Half-year Report

for the period ended 31 December 2017

Pioneer Credit Limited

ABN 44 103 003 505

Half-year Report
for the period ended 31 December 2017

Lodged with the ASX under Listing Rule 4.2A

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report.

Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Pioneer Credit Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Pioneer Credit Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 6, 108 St Georges Terrace
Perth WA 6000

Pioneer Credit Limited shares are listed on the Australian Securities Exchange (ASX).

Pioneer Credit Limited

ABN 44 103 003 505

Appendix 4D

for the half-year ended 31 December 2017
(previous corresponding period half-year ended 31 December 2016)

The Pioneer Credit Limited Group comprises Pioneer Credit Limited (ABN 44 103 003 505) and its controlled subsidiaries.

Results for announcement to the Market

Key information	31 December 2017 $'000	31 December 2016 $'000	Change $'000	%
Revenue from ordinary activities	36,829	24,622	12,207	49.58%
Net profit after taxation for the period attributable to members	8,110	4,203	3,907	92.96%

Full commentary on the figures presented above and on the results for the period and other significant information is provided in the 1H18 Media Release and Results Presentation and Consolidated Financial Statements – 31 December 2017, released 27 February 2018.

Dividends per ordinary share / distributions

	Amount per security (cents)	Franked Amount per security	Record Date	Paid / Payable Date
Final 2017 Ordinary	5.28	100%	30-Aug-17	04-Oct-17
Interim 2018 ordinary (declared, not yet provided at 31 December 2017)	6.62	100%	29-Mar-18	27-Apr-18

There is no provision for the interim dividend in respect of the half-year ended 31 December 2017. Provisions for dividends to be paid by the Company are recognised in the Consolidated Balance Sheet as a liability and a reduction in retained earnings when the dividend has been declared.

A Dividend Reinvestment Plan (DRP) was in operation as from the final dividend for 2015 and applies for all subsequent dividends unless notice is given for its suspension or termination. The last date for receipt of an election notice for participation in the Interim 2018 ordinary DRP is 2 April 2018.

Key Ratios

	31 December 2017 (cents)	31 December 2016 (cents)
Net tangible assets per fully paid ordinary share	155.13	131.35

Investment in associate

Pioneer Credit Limited has a 11.28% holding in Goldfields Money Limited (GMY).

No review dispute or qualification on the financial statements

The Consolidated Financial Statements at 31 December 2017 and accompanying notes for Pioneer Credit Limited have been reviewed in accordance with ASRE 2410 Review Engagements and the Review Report is not subject to any modifications. The Independent Auditor's Review Report has been provided with the Statements released today.

Pioneer Credit Limited

ABN 44 103 003 505

Half-year Report
for the period ended 31 December 2017

Contents

Directors' report

Your Directors present their report on the Consolidated Entity consisting of Pioneer Credit Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2017. Throughout the report, the Consolidated Entity is referred to as 'the Group'.

Directors

Unless otherwise specified, the following persons were Directors of Pioneer Credit Limited during the half-year and up to the date of this report:

Mr Michael Smith (Chairperson)
Mr Keith John
Mr Mark Dutton
Ms Andrea Hall

Review of operations and the results of those operations

Principal activities

Pioneer Credit Limited ('Pioneer' or 'the Company') is a financial services provider, specialising in acquiring and servicing unsecured retail debt portfolios.

In 2016 we commenced the expansion of the customer relationship to include loans provided by our valued vendor and banking partners. These new products and services are designed to enable Pioneer to further assist our customers in achieving their financial goals. In 2018 we introduced on-balance sheet personal loans, the start of a new revenue opportunity for the Company.

Today we have more than 200,000 customers across Australia and New Zealand.

Performance

Pioneer achieved a net profit after taxation of $8.11m for the six months to 31 December 2017 compared with $4.20m for the previous corresponding period, representing a 92.96% increase.

Key financial highlights of the half-year include:

- PDP liquidations of $46.06m (1H17 $31.34m) up 46.95% on prior period equivalent
- Statutory net profit after taxation of $8.11m (1H17 $4.20m) up 92.96% on prior period equivalent
- Earnings per share of 13.33 cents up 57.19% on prior period equivalent
- Net tangible assets per share 155.13 cents up 18.10% on prior period equivalent
- EBITDA up 59.52% to $24.27m (1H17 $15.21m)
- Interim fully franked dividend declared of 6.62 cents per share with a record date of 29 March 2018 and payment date of 27 April 2018

The half-year results continue to demonstrate our history of consistent financial performance and strengthening relationships with our vendor partners. The strength of these relationships continues to be evidenced through the growth of our customer portfolio and the cautious approach taken by the Company with respect to the valuation of its assets.

Our approach to building long term relationships has resulted in Pioneer securing its full year expected Purchased Debt Portfolio (PDP) investment within the half-year. This result has been driven by market conditions where price expectations have continued normalising for Pioneer. We expect the price of assets to continue to decrease modestly and Pioneer's objective is to invest at competitive price points by leveraging our highly differentiated servicing capabilities. A trend of decreasing asset prices has become apparent during this half-year, as the premium others were prepared to pay became less attractive to an increasingly brand and customer focussed banking sector, particularly in light of the regulatory oversight and social commentary that has occurred in recent months.

Operational highlights

1H18 can be characterised by three key themes:

1. Ensuring the Company remains well funded (through increasing cash flows and access to modest debt facilities) to participate in growth initiatives and to take advantage of new and expanded relationship opportunities the changing market provides;
2. Leveraging our ever-increasing analytical capacity to drive better customer understanding to increase liquidation performance and identify customers most likely to benefit from our new loan products; and
3. An increasing focus on brand quality in the market in conjunction with decreasing asset prices.

Over the course of the half-year Pioneer continued to actively differentiate itself in the market. This is achieved by providing purchase certainty for vendors through strict investment discipline, delivering price points that underpin a reputation-based customer centric servicing standard, demonstrated by our positive Net Promoter Score, and a strong and unique governance and culture of compliance.

Pioneer successfully contracted its forecast customer portfolio investments for FY18 within the first half. While there are ample opportunities in the market for Pioneer it is unlikely that there will be any additional meaningful investment for the balance of this financial year with the focus of our team to secure the appropriate vendor, product and volume mix to underpin our growth in future periods.

Capital management

Capital management is important to Pioneer.

To ensure the Company remains well funded, with capacity to choose to participate in opportunities as they present, the Company has extended its facility with its banking syndicate during this half year. The Company now has a facility limit of $120m for the acquisition of customer portfolios.

At 31 December 2017 the remaining capacity of the facility was $22.72m. The Company continues to fund its customer portfolio investments through a mix of free cash and debt, the latter of which is targeted at 50% of the written down carrying value of the portfolio.

Regularly Pioneer is challenged to increase its facility gearing levels. There may come a time to do that. Our expectation is that prudence and caution will remain for the foreseeable future and it will continue to underpin our increasing balance sheet strength.

As part of our journey to diversify our funding mix and tenor and to support the expected growth in our recently launched personal loan offer, during the period the Company appointed debt advisory firm, Acacia Partners as Joint Lead Manager with Westpac Institutional Bank to conduct a debt raising, expected to settle during March 2018 for up to $40m. The raising is in the form of an Over the Counter Bond with a four year term. On completion of the debt raising the market will be informed of all relevant conditions of the notes.

Pioneer Credit Connect

Pioneer continues to progress with our expansion of customer appropriate financial products and services. This represents a critical stage of the customer journey, as it enables Pioneer to extend the relationship with our valued customers beyond the repayment of their initial account and see them become new, empowered customers who have overcome the challenges they experienced which led them to financial difficulty. Pioneer's expansion allows us to work with our customers once they are back on track to help them achieve all of their financial goals.

During the half, we:

1. Launched Pioneer Path, a personal finance and budgeting app which allows customers to track their finances, set goals and also track their comprehensive credit bureau score;
2. Continued to deploy our analytics capability, identifying customers most suitable for a personal loan and driving early engagement with those customers to ensure we are available to them when most suitable;
3. Commenced marketing CreditPlace, our free credit score offering, to existing customers as well as our strategic partners' customer bases,

and continued to offer two core products:

- home loans under a traditional broking model and via our direct-to-lender business SwitchMyLoan; and
- white-labelled personal loans.

Since the reporting period, Pioneer Credit Connect has commenced personal loan origination. These are quality personal loans, and value based with fairly priced fixed risk-weighted interest rates with no ongoing fees and charges. Applications are facilitated through a simple and customer friendly online platform which produces efficient approval times, leveraging many data points to make informed decisions as to customers' creditworthiness including performance data we have already gathered if the customer was formerly with Pioneer.

There are two types of applicants for Pioneer Credit Connect's personal loan offering:

- existing customers who have strong evidence of financial recovery and a demonstrated capacity to manage and repay a credit facility; and
- new to Pioneer customers identified through marketing channels or strategic partnerships.

These products are supported by our digital customer framework 'Pathway to Prime™' that provides support and education to customers in order to help them improve their financial health. These services include Pioneer Path, a personal finance management application. Pathway to Prime™ provides our customers with a unique end-to-end solution that enables them to improve their credit health.

Outlook

Since listing, our earnings have been weighted to the second half of each financial year. As we have foreshadowed, this continues, though is now becoming more evenly weighted.

During the coming six months our focus is to:

1. Execute on our operational strategy to ensure delivery of FY18 expectations;
2. Continue to explore PDP investment opportunities where we can achieve better than historical returns;
3. Position the Company to capitalise on the changing market dynamics by employing an additional ~50 FTE into our customer service and business support (principally analytics and workflow) teams;
4. Drive more precise customer segmentation with a focus on growing liquidations across the portfolio and supporting improved customer outcomes through appropriate product offers; and
5. Examine acquisition opportunities in traditional and related markets.

Following the Company's strongest ever first-half, we are pleased to increase our FY18 PDP investment guidance to $80m, which is under contract and secured, and to upgrade our net profit after taxation guidance to at least $17m.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Keith John
Managing Director

Perth
26 February 2018

pwc

Auditor's Independence Declaration

As lead auditor for the review of Pioneer Credit Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Pioneer Credit Limited and the entities it controlled during the period.

Douglas Craig
Partner
PricewaterhouseCoopers

Perth
26 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Pioneer Credit Limited

ABN 44 103 003 505

Half-year Report
for the period ended 31 December 2017

Financial Statements

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report.

Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Pioneer Credit Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Pioneer Credit Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 6, 108 St Georges Terrace
Perth WA 6000

Pioneer Credit Limited shares are listed on the Australian Securities Exchange (ASX).

Consolidated statement of comprehensive income

	Note	Half-year 31-Dec-17 $'000	Half-year 31-Dec-16 $'000
Revenue from operations	2	**36,820**	24,594
Other income	2	**9**	28
		36,829	24,622
Employee expenses		**16,445**	11,068
Finance expenses	3	**2,020**	1,491
Direct expenses		**1,668**	1,131
Rental expenses		**1,395**	1,229
Information technology and communications		**1,297**	1,028
Other expenses		**951**	724
Professional expenses		**650**	943
Depreciation and amortisation		**647**	677
Travel and entertainment		**293**	302
Share of loss of associate accounted for using the equity method		**60**	41
Profit before income tax		**11,403**	5,988
Income tax expense	4	**3,293**	1,785
Profit for the period from continuing operations		**8,110**	4,203
Total comprehensive income for the half-year is attributable to:			
Owners of Pioneer Credit Limited		**8,110**	4,203
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**13.33**	8.48
Diluted earnings per share		**12.78**	8.29

The above Consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

	Note	31-Dec-17 $'000	30-Jun-17 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**5,451**	3,139
Trade and other receivables		**2,215**	3,732
Other current assets		**619**	350
Assets classified as held for sale	5	**2,398**	-
Financial assets at fair value through profit or loss	6	**75,503**	65,901
Total current assets		**86,186**	73,122
Non-current assets			
Investments accounted for using the equity method		**-**	2,458
Property, plant and equipment		**3,239**	3,456
Deferred tax assets		**1,597**	1,189
Intangible assets		**1,648**	1,339
Other non-current assets		**22**	36
Financial assets at fair value through profit or loss	6	**122,138**	98,560
Total non-current assets		**128,644**	107,038
Total assets		**214,830**	180,160
LIABILITIES			
Current liabilities			
Trade and other payables	7	**9,628**	3,638
Borrowings	8	**4,144**	6,410
Current tax liabilities		**1,352**	561
Accruals and other liabilities		**3,651**	3,138
Total current liabilities		**18,775**	13,747
Non-current liabilities			
Borrowings	8	**97,394**	73,984
Provisions and other liabilities		**2,085**	2,141
Total non-current liabilities		**99,479**	76,125
Total liabilities		**118,254**	89,872
Net assets		**96,576**	90,288
EQUITY			
Contributed equity		**72,854**	71,255
Reserves		**2,192**	2,394
Retained earnings		**21,530**	16,639
Capital and reserves attributable to the owners of Pioneer Credit Limited		**96,576**	90,288
Total equity		**96,576**	90,288

The above Consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

	Note	Contributed Equity $'000	Share Based Payment Reserve $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2017		**71,255**	**2,394**	**16,639**	**90,288**
Total comprehensive income for the half-year		**-**	**-**	**8,110**	**8,110**
		71,255	**2,394**	**24,749**	**98,398**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		**676**	**-**	**-**	**676**
Employee share scheme		**104**	**-**	**-**	**104**
Treasury shares and share based payments		**-**	**617**	**-**	**617**
Issue of treasury shares to employees		**819**	**(819)**	**-**	**-**
Dividends declared and paid	9	**-**	**-**	**(3,219)**	**(3,219)**
		1,599	**(202)**	**(3,219)**	**(1,822)**
Balance at 31 December 2017		**72,854**	**2,192**	**21,530**	**96,576**
Balance at 1 July 2016		52,091	1,611	11,055	64,757
Total comprehensive income for the half-year		-	-	4,203	4,203
		52,091	1,611	15,258	68,960
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		467	-	-	467
Employee share scheme		155	-	-	155
Treasury shares and share based payments		-	396	-	396
Dividends declared and paid		-	-	(3,071)	(3,071)
		622	396	(3,071)	(2,053)
Balance at 31 December 2016		52,713	2,007	12,187	66,907

The above Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

	Half-year 31-Dec-17 $'000	Half-year 31-Dec-16 $'000
Cash flows from operating activities		
Receipts from liquidations of PDPs and services (inclusive of goods and services tax)	**48,870**	30,072
Payments to suppliers and employees (inclusive of goods and services tax)	**(22,502)**	(17,195)
	26,368	12,877
Interest received	**9**	28
Interest paid	**(1,321)**	(868)
Net income taxation paid	**(2,910)**	(2,439)
Net cash inflow from operating activities	**22,146**	9,598
Cash flows from investing activities		
Payments for property, plant and equipment	**(135)**	(56)
Payments for intangible assets	**(322)**	-
Acquisitions of financial assets at fair value through profit or loss	**(37,758)**	(25,574)
Net cash outflow from investing activities	**(38,215)**	(25,630)
Cash flows from financing activities		
Proceeds from borrowings	**25,137**	79,205
Repayment of borrowings	**(4,067)**	(63,112)
Dividends paid to Company's shareholders	**(3,219)**	(3,071)
Proceeds from issue of ordinary shares and DRP	**642**	467
Treasury shares loan repayment	**90**	23
Share based payments	**(202)**	-
Net cash inflow from financing activities	**18,381**	13,512
Net increase / (decrease) in cash and cash equivalents	**2,312**	(2,520)
Cash and cash equivalents at the beginning of the half-year	**3,139**	4,894
Cash and cash equivalents at the end of the half-year	**5,451**	2,374

The above Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the consolidated financial statements

1. Significant changes in the current reporting period

Significant events and transactions that have affected the Group's financial position and performance during the period under review are as follows:

Financing arrangements

The Company has accessed the additional facility limit of $20m under the existing arrangement for the acquisition of PDPs, on terms that are unchanged from the existing agreement.

2. Revenue from operations

	Half-year	
	31-Dec-17	31-Dec-16
	$'000	$'000
From continuing operations		
Liquidations of PDPs	**46,060**	31,343
Change in value of PDPs	**(10,787)**	(7,503)
Net gain on financial assets from PDPs	**35,273**	23,840
Services	**1,547**	754
	36,820	24,594

Other income

	Half-year	
	31-Dec-17	31-Dec-16
	$'000	$'000
Interest income	**9**	28

3. Other expense items

This note provides a breakdown of specific costs included in profit before income tax.

	Half-year	
	31-Dec-17	31-Dec-16
	$'000	$'000
Finance expenses		
Bank fees and borrowing expenses	**578**	417
Interest and finance charges paid / payable for financial liabilities not at fair value through profit and loss	**1,442**	1,074
	2,020	1,491

4. Income tax expense

	Half-year	
	31-Dec-17	**31-Dec-16**
	$'000	**$'000**
Current tax on profits for the half-year	**3,787**	1,883
Adjustments for current tax of prior periods	**7**	(31)
Deferred income tax	**(501)**	(67)
Total current tax expense	**3,293**	1,785

5. Assets classified as held for sale

In November 2017 the Directors agreed to the sale of the investment in associate if certain conditions are met.

6. Financial assets at fair value through profit or loss

This note provides an update on the judgements and estimates made by the Group in determining the fair value of the financial instruments since the last annual financial report.

Financial assets at fair value through profit or loss include the following:

	31-Dec-17	**30-Jun-17**
	$'000	**$'000**
PDPs		
Current	**75,503**	65,901
Non-current	**122,138**	98,560
	197,641	164,461

Movement on financial assets at fair value (for the six month period ended) is as follows:

	31-Dec-17	**31-Dec-16**
	$'000	**$'000**
Current and non-current		
At beginning of period	**164,461**	111,109
Additions for the period	**43,967**	24,464
Liquidations of PDPs	**(46,060)**	(31,343)
Net gain on financial assets from PDPs	**35,273**	23,840
	197,641	128,070

i) Classification of financial assets at fair value through profit or loss

Pioneer Credit Limited classifies purchased debt portfolios (PDPs) at fair value through profit or loss (FVTPL) as per AASB 139 *Financial Instruments: Recognition and Measurement*, paragraph 9 part (b) (ii) because:

- at initial recognition the Company designates PDPs acquired as at fair value through profit or loss;
- PDPs are managed and their performance regularly evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- Management information about the PDPs is collated on a fair value basis and provided to KMP; and
- this relevant information is reported in the comprehensive disclosures provided.

The strategy is to provide an overall return on the Company's portfolio of investments, as opposed to any particular individual customer contract. A documented investment strategy is maintained for PDPs and under the Risk Management Policy, the management and measurement of its PDPs is properly documented in its Risk Register.

The performance management emphasis of the Group is focused on growth in its payment arrangement portfolios and the total return to the Group measured as net profit after taxation. The documented and approved remuneration and incentive strategy remains aligned to our strategic priorities of shareholder value, evaluation of financial performance on a total return basis, operational excellence, risk management and appropriate long term strategic goals.

When management decisions are made with respect to an investment in the portfolio or the liquidation of the portfolio, they are made from the point of view of the group of financial assets as a whole. Management reporting provides information on returns expressed in terms of overall portfolio return multiples on investment and internal rate of return. An important factor in the investment strategy is to manage a reasonable level of volatility of returns in expectation of overall long term growth.

PDPs are initially recorded at acquisition cost, which on the basis of the transaction being at arm's length is considered to be fair value, and thereafter at fair value through profit or loss on the balance sheet, with transaction costs expensed as incurred. Fair value can be best evidenced as a quoted market price in an active market. As there is not a quoted market for PDPs, fair value is based on the present value of expected future cash flows or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible and otherwise maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Any fair value net gains or losses on financial assets are disclosed in the consolidated statement of comprehensive income as Liquidations of PDPs net of any change in value. Liquidations of PDPs are the recognised flow of economic benefits from the acquiring and servicing of PDPs including all cash flow sources from each portfolio's respective purchase agreement.

Note (iii) below explains how the fair value of PDPs is determined, including information regarding the key assumptions used.

PDPs are included as non-current assets, except for the amount of the portfolio that is expected to be realised within 12 months of the balance sheet date, for which the present value is classified as a current asset.

ii) Amounts recognised in profit or loss

Changes in the fair value of financial assets at fair value through profit or loss are recorded as part of revenue.

iii) Fair value and fair value measurements

a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its PDPs into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2017				
Financial assets at FVTPL	-	-	197,641	197,641
30 June 2017				
Financial assets at FVTPL	-	-	164,461	164,461

Level 1:

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period.

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.

b) Transfers between levels

There were no transfers between levels in both periods.

c) Valuation techniques used to derive fair values

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Level 3

If one or more of the significant inputs is not based on observable market data (unobservable inputs), the instrument is included in Level 3. Inputs are derived and extrapolated where possible from observable characteristics that market participants would take into account when pricing the asset at the measurement date. Assumptions used would be those that market participants would use when pricing, assuming that market participants act in their economic best interest. Inputs are calibrated against current market assumptions, historic transactions and economic models, where available. Unobservable inputs are those for which market data are not available, and that are developed using the best information available about the assumptions that market participants would use when pricing the asset, as can be the case for PDPs.

Model risk therefore arises due to the potential of key judgements impacting on the appropriateness of model outputs and reports used. Model risk is mitigated and controlled at its source through effective challenge and critical analysis by objective parties qualified and experienced in the line of business in which the model is used. In addition, consistent with recognised industry guidance, model validation intended to verify that models are performing as expected in line with their design objectives and business uses has been performed to help ensure the models are sound. Commensurate with model use, complexity and materiality, model validation by way of back testing, stability testing and sensitivity analysis is performed and the results, outcomes and actions validated the conceptual soundness of the models. Given that unobservable inputs are those where market data is not available, and the inherent limitations of historic information predicting future liquidations, additional model risk mitigation is achieved through appropriate cautious downward calibration of the expected future cash flows.

Where the fair value of financial instruments that are not traded in an active market is determined using present value of expected future cash flows valuation techniques, these valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group-specific estimates.

The valuation technique used is a discounted cash flow which incorporates, at least, the following variables:

• Expected liquidation rate	Expressed as a percentage of the face value over time.
• Face value	Of the PDPs.
• Cash flow liquidation period	The period over which cash flows liquidate.
• Discount rate	Factors in a risk free interest rate and appropriate credit adjustment for risks not built into the expected cash flows.
• Cost	Acquisition cost of acquired PDPs.

d) Fair value measurements using significant unobservable inputs

Continuous improvement in valuation techniques

Consistent with previous reporting periods, the Group has continued to use a discounted cash flow valuation model and has continued to improve the valuation process based on maximising the use of observable statistical evidence. This has included continued improvement in the use of characteristics analysis to ascertain the most informative performance predictive indicators and applying logistic regression statistical techniques to generate the key assumptions that determine the expected liquidation rate over time. The evolution of time and expansion of the business has allowed for additional internally developed and externally obtained data to be included in the valuation process. In addition independent expertise in analytics and model deployment has further developed the statistical methodology incorporated. This allows the Group to benefit from an independent party with experience across multiple analytics assignments. Prior reporting period improvements in the valuation process have previously supported the cash flow liquidation period to a capped maximum of ten years and this cap has been maintained.

To ensure we continue to realise appropriate value across all of the portfolio, the Group has continued the journey of exploring portfolio sale opportunities within the secondary sale market for portfolios of accounts where we believe the value to be realised from a portfolio sale provides the greatest expected value. The Group engages experts in the financial services brokerage market to facilitate the sale process including, but not limited to, portfolio valuation, issuer approval, sales execution and post sales processes.

The learnings obtained from the sales processes concluded have improved the ability to derive and extrapolate valuation inputs where directly relevant, based on observable characteristics used by market participants, and where possible these observable inputs have been applied in the fair value model resulting in improving the application of valuation techniques.

Valuation inputs and relationship to fair value

The following table summarises the quantitative impact on those elements of the PDPs that are sensitive to the significant unobservable inputs used in Level 3 fair value measurements:

Description	Fair value $'000	Valuation technique	Unobservable inputs	Range of inputs	Relationship to Fair Value
Financial Assets at Fair Value Through Profit or Loss	$197,641	Discounted cash flow and validation	Expected liquidation rate	1% change in liquidation rate	A reduction in liquidation rate by 1% results in a decrease in fair value on total estimated cash flows by $2.044m, an increase results in an increase in fair value on total estimated cash flows of $2.044m.
			Expected liquidation rate	3% change in liquidation rate	A reduction in liquidation rate by 3% results in a decrease in fair value on total estimated cash flows by $6.132m, an increase results in an increase in fair value on total estimated cash flows of $6.132m.
			Cash flow liquidation period	Impact of an eleven year liquidation period versus a ten year liquidation period	Results in an increase in fair value of $1.025m.
			Discount rate	Variance in risk-adjusted discount rate by 100 bps	The higher the risk-adjusted rate the lower the fair value. A reduction in rate by 100 bps results in an increase in fair value by $3.530m, an increase results in a decrease in fair value of $3.390m.
			Discount rate	Variance in risk-adjusted discount rate by 300 bps	The higher the risk-adjusted rate the lower the fair value. A reduction in rate by 300 bps results in an increase in fair value by $11.044m, an increase results in a decrease in fair value of $9.779m.

It is noted that the weighted average discount rate for original customer accounts, substantially comprising credit cards and personal loans, has fluctuated within a range of 17.60% to 20.90% over the last four years, forming the basis of the above sensitivity range. In determining the weighted average discount rate, the key input is the current market rate for originated loans and advances with similar characteristics, for example credit card or personal loan rates, appropriately risk adjusted.

For subsequent measurement, under AASB 139 *Financial Instruments: Recognition and Measurement*, the other potential method for recognition and measurement is, if the prescribed definition is met, 'loans and receivables' measured using the effective interest rate method at amortised cost.

The difference between the carrying value under an effective interest rate method measurement approach and fair value is expected to be within the reasonably possible range if the discount rate were to be varied as described in the table above.

iv) Valuation Process

A key assumption in the valuation of PDPs is in determining the expected liquidation rate. Assumptions about the liquidation rate are based on customer, operational and product characteristics, payment history, market conditions and management experience.

At the time of purchase, the price paid is generally determined by an open market process in which participants perform their own due diligence and determine the price they are willing to pay. Existing internal knowledge of the portfolio under offer or similar equivalents is utilised along with a consideration of macro and micro economic factors assessed using the experience of senior executives.

Subsequent to purchase, fair value adjustments are made in line with expected liquidations. An assessment of gross nominal future cash flow is made over periods to a maximum of ten years depending on the level of liquidation history and forecasting accuracy confidence based on observable evidence within a portfolio. Where the fair value of financial instruments that are not traded in an active market is determined using present value of expected future cash flows valuation techniques, these valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group-specific estimates. Discount rates used to present value the gross nominal future cash flows incorporate a risk free rate and appropriate credit adjustment for risks not built into the underlying cash flows, noting that the cash flows to which the rates are applied are appropriately risk adjusted.

The valuation of PDPs requires estimation of:

a) the expected future cash flows;
b) the expected timing of receipt of those cash flows; and
c) a discount rate.

Under the effective interest rate method the valuation would, in contrast to using the discount rate in c), instead utilise the original effective interest rate (nominated by the purchaser) extrapolated at investment date and this rate would not change over time. The requirement to estimate cash flows including the estimation of their timing is the same under both methods.

At the end of each reporting period, under the effective interest rate method, an entity shall assess whether there is any objective evidence of impairment. If any such evidence exists, the entity shall determine the amount of any impairment. Similarly if expectations of future cash flows were to subsequently increase a gain would be recognised, up to the original amortised cost, calculated by discounting these incremental cash flows at the original effective interest rate.

The Group has adopted the fair value basis as it considers this more relevant to the users of the financial statements.

The main inputs used by the Group in measuring the fair value of financial instruments are derived and evaluated as follows:

• Expected liquidation rate	Product characteristics, liquidation history and management experience with historic performance of comparable portfolios and market observable inputs considered to be directly relevant based on observable characteristics used by market participants in determining price.
• Face value	Determined at the date the PDP was acquired.
• Cash flow liquidation period	Up to ten years depending on liquidation history. The weighted average liquidation period is 2.7 years (30 June 2017: 2.7 years).
• Discount rate	Incorporates a risk free rate and appropriate credit risk adjustment for risks not built into the underlying expected cash flows. The weighted average discount rate used to calculate fair value is 20.1% (30 June 2017: 20.1%).
• Cost	Acquisition cost of acquired PDPs.

Separate validation of a discounted cash flow approach to fair value is also undertaken. The validation comprises a review of key elements contributing to movements in value including an analysis of the quantum, tenure and qualitative characteristics of the payment arrangements portfolio as well as an assessment of the performance of other key observable portfolio characteristics.

7. Trade and other payables

Trade payables at 31 December 2017 included $8.94m (30 June 2017: $2.62m) owing on purchased debt portfolios, consistent with the terms of their acquisition. The amount of this trade payable is unusual when compared to the prior period. It will be paid, in the normal course of business, during the second half of the financial year.

8. Borrowings

		31-Dec-2017			30-Jun-2017	
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Secured						
Bank loans	**-**	**97,118**	**97,118**	-	73,543	73,543
Lease liabilities	**371**	**276**	**647**	384	441	825
Other loans	**3,773**	**-**	**3,773**	5,934	-	5,934
	4,144	**97,394**	**101,538**	6,318	73,984	80,302
Unsecured						
Other loans	**-**	**-**	**-**	92	-	92
	4,144	**97,394**	**101,538**	6,410	73,984	80,394

Secured liabilities and assets pledged as security

Security over all the assets and undertakings of each of Pioneer Credit Limited, Pioneer Credit Solutions Pty Limited, Sphere Legal Pty Limited, Pioneer Credit (Philippines) Pty Limited, Pioneer Credit Connect Pty Limited, Switchmyloan Pty Limited, Pioneer Credit Broking Services Pty Limited and Credit Place Pty Limited, and unlimited cross guarantees and indemnities from each of these entities.

Compliance with loan covenants

The Group has complied with the financial covenants of its borrowing facilities during all periods reported.

Financing arrangements

The Group had access to facilities totalling $130,000,000 as at 31 December 2017 (30 June 2017: $110,000,000). The facilities comprise: a cash advance facility to partially fund the acquisition of PDPs, a bank guarantee facility, an overdraft facility, a direct debit authority facility and a credit card facility.

The facility is subject to the Group meeting a number of financial undertakings, all of which have been met to date. The facility will expire on 30 November 2019. Management has no reason to believe that the facility will not be renewed and / or extended beyond this date.

The overdraft facility of $2,500,000 was unused at 31 December 2017 and 30 June 2017 and the undrawn limit on the cash advance facility was $22,717,144 at 31 December 2017 (30 June 2017: $26,258,435).

The Group is required to keep the Financiers fully informed of relevant details of the Group as they arise.

9. Dividends

On the 24 August 2017 the Directors declared a fully franked dividend of 5.28 cents per share. The dividend had a record date of 30 August 2017 and was paid on 4 October 2017 at $3.219m (2016: $3.071m).

A number of shareholders opted to take up the dividend re-investment plan which returned $0.538m to the Group in the period under review.

10. Events occurring after the reporting period

No matter or circumstance has occurred subsequent to the half-year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

11. Critical accounting estimates, judgements and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also exercises judgement in applying the Group’s accounting policies.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value measurement of financial instruments

The fair value of financial instruments that are not traded in a sufficiently active market are determined using valuation techniques. The Group uses judgement to select valuation methods and make assumptions, including considering market conditions existing at the end of each reporting period and as to the allocation of PDPs between current and non-current asset allocations. For details of the key assumptions used and the impact of changes to these assumptions see note 6.

12. Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Pioneer Credit Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Changes to presentation

Certain classifications on the consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of cash flows have been reclassified. The Group believes that this will provide more relevant information to stakeholders. The comparative information has been reclassified accordingly.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

i) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment, including known or reasonably estimable information relevant to assessing the possible impact of standards not yet adopted and being introduced for future financial years and interpretations is set out below.

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* is applicable to annual reporting periods commencing on or after 1 January 2018, which is the 30 June 2019 year end. The Group does not currently intend, as is permitted, to early adopt the new standard but has completed a review program to thoroughly assess the requirements of the new standard and ensure that new provisions are complied with.

AASB 9 *Financial Instruments* will replace AASB 139 *Financial Instruments: Recognition and Measurement* and introduces changes in three areas:

Classification, measurement and de-recognition of financial assets and financial liabilities

All financial assets that do not meet certain restrictive conditions are measured at fair value through profit or loss.

If the relevant restrictive conditions are met, financial assets are measured at either amortised cost or fair value through other comprehensive income.

Determination of classification of financial assets will be based on the:

- objective of the entity's business model for managing the financial assets; and
- assessment of whether the contractual cash flows solely represent the payment of principal and interest.

The Group's most significant financial assets are PDPs classified at fair value through profit or loss. The result of the Group's review program is that these assets will continue to be designated in this manner upon implementation of the new standard.

The accounting of financial liabilities remains largely unchanged.

Impairment

Where a financial asset is measured at either amortised cost of fair value through other comprehensive income, an entity shall recognise an allowance for expected credit losses.

Impairment of these types of financial assets will be based on an expected loss model that requires entities to recognise expected losses based on unbiased forward looking information replacing the existing incurred loss model which only recognises impairment if there is objective evidence that a loss has incurred. The new standard outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition.

The new impairment requirements are unlikely to have a material impact upon the Group’s accounting or its current business activities.

Hedge accounting

Preliminary assessment under the new standard is that the standard introduces a more principles based approach to hedge accounting. The new standard also introduces expanded disclosure requirements and changes in presentation. The Group does not currently utilise hedge arrangements and the impact to the existing financial statements of the new standard is considered low.

AASB 15 *Revenue from Contracts with Customers*

The new standard replaces AASB 118 *Revenue* and introduces a single model for the recognition of revenue based on the satisfaction of performance obligations. It does not apply to financial instruments.

AASB 15 *Revenue from Contracts with Customers* is applicable to annual reporting periods commencing on or after 1 January 2018, and unless early adopted would be effective for the 30 June 2019 year end. The Group does not currently intend to early adopt the new standard but has commenced a preliminary review program to thoroughly assess the requirements of the new standard and ensure that new provisions are complied with.

The impact to the financial statements of the new standard is unlikely to have a material impact upon the Group’s accounting or its current business activities.

AASB 16 *Leases*

AASB 16 *Lease*s amends the accounting for leases and will replace AASB 117 *Leases*. Lessees will be required to bring both operating and finance leases on balance sheet as a right of use asset along with the associated lease liability. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. The standard is applicable to annual reporting periods commencing on or after 1 January 2019, and unless early adopted would be effective for the 30 June 2020 year end. The Group has not yet determined whether to early adopt the new standard.

The potential financial impacts of the above to the Group have not yet been determined.

Other amendments to existing standards that are not yet effective are not expected to result in significant changes to the Group's accounting policies.

Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 7 to 22 are in accordance with the *Corporations Act 2001*, including:

   i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   ii) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date, and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Keith John
Managing Director

Perth
26 February 2018

Independent auditor's review report to the members of Pioneer Credit Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pioneer Credit Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Pioneer Credit Limited (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pioneer Credit Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pioneer Credit Limited is not in accordance with the *Corporations Act 2001* including:

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth
26 February 2018