through the person having a New Zealand residential address and a bank account with a registered New Zealand bank;
- must be 18 years of age or older when registering as a Borrower; and
- must have an acceptable credit record, as determined by Harmoney at its discretion.

Harmoney will apply its Fair Dealing Policy set out on its Website when considering any application by a person to be a Borrower.

Harmoney may terminate (or in some circumstances, suspend) a person's status as a Borrower at any time in accordance with the Platform Agreement.

How are loans made using the Harmoney service?

Investment through Trustee

Investors can invest in loans, in multiples of $25. All funds being invested in a particular loan by Investors will be pooled. A trustee (**Trustee**) will then use the pooled funds to make and hold the loan, as bare trustee for the participating Investors.

Accordingly, each Investor who has invested in a loan will have a beneficial interest in that loan and in the underlying loan contract, in proportion to the amount that Investor invested in that loan. That beneficial interest entitles the Investor to a proportionate share of:

- the principal amount lent to and repaid by the Borrower; and
- any returns on that loan (including any interest on that loan paid by the Borrower).

The Trustee must account to the Investor for that Investor's share of the money received from the Borrower (net of permitted deductions) as set out in the Investor Agreement.

The Trustee is currently Harmoney Investor Trustee Limited.

Loan Applications

A person who has successfully registered as a Borrower may apply for a loan. The Borrower’s loan application will include:

- the amount sought
- the repayment term sought (which may be either 36 or 60 months)
- the purpose of the loan
- income and expenses
- assets and liabilities
- whether the Borrower wants Payment Protect cover for the loan, and if so what level of cover is sought.

Harmoney will then generate a proprietary credit score for the Borrower. Harmoney will use that credit score and the financial data provided by the Borrower to determine the Borrower's loan affordability and the maximum amount and term for the proposed loan to the Borrower, together with the applicable interest rate. The Borrower may then select the loan amount and term from the information provided by Harmoney, requesting a loan in that amount and for that term.

Loan Listings

Harmoney may allocate loans that have been listed to wholesale Investors for funding, as discussed under "Wholesale Investors" below. Otherwise, details of the Borrower’s requested loan will be listed on the Website. Only persons who are registered Investors will be able to view the complete details of that loan listing, which will include:

- the amount sought (and if applicable, any lesser amount the Borrower is prepare to accept)
- the interest rate which will be payable on the loan
- the monthly repayments on the loan
- the purpose of the loan
- whether the Borrower has selected Payment Protect for the loan.

The Borrower’s actual name and personal identifying details will not be made available in the loan listing, or at any other time.

A loan listing will be displayed on the Website for consideration for 14 days or until the loan has been fully funded (whichever occurs first). "Fully funded" means that orders have been placed for the full loan amount or (if applicable) the lesser amount the Borrower is prepared to accept, as specified in the loan listing.

Placing Orders

A person who has successfully registered as an Investor will be able to access the Website to view loan listings.

Investors may make an offer to fund a portion of any loan, by placing an order through the Website. The Investor must have sufficient funding in the Investor Account with Harmoney in order to cover that offer. Any order, once made, is a legally binding offer and cannot be revoked by the Investor.

Investors can see and assess individual loan listings prior to placing orders on them. They also have the option of placing orders through the Website's auto-lend function (based on the investment criteria and subject to the investment limits they have specified), as described in the Investor Agreement.

Loan Contract

Once a loan is fully funded (as defined above), a loan contract will be formed between the Borrower and the Trustee (as bare trustee for the Investors who are funding the loan), under which the Borrower agrees to repay the loan amount plus interest at the specified interest rate, over the term of the loan.

Under the Investor Agreement, the Trustee (as directed by each Investor) appoints Harmoney to settle the loan and to provide collection services in respect of the loan. The Trustee (as bare trustee for the Investors) will pay certain fees to Harmoney for providing those services. Those fees will be deducted from the payments the Trustee receives from the Borrowers. The Trustee will then hold the balance of those payments for the Investors in accordance with their proportionate shares.

Even though there will be a loan contract between the Borrower and the Trustee (for the benefit of each Investor who has funded that loan):

- the actual identity of the Borrower and the Investors who have funded the loan to the Borrower will not be made known to each other unless required by law (only Harmoney will hold these details); and
- the Investors will not be able to enforce the Borrower’s payment obligations directly against the Borrower; only Harmoney (acting as the Trustee's agent) will be entitled to take any enforcement action against the Borrower.

Any loans which are made through the Harmoney service are not guaranteed by Harmoney. There is no guarantee that any Investor will recover any or all of the amount advanced to any Borrower and/or any interest on that amount advanced.

Both Investors and Borrowers will be able to access details about their loans on the Website. Harmoney will not provide printed statements, but Investors and Borrowers will be able to print loan summaries from the Website.

Payment Protect

Borrowers are able to opt into a service called Payment Protect (for a fee). If a loan is covered by Payment Protect and a specified event occurs, the Borrower will not be liable to make certain repayments under the loan (being the monthly payments that would otherwise have fallen due after the Borrower provided written notice of the relevant event to Harmoney as agent for the Trustee, subject to applicable cover limits). The specified events covered by Payment Protect and the different levels of cover are set out on the Website. If Payment Protect applies to a loan, additional terms are added to the loan contract setting out the waiver arrangement.

If a Borrower notifies Harmoney (as agent for the Trustee) that an event for which the Borrower has cover has occurred, Harmoney will suspend direct debiting the Borrower's bank account for further monthly repayments while Harmoney assesses the waiver application. Consequently, there may be some delay before Investors receive payments in respect of which a Borrower unsuccessfully applies for a waiver.

Investors who fund a loan that has Payment Protect bear the risk that the Borrower may cease to be liable for certain loan repayments. However, for the extra risk they receive an additional fee that the Borrower pays over the term of the loan, and that fee accrues interest; together, this results in a higher yield to the Investor. This is because the fee the Borrower must pay for Payment Protect cover is added to the loan amount – and therefore the monthly loan repayments are higher relative to the amount actually invested by the participating Investors. However, Investors should be conscious that this capitalisation carries a risk: if the Borrower ceases to be liable for monthly repayments, they may not recover their interest in the unpaid Payment Protect fee for that particular loan in full or at all.

Another risk arises if a Borrower decides to repay the loan in full early. If that happens, the Borrower is entitled to a proportionate rebate of the Payment Protect fee (which will have been capitalised into the loan principal, as noted above). The rebate amount will be deducted from the loan balance, giving the final repayment amount the Borrower has to pay. As a result, the Investors (through the Trustee) will not receive all the additional principal they would otherwise have expected in relation to the Payment Protect fee.

Under the Investor Agreement, the Trustee (as directed by each Investor) appoints Harmoney to arrange, enter into, and manage the Payment Protect arrangement. Harmoney will receive a sales commission and a management fee for those services, as discussed under "What charges are payable by Investors".

Wholesale Investors

Harmoney may approve wholesale Investors to invest using the Harmoney service. The terms on which any wholesale Investor may invest (including as to fees payable by the wholesale Investor in connection with a loan or related optional service) will be as agreed with Harmoney. Wholesale Investors may participate in funding loans similar to any other Investor using the Harmoney service, and they may also fund entire loans.

How does Harmoney manage its marketplace?

Both retail and wholesale Investors can participate in loans originated on the Harmoney platform. Wholesale Investors may participate in funding both fractionalised and whole loans, and retail Investors in fractionalised loans only.

Not all loans that are approved to list are shown on the marketplace, for the reasons listed below. Harmoney endeavours to manage loan flow so that the marketplace will show a representative proportion of the overall risk spread of Borrowers approved to list (subject to the exclusions below), so that Investors to whom loans or participations in loans are allocated do not have any undue preference.

Loan listings not shown on the Website relate to:

- a new product, service, or feature
- change in risk underwriting process, or policy
- loan flow into the marketplace

- loans funded 100% through the auto-lend option.

Further information on Harmoney's marketplace management is set out on the Website.

How is money provided by Investors dealt with by Harmoney?

Harmoney will hold an Investor Account with ASB Bank, into which Harmoney will deposit all funds it receives from investors for investment in loans. Any money paid to Harmoney by an Investor will be received by Harmoney into the Investor Account for the benefit of that Investor.

If an Investor makes an offer to fund all or part of a loan, the amount which has been offered by that Investor will be "locked'" in the Investor Account until the offer is accepted (by the relevant loan being fully funded) or the loan listing expires. On settlement of a loan, the Investor's funds will be transferred by Harmoney to an Advance Account, which is a trust account held by the Trustee with ASB Bank. Those funds will be aggregated with the funds of other Investors who are investing in that loan and whose funds are similarly held in the Advance Account. Harmoney (acting as the Trustee's agent) will then use the aggregated loan amount to settle the loan. Additionally, Harmoney will at settlement transfer the Payment Protect Fees from the Advance Account into Harmoney’s fee account.

A Borrower will make loan repayments to the Collections Account, which is a trust account held by the Trustee for the benefit of all Investors who are invested in loans (to the extent of their entitlements) and which Harmoney transacts on the Trustee's behalf. Any recoveries made from a Borrower will similarly be paid into the Collections Account. Harmoney will: (i) deduct any required tax withholdings, as well as the fees which the Trustee (for the Investors) must pay Harmoney for Harmoney's services in relation to the loan; and (ii) then transfer each Investor's proportionate share of the balance of the amounts received from the Collections Account to the Investor Account for that Investor's benefit (where it will be available for reinvestment in other loans or for repayment to the Investor, depending on the Investor's instructions to Harmoney).

An Investor may withdraw any available amounts from its Investor Account at any time (subject to any banking restrictions and any loan offers which are outstanding at that time). Harmoney may of its own accord transfer such amounts back to the Investor.

Harmoney and the Trustee are each registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 to provide a broking service, and are required to comply with that Act in respect of dealing with Investors’ and Borrowers’ money.

What checks and assessments are made by Harmoney in relation to Borrowers?

Harmoney will carry out credit checks and identity verification steps in respect of persons who wish to be registered with Harmoney as a Borrower.

Harmoney makes an assessment of the affordability of a loan for a potential Borrower based on the verified financial data provided by the potential Borrower, including income, expenses and debt servicing information.

It is important to note that a credit score attributed by Harmoney to a Borrower in respect of a loan:

- represents Harmoney's subjective interpretation of the information which has been provided to Harmoney by the Borrower and other information which has been obtained by Harmoney itself or through third party credit report providers;
- does not guarantee that the Borrower will in fact be able to (or will) repay all or part of any loan or all or part of any interest charged on that loan; and

- is a reflection of the information available to Harmoney at the relevant time and will not be updated by Harmoney during the term of any loan.

What happens if the Borrowers get into arrears?

The following key steps are taken by Harmoney (as agent for the Trustee) to ensure effective collection of debts.

- All Borrowers are required to agree to a direct debit authority as part of signing up for a loan. Borrowers can update their direct debit authority at any time online or by contacting Harmoney directly.
- A succinct and regimented debt collection procedure is systemised. Harmoney's platform methodically tracks and monitors all arrears transactions through the arrears lifecycle, to ensure appropriate action is taken at the right time.
- Arrears reporting is updated daily and monitored by Harmoney senior management.
- Regular internal reviews are undertaken by Harmoney to ensure that procedures are followed and are effective.
- Harmoney applies the use of automated technologies including e-mail and 2 way SMS to maintain contact with Borrowers, to ensure efficiency and effectiveness is achieved in managing loans.
- Automated workflow tools direct collections activity, ensuring that items are actioned as per the collections plan.

If a Borrower makes a successful application for undue hardship, the loan contract will be varied to provide relief to the Borrower as set out under the Credit Contracts and Consumer Finance Act 2003.

See further the section "The Collections Process" on the Website.

What will happen if Harmoney goes into liquidation or fails to carry out its collection activities?

If Harmoney goes into liquidation or ceases to hold its licence to provide a peer-to-peer lending service in New Zealand for a period of 5 business days, a back-up servicer has been contracted to carry out collection services in respect of the loan portfolio, and will collect repayments from Borrowers and make payments to Investors as the Trustee's replacement agent.

What disclosures are made in respect of any loan?

Harmoney will make a formal loan disclosure to the Borrower in compliance with the requirements set out in the Credit Contracts and Consumer Finance Act 2003 when Harmoney notifies the Borrower that its loan has been fully funded. The loan contract will be formed immediately after that loan disclosure has been provided to the Borrower.

What interest is payable by Borrowers?

A Borrower is charged interest on the amount he or she owes, calculated as a percentage of the loan amount (as set out on the Website).

If a Borrower repays a loan or any portion of it early, the prepaid amount will not bear further interest. Similarly, if a Borrower repays a loan and that loan is rewritten, the original loan will have been repaid in full with no further interest earned on it. As a result, the Investors (through the Trustee) will not receive interest on the prepaid or rewritten amount as the loan has been repaid.

What charges are payable by Borrowers?

Harmoney will charge Borrowers a platform fee for using the Harmoney service. The platform fee is due under the Platform Agreement, and is paid at settlement, by way of a deduction from the principal amount of the loan prior to the balance of the loan amount being advanced to (or for the benefit of) the Borrower.

Borrowers are liable to pay monthly account fees on their loan accounts, as well as overdue fees or dishonour fees where loan repayments are late or dishonoured.

If enforcement action is required against a Borrower, any legal and associated third party costs incurred will be charged to the Borrower's account. The costs charged are due in the Borrower's next payment.

If a Borrower takes out Payment Protect, he or she must pay the Trustee a separate fee for that cover. The Payment Protect fee will be calculated as a percentage of the loan amount (as set out on the Website), and will be capitalised. If a Borrower who has taken out Payment Protect repays the loan in full early, he or she will be entitled to a proportionate rebate of the Payment Protect fee. This rebate will be calculated in accordance with a statutory formula.

A Borrower who has taken out Payment Protect will be responsible for certain costs, such as the costs of a medical examination required by Harmoney if the examination shows that he or she does not qualify for a waiver being claimed. If the Borrower does not pay those costs, Harmoney can pay them and add them to the loan.

A list of the current fees charged to Borrowers is available on the Website. The amounts (or calculation methods) and the types of fees charged in connection with the Harmoney service or under loan contracts are subject to modification from time to time in accordance with the Platform Agreement and the Loan Contract (as applicable).

What fees are charged to Investors?

Fees for loan administration and collection services – retail Investors

Harmoney will receive two types of fees for the administration and collection services it provides to the Trustee for the benefit of a retail Investor in respect of a loan:

- Harmoney will charge a retail Investor (through the Trustee) a fee ("Lender Fee"), being a percentage of that Investor's share of the interest amounts Harmoney recovers. The Lender Fee will be calculated on the basis of a percentage-based tiered structure that recognises the principal amount which the particular Investor has outstanding on the platform. It will be paid as a deduction from the interest component of loan repayments recovered. Harmoney is not entitled to payment of the Lender Fee except out of the interest component of loan repayments it actually recovers.

- Additionally, Harmoney will be paid a fee ("Loan Administration Fee") that is equal to the retail Investor's share of all fees and charges payable by the Borrower under the loan (not being fees for optional services such as the Payment Protect Fee) – eg of all account maintenance fees and any overdue fees and dishonour fees the Borrower must pay. Harmoney is not entitled to be paid the Loan Administration Fee except out of the fees and charges it actually recovers from the Borrower. In practical effect, the Loan Administration Fee is not a net cost to retail Investors (through the Trustee).

Fees for loan administration and collection services – wholesale Investors

Harmoney will charge a wholesale Investor the fees from time to time agreed between Harmoney and the wholesale Investor.

Fees for Payment Protect services

If a Borrower takes out Payment Protect, Harmoney will charge a sales commission for arranging the Payment Protect as well as a management fee for administering it. The sales commission and management fee are each calculated as a percentage of the Payment Protect fee, and are payable by the Investors (through the Trustee) on drawdown of the loan (with the Investors then having the ability to recoup that expense from the higher monthly payments made by the Borrower). If a Borrower who has taken out Payment Protect repays the loan in full early, Harmoney will refund the Trustee (for the benefit of the participating Investors) a proportion of the management fee and (if the prepayment was due to a refinancing through the Harmoney service) of the sales commission Harmoney received.

If a Borrower who has Payment Protect does not pay costs for which he or she is responsible under the Payment Protect terms, Harmoney may meet those costs. In that case, an amount equivalent to the costs Harmoney paid will be added to the loan balance. The Trustee (as trustee for the Investors) will then refund Harmoney's costs when the Borrower repays the amount added to the loan. Neither the Trustee nor the Investors have any liability to refund Harmoney's costs except out of the additional payment actually recovered from the Borrower. (In this way, the costs repayment is channelled from the Borrower to Harmoney, and the Investors do not bear those costs.)

General

A list of the current fees charged to retail Investors is available on the Website. The amounts (or calculation methods) and the types of fees charged are subject to modification from time to time in accordance with the Investor Agreement.

What other financial benefits may Harmoney receive?

Harmoney and its related companies may be paid a commission or other financial benefit by any person in connection with any loan or the Harmoney service.

Can Harmoney (and its related companies) use the Harmoney service?

Harmoney, its related companies, and their directors, shareholders and employees are not entitled to use the Harmoney service as Borrowers.

Harmoney, its related companies, and any of their directors, shareholders, employees and advisers (in their own capacities) may use the Harmoney service as Investors at any time, subject to compliance with the Harmoney Conflicts of Interests Policy set out on the Website. Although Harmoney has the ability to be an Investor, it does not invest in loans arranged through its platform.

What interests does Harmoney have which may materially adversely impact on Harmoney's ability to have fair, orderly and transparent systems and processes?

Harmoney makes every attempt to align interests of all stakeholders including shareholders, employees, investors, and Borrowers. Conflicts of interests are pro-actively sought out and wherever possible Harmoney will attempt to align interests. Where this is not possible Harmoney looks to ensure the following:

(a) That the conflict is clearly disclosed in a timely fashion and wherever possible on our website and in documentation.

(b) Harmoney systems and processes are designed to ensure that operations continue in a fair and orderly way pro-actively managing any conflict of interest to a set of agreed principles or within a committee charter.

(c) Wherever possible Harmoney looks to separate compliance roles including managing conflicts from those other roles focused on revenue.

(d) Known potential conflicts for retail Investors that Harmoney manages include:

i. Assessing, grading and pricing of Loans – Harmoney receives fee revenue only when a Loan is made and funded yet incurs costs in attracting Borrowers to make a loan application;

ii. Pricing of the Loans – More loan applicants could be approved where interest rates are lowered as Harmoney would receive more fee revenue from those loans. Harmoney managing its pricing of loans with appropriate committee charters.

iii. Repeat borrowers – Good quality Borrowers need to be retained even though they can decide to repay their loan at any time. There is a timing conflict in when an existing Borrower is to be offered further credit to repay his or her existing loan and this is managed through credit policy controls.

iv. Allocation of Lending Capital between retail and wholesale Investors – Harmoney earns different revenue from retail Investors as opposed to wholesale Investors. Harmoney seeks to manage this by not including any preference over any other investor for credit quality. For example, the agreement will be for the index of the platform from a credit quality perspective.

v. Harmoney has contractual obligations with wholesale Investors where there is either an expectation or a contractual right to volume as there arrangements provide liquidity to the platform. Harmoney seeks to manage this by not including any preference over any other investor for credit quality. For example, the agreement will be for the index of the platform from a credit quality perspective

vi. Harmoney may however select with the knowledge and permission of wholesale Investors certain loans where there are new credit policies signed off by the Credit Committee that approves more loan applicants or approves loan applicants for a greater amount. Where this occurs those loans are not available to retail Investors. Any such selection is monitored and is typically for a testing period to ensure that the changes are performing as expected from a risk standpoint. This is more fully explained in the section How does Harmoney manage its marketplace on the Website.

vii. Similarly, where there is a new product or feature that could affect retail investors adversely or the product is of sufficient complexity to require additional testing time Harmoney reserves the right to provide that lending volume or product set to wholesale Investors. This is more fully explained in the section How does Harmoney manage its marketplace on the Website.

viii. Harmoney's remuneration policy is driven from the operational and strategic plans that provide a balanced scorecard on achieving revenue, customer satisfaction and compliance benchmarks. This is designed to ensure a balance of outcomes and not just one outcome.

ix. Shareholders are able to invest on the platform. One major shareholder has one director appointed to the board of Harmoney Corp Limited. The majority of directors on that board are independent directors.

Monitoring of compliance by the Borrower with its obligations and recovery on default

Under the Investor Agreement, Harmoney is appointed as the Trustee's agent to receive repayments of principal and interest from the Borrower and to seek to recover any amounts owing where the Borrower is in default of its repayment obligations.

The recovery action Harmoney can take includes:

- appointing a collections agency;
- suing the Borrower;
- entering into settlements; and
- selling a loan that has been "charged off". A loan is charged off if it is in default and Harmoney considers that it is not recoverable (which generally happens once the loan has been overdue for 120 days).

Importantly, an Investor does not have any right to pursue a Borrower directly where a default has arisen or at any other time. Only Harmoney can take this action.

For more details about the scope of these obligations, see the Investor Agreement on the Website.

Complaints and dispute resolution

If you have a query or complaint about any aspect of Harmoney's services, please contact Harmoney at the contact details set out above.

Harmoney is a member of the Financial Services Complaints Limited dispute resolution scheme. You may refer any dispute as to the provision of the Service by Harmoney to that dispute resolution service, details of which are available at http://www.fscl.org.nz/.

The Trustee is a member of the Financial Services Complaints Limited dispute resolution scheme. You may refer any dispute as to the performance by the Trustee of its obligations to that dispute resolution service, details of which are available at http://www.fscl.org.nz/.

Provision of information and contact details

You may contact us at any time as set out below to obtain at no charge an electronic copy of your Investor Agreement, this Disclosure Statement, and any other documents which relate to the licensed peer-to-peer lending service provided by Harmoney.

You will be able to obtain print-outs of your transaction information through the Website (Harmoney does not provide copies of transaction information).

If you have any questions, you can contact Harmoney as follows:

- by email at customer.services@harmoney.co.nz
- by calling the Harmoney helpdesk on 0800 HARMONEY or 0800 427 666
- by writing to Harmoney the address on the Website.