Half-year Report

for the period ended 31 December 2018

pioneer credit

Pioneer Credit Limited

ABN 44 103 003 505

Half-year Report
for the period ended 31 December 2018

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 2018 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 2018
(previous corresponding period half-year ended 31 December 2017)

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 2018 $'000	31 December 2017 $'000	Change $'000	%
Revenue from ordinary activities	40,282	36,820	3,462	9.40%
Net profit after taxation for the period attributable to members	5,455	8,110	(2,655)	(32.74)%

Full commentary on the figures presented above and on the results for the period and other significant information is provided in the 1H19 Media Release, Results Presentation and Consolidated Financial Statements at 31 December 2018, released 25 February 2019.

Dividends per ordinary share / distributions

	Amount per security (cents)	Franked amount per security	Record date	Paid / Payable date
Final 2018 ordinary	7.71	100%	28/09/2018	26/10/2018
Interim 2019 ordinary (declared, not yet provided at 31 December 2018)	4.31	100%	01/04/2019	26/04/2019

There is no provision for the interim dividend in respect of the half-year ended 31 December 2018. 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 2019 ordinary DRP is 2 April 2019.

Key ratios

	31 December 2018 (cents)	31 December 2017 (cents)
Net tangible assets per fully paid ordinary share	167.86	155.13

Review conclusion

The Consolidated Financial Statements at 31 December 2018 and accompanying notes for Pioneer Credit Limited have been reviewed in accordance with ASRE 2410 Review Engagements. The Independent Auditor's Review Report has been provided with the Statements released today.

The review report contains a qualified conclusion in respect of the accounting policy for Purchased Debt Portfolios. The Group has determined that the appropriate accounting policy for Purchased Debt Portfolios is to classify and subsequently measure Purchased Debt Portfolios at Fair Value through Profit or Loss. An alternative judgement would result in an accounting policy to classify and subsequently measure at amortised cost, with disclosure of fair value included in the notes.

At the date of this report the auditor’s view is that sufficient and appropriate information is not yet available for them to determine whether the Group’s accounting policy is appropriate or to assess the impact on the half-year financial report should Purchase Debt Portfolios be required to be classified and subsequently measured at amortised cost.

The review conclusion makes clear that, with the exception of not yet being able to determine if the accounting policy is appropriate, the auditors have not become aware of any matter that makes them 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 Group’s financial position as at 31 December 2018 and of its performance for the half-year ended on that date.

Pioneer Credit Limited

ABN 44 103 003 505

Half-year Report
for the period ended 31 December 2018

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 2018. 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
Ms Ann Robinson

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. Today, with more than 240,000 customers across Australia and New Zealand, we continue to focus on helping people get their finances back on track and achieve their goals.

Review of operations and results of those operations

Our core business, investment discipline and our inclusive and empowering culture remains solid and resilient. Considerable development work has been undertaken during the period to strengthen and grow our existing vendor relationships and develop new relationships in current and new market segments that we anticipate will provide a number of opportunities in 2H19.

Liquidations of Purchased Debt Portfolios is up 9.6% on the prior period equivalent to $50.5m and EBITDA held at $24.3m.

Net profit after taxation declined 32.7% to $5.5m, largely as a result of increased borrowing costs related to the medium term note, employee expenses and increased depreciation and amortisation from technology improvements acquired in FY18 that will deliver a return in the years to come.

An interim fully franked dividend declared of 4.31 cents per share with a record date of 1 April 2019 and payment date of 26 April 2019.

On 4 February 2019, Pioneer announced the resignation of the Chief Operating Officer effective 9 July 2019. A recruitment agency has been appointed to search for a new Officer.

Capital management

To ensure the Company remains well funded, with capacity to choose to participate in opportunities as they present, the Company increased its facility with its banking syndicate by $10.0m during this half year and extended the syndicate facility term to March 2020. At 31 December 2018 the remaining capacity of the facility was $20.3m. The Company continues to fund its customer portfolio investments through a mix of free cash and debt.

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. We are continually reviewing funding options but with no present plan to increase gearing limits.

Pioneer Credit Connect

Pioneer continues to offer existing and new customers a range of financial products such as brokered personal loans, home loans and small business loans. The Company has however paused its on-balance sheet lending pending regulatory clarity given the current uncertainty surrounding the non-bank lending sector. Most of the staff have been redeployed within operations.

Events since the end of 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.

Outlook

As we have previously indicated, our earnings continue to be weighted to the second half of each financial year. With this in mind and with the implementation of ongoing tactical improvement initiatives, we expect to meet our market guidance for FY19 of PDP liquidations of at least $120m, EBITDA of at least $65m and NPAT of at least $20m.

In addition to the key initiatives, in the coming six months our focus is to:

1. Execute our operational strategy to ensure delivery of FY19 expectations;
2. Continue to explore PDP investment opportunities in our current and alternate market segments; and
3. Examine acquisition opportunities in traditional and related markets.

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 4.

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
25 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Pioneer Credit Limited for the half-year ended 31 December 2018, 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

Douglas Craig
Partner
PricewaterhouseCoopers

Perth
25 February 2019

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 2018

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 2018 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-18 $'000	Half-year 31-Dec-17 $'000
Revenue from operations	2	**40,282**	36,820
Other income	2	**266**	9
		40,548	36,829
Employee expenses		**19,522**	16,445
Finance expenses	3	**4,174**	2,020
Information technology and communications		**2,070**	1,297
Direct expenses		**1,857**	1,668
Rental expenses		**1,598**	1,395
Depreciation and amortisation		**1,460**	647
Other expenses		**1,220**	951
Professional expenses		**606**	650
Travel and entertainment		**422**	293
Share of loss of associate accounted for using the equity method		**-**	60
Profit before income tax		**7,619**	11,403
Income tax expense	4	**2,164**	3,293
Profit for the period from continuing operations		**5,455**	8,110
Total comprehensive income for the half-year is attributable to:			
Owners of Pioneer Credit Limited		**5,455**	8,110
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**8.86**	13.33
Diluted earnings per share		**8.42**	12.78

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

Consolidated balance sheet

	Note	31-Dec-18 $'000	30-Jun-18 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**4,136**	3,410
Trade and other receivables		**2,759**	3,065
Consumer loans	5	**1,523**	747
Other current assets		**900**	1,328
Assets classified as held for sale		**-**	704
Current tax assets		**262**	-
Financial assets at fair value through profit or loss	6	**86,596**	76,461
Total current assets		**96,176**	85,715
Non-current assets			
Consumer loans	5	**7,511**	2,065
Property, plant and equipment		**4,508**	4,785
Deferred tax assets		**1,269**	1,319
Intangible assets		**3,317**	2,296
Other non-current assets		**553**	518
Financial assets at fair value through profit or loss	6	**157,434**	148,100
Total non-current assets		**174,592**	159,083
Total assets		**270,768**	244,798
LIABILITIES			
Current liabilities			
Trade and other payables		**5,216**	3,935
Borrowings	7	**773**	2,172
Current tax liabilities		**-**	2,109
Accruals and other liabilities		**4,441**	5,132
Total current liabilities		**10,430**	13,348
Non-current liabilities			
Borrowings	7	**148,939**	126,862
Provisions and other liabilities		**2,582**	2,874
Total non-current liabilities		**151,521**	129,736
Total liabilities		**161,951**	143,084
Net assets		**108,817**	101,714
EQUITY			
Contributed equity		**78,432**	71,779
Reserves		**2,717**	2,969
Retained earnings		**27,668**	26,966
Capital and reserves attributable to the owners of Pioneer Credit Limited		**108,817**	101,714
Total equity		**108,817**	101,714

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 2018		**71,779**	**2,969**	**26,966**	**101,714**
Total comprehensive income for the half-year		**-**	**-**	**5,455**	**5,455**
		71,779	**2,969**	**32,421**	**107,169**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		**166**	**-**	**-**	**166**
Employee share scheme		**61**	**-**	**-**	**61**
Dividend reinvestment plan	8	**4,581**	**-**	**-**	**4,581**
Treasury shares and share based payments		**-**	**541**	**-**	**541**
Issue of treasury shares to employees		**793**	**(793)**	**-**	**-**
Equity plans		**1,052**	**-**	**-**	**1,052**
Dividends declared and paid	8	**-**	**-**	**(4,753)**	**(4,753)**
		6,653	**(252)**	**(4,753)**	**1,648**
Balance at 31 December 2018		**78,432**	**2,717**	**27,668**	**108,817**
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 employee		819	(819)	-	-
Dividends declared and paid	8	-	-	(3,219)	(3,219)
		1,599	(202)	(3,219)	(1,822)
Balance at 31 December 2017		72,854	2,192	21,530	96,576

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-18 $'000	31-Dec-17 $'000
Cash flows from operating activities		
Receipts from liquidations of PDPs and services (inclusive of goods and services tax)	**51,503**	48,870
Payments to suppliers and employees (inclusive of goods and services tax)	**(28,383)**	(22,502)
	23,120	26,368
Interest received	**33**	9
Interest paid	**(3,358)**	(1,321)
Net income taxes paid	**(4,484)**	(2,910)
Net cash inflow from operating activities before changes in operating assets	**15,311**	22,146
Changes in operating assets arising from cash flow movements		
Net consumer loans advanced	**(6,372)**	-
Interest received on consumer loans	**397**	-
	(5,975)	-
Net cash inflow from operating activities	**9,336**	22,146
Cash flows from investing activities		
Payments for property, plant and equipment	**(378)**	(135)
Proceeds from property, plant and equipment	**782**	-
Payments for intangible assets	**(1,816)**	(322)
Acquisitions of financial assets at fair value through profit or loss	**(29,550)**	(37,758)
Net receipts from other investments	**937**	-
Net cash outflow from investing activities	**(30,025)**	(38,215)
Cash flows from financing activities		
Proceeds from borrowings	**21,263**	25,137
Repayment of borrowings	**(823)**	(4,067)
Dividends paid to Company's shareholders	**(4,753)**	(3,219)
Proceeds from issue of ordinary shares and DRP	**5,633**	642
Treasury shares loan repayment	**95**	90
Share based payments	**-**	(202)
Net cash inflow from financing activities	**21,415**	18,381
Net increase in cash and cash equivalents	**726**	2,312
Cash and cash equivalents at the beginning of the half-year	**3,410**	3,139
Cash and cash equivalents at the end of the half-year	**4,136**	5,451

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 Group has obtained an additional facility limit of $10m under the existing Senior Debt Facility for the acquisition of Purchased Debt Portfolios ("PDPs") with a total facility of $138.5m and an extended maturity date of 31 March 2020.

Adoption of new accounting standard

The Company adopted AASB 9 *Financial Instruments*.

2. Revenue from operations

	Half-year	
	31-Dec-18	**31-Dec-17**
	$'000	**$'000**
From continuing operations		
Liquidations of PDPs	**50,489**	46,060
Change in value of PDPs	**(11,905)**	(10,787)
Net gain on financial assets from PDPs	**38,584**	35,273
Legal services, broking services and interest on consumer loans	**1,698**	1,547
	40,282	36,820

Other income

	Half-year	
	31-Dec-18	**31-Dec-17**
	$'000	**$'000**
Interest earned on cash and cash equivalents	**33**	9
Profit on sale of asset held for sale	**233**	-
	266	9

3. Other expense items

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

	Half-year	
	31-Dec-18	**31-Dec-17**
	$'000	**$'000**
Finance expenses		
Bank fees and borrowing expenses	**843**	578
Interest and finance charge expenses	**3,331**	1,442
	4,174	2,020

4. Income tax expense

The income tax expense is recognised on the weighted average effective annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

5. Consumer loans

	31-Dec-18 $'000	30-Jun-18 $'000
Current	**1,523**	747
Non-current	**7,511**	2,065
	9,034	2,812

i) Classification of financial assets at amortised cost

AASB 9 *Financial Instruments* is applicable to annual reporting periods beginning on or after 1 January 2018.

Under AASB 9, if certain conditions are met, financial assets are subsequently measured at either amortised cost or fair value through other comprehensive income, otherwise they are subsequently measured at fair value through profit or loss.

Determination of classification of financial assets is based on:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

On 1 July 2018, the date of initial application of AASB 9, Pioneer has determined that the consumer loans meet the required conditions to be subsequently measured at amortised cost.

ii) Measurement at amortised cost

Upon assessment of both initial application and initial recognition, there is no financial impact in relation to the consumer loans balance as at 1 July 2018 given Pioneer's consumer loans are assessed to be measured at amortised cost at the date of initial application as well as at the date of initial recognition. Consumer loans are presented net of expected credit losses. An assessment of expected credit losses at initial application was performed with no change required to the provision for loan impairment recognised at 30 June 2018. See note 12 b on the impairment of financial assets. At 31 December 2018 an expected credit loss of $443,000 has been recognised, an increase of $184,950 since 30 June 2018.

The loan balance is categorised into current and non-current loans according to the due date within the contracted loan terms. Amounts due within 12 months are classified as current assets, with the remainder classified as non-current assets.

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 Purchased Debt Portfolios since the last annual financial report.

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

	31-Dec-18 $'000	30-Jun-18 $'000
Purchased Debt Portfolios		
Current	**86,596**	76,461
Non-current	**157,434**	148,100
	244,030	224,561

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

	31-Dec-18 $'000	31-Dec-17 $'000
Current and non-current		
At beginning of period	**224,561**	164,461
Additions for the period	**31,374**	43,967
Liquidations of PDPs	**(50,489)**	(46,060)
Net gain on financial assets from PDPs	**38,584**	35,273
	244,030	197,641

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

AASB 9 *Financial Instruments* is applicable to annual reporting periods beginning on or after 1 January 2018.

Under AASB 9, if certain conditions are met, financial assets are subsequently measured at either amortised cost or fair value through other comprehensive income, otherwise they are subsequently measured at fair value through profit or loss.

Determination of classification of financial assets is based on:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

On 1 July 2018, the date of initial application of AASB 9, Pioneer has determined that the Purchased Debt Portfolios do not meet the required conditions and are subsequently measured at fair value through profit or loss.

Upon assessment of both initial application and initial recognition, there is no financial impact in relation to the PDP balance as at 1 July 2018 given Pioneer's PDPs are assessed to be measured at fair value through profit or loss at the date of initial application as well as at the date of initial recognition.

The present value of the amount of the PDPs that are expected to be realised within 12 months is classified as a current asset, with the remainder included as a non-current asset.

ii) Fair value and fair value measurements

Under AASB 13 *Fair value measurement*, fair value is a market-based measurement, not an entity-specific measurement. For some assets, observable market transactions or market information might be available. For others, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same - to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset).

When a price for an identical asset is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset, including assumptions about risk.

Fair value net gains or losses on PDPs 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 acquisition and servicing of PDPs, including all cash flow sources from each portfolio's respective purchase agreement.

Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified PDPs according to 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 2018				
PDPs at FVTPL	-	-	244,030	244,030
30 June 2018				
PDPs at FVTPL	-	-	224,561	224,561

There were no transfers between levels in both periods.

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 (unobservable inputs), the instrument is included in Level 3.

Fair value is best evidenced as a quoted market price in an active market. As there is not a quoted market for PDPs and because one or more of the significant inputs is not based on observable market data, the PDP valuation is classified at Level 3 and valuation techniques are used based on current market conditions. The valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

iii) Valuation method

The valuation techniques used to determine the fair value measurement reflect the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date under current market conditions.

The Group, under AASB 13 *Fair Value Measurement,* utilises the income valuation approach, a technique that converts forecast cash flows to a present value amount (also known as a discounted cash flow). Forecast cash flows are actuarially determined using predictive models based on evidenced historical performance.

The fair value of PDPs requires estimation of:

a) the expected future cash flows;
b) the expected timing of receipt of those cash flows; and
c) discount rates derived from observed rates of return for comparable assets that are traded in the market and reviewed at each reporting period.

Valuation 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 are 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 for which market data is not available 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.

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

Description	Variable incorporated	Application to fair value
Face value	Sum of the outstanding contractual customer account at assignment date	Determined at the date the PDP was acquired based on amounts contractually assigned in full to Pioneer
Expected liquidation rate	Expressed as a percentage of the face value over time and represents the assessment of most likely forecast cash flows	Predictive analysis considers product characteristics, liquidation history, evidenced experience with comparable portfolios and directly relevant market observable inputs
Cash flow liquidation period	The period over which cash flows liquidate	Cash flow forecast period capped at up to ten years depending on liquidation history. The weighted average liquidation period is 2.7 years (30 June 2018: 2.8 years), indicating that the liquidation curve is front ended
Discount rate	Incorporates a risk free rate and appropriate credit risk adjustment and is derived from observed rates of return for comparable assets that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e. a market rate of return)	The weighted average discount rate used to calculate fair value is 20.12% (30 June 2018: 20.11%) The weighted average discount rate we have benchmarked for original customer accounts, substantially comprising rates of return for comparable credit cards and personal loans, has fluctuated within a range of 17.60% to 20.12% over the last five years
Cost	Acquisition cost of acquired PDPs (transaction costs expensed as incurred)	Cost is considered to best represent fair value at initial recognition

Model risk

Valuation model risk arises where key judgements may impact on the appropriateness of model outputs and reports used. Commensurate with the complexity, materiality and business use of the model, the Group mitigates and controls model risk through:

- effective challenge and critical analysis involving objective, qualified and experienced parties in the line of business in which the model is used; and
- output verification to ensure that the model performs as expected in line with design objectives and business use.

Additional analysis is performed through back testing, stability testing and sensitivity analysis. The results, outcomes and actions affirm 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, including applying a statistically determined downward scaling factor that has been modelled and applied to reflect portfolio performance at the measurement date compared to the historical portfolio average.

Valuation inputs and relationship to fair value

The following table summarises the quantitative impact on those elements of the valuation 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	$244,030	Discounted cash flow	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 $2.454m, an increase results in an increase in fair value on total estimated cash flows of $2.454m.
			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 $7.361m, an increase results in an increase in fair value on total estimated cash flows of $7.361m.
			Cash flow liquidation period	Impact of a nine year liquidation period versus a ten year liquidation period	Results in a decrease in fair value of $0.440m.
			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 $4.520m, an increase results in a decrease in fair value of $4.342m.
			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 $14.139m, an increase results in a decrease in fair value of $12.530m.

7. Borrowings

	31-Dec-2018 Current $'000	Non-current $'000	Total $'000	30-Jun-2018 Current $'000	Non-current $'000	Total $'000
Secured						
Bank loans	**-**	**109,634**	**109,634**	-	87,718	87,718
Medium term notes	**-**	**39,305**	**39,305**	-	39,144	39,144
Lease liabilities	**276**	**-**	**276**	464	-	464
Other loans	**471**	**-**	**471**	1,575	-	1,575
	747	**148,939**	**149,686**	2,039	126,862	128,901
Unsecured						
Other loans	**26**	**-**	**26**	133	-	133
	773	**148,939**	**149,712**	2,172	126,862	129,034

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 a Senior Debt Facility of $138,500,000 as at 31 December 2018 (30 June 2018: $128,500,000) comprising 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 overdraft facility was unused at 31 December 2018 and 30 June 2018 and the undrawn limit on the cash advance facility was $20,311,962 at 31 December 2018 (30 June 2018: $32,200,405). 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 31 March 2020. Management has no reason to believe that the facility will not be renewed and / or extended beyond this date.

In March 2018 the Company raised $40,000,000 by way of a medium term notes issue to diversify Pioneer's funding sources and to focus on the medium term growth requirements of the Company. The notes have a maturity date of 22 March 2022.

Classification of financial liabilities at amortised cost

AASB 9 *Financial Instruments* is applicable to annual reporting periods beginning on or after 1 January 2018.

Borrowings continue to be classified and subsequently measured at amortised cost.

8. Dividends

On the 24 August 2018 the Directors declared a fully franked dividend of 7.71 cents per share. The dividend had a record date of 28 September 2018 and was paid on 26 October 2018 at $4.753m (2017: $3.219m).

The Dividend Re-investment Plan was fully underwritten and returned a net $4.581m to the Group in the period under review.

9. 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.

10. 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.

The Group 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 may cause an adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Implementation of AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* has been implemented with effect 1 July 2018.

Under AASB 9, the classification and measurement of financial assets requires application of judgement and is based on the assessment of both:

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

The result of the Group's assessment of AASB 9 is that;

- the Group's emerging Consumer Loan products are classified and subsequently measured at amortised cost as described in note 5; and
- the Group's most significant assets, Purchased Debt Portfolios are classified and subsequently measured at fair value through profit or loss as described in note 6.

The Group recognises there is complexity when adopting new standards when information and practice is still emerging, and estimates and judgements need to be continually and thoroughly evaluated. The Group continues to monitor and assess emerging interpretations of this new accounting standard to ensure it presents financial information that continues to be reliable and useful to shareholders.

While the Group has completed a thorough assessment to arrive at the determination of classification of Purchased Debt Portfolios we note that where the required conditions are met the other potential method for classification and subsequent measurement of Purchased Debt Portfolios could be at amortised cost, using the effective interest rate method.

As the Group's classification determination is at fair value through profit or loss, a calculation of the carrying value at amortised cost is not required and accordingly has not been completed.

An analysis of the critical estimates that are important considerations to the carrying value of Purchased Debt Portfolios is described below.

Under both the fair value through profit or loss and amortised cost approaches, the requirement to estimate reliable cash flows and the total returns from the Purchased Debt Portfolios over the liquidation period are the same. However, the two approaches differ in how discount rates are determined, which may result in different recognition patterns of returns.

As described above, the fair value of Purchased Debt Portfolios requires estimation of:

a) the expected future cash flows;
b) the expected timing of receipt of those cash flows; and
c) discount rates derived from observed rates of return for comparable assets that are traded in the market and reviewed at each reporting period.

The requirement to estimate cash flows including the estimation of their timing is the same under both methods, and in both methods fair value is used at inception.

Assumptions about the liquidation rate to predict estimated cash flows are based on customer, operational and product characteristics, payment history, market conditions and management experience.

Under amortised cost the effective interest rate would be set at the rate that exactly discounts estimated future cash receipts through the expected life of the asset to the gross carrying amount which would be set at the inception fair value.

The effective interest rate is therefore the implicit interest rate based on forecast cash flows extrapolated at the investment date of an individual Purchased Debt Portfolio and equates to the internal rate of return of those forecast cash flows.

Where a financial asset is measured at amortised cost, an entity shall recognise an allowance for expected credit losses. Impairment assessment is based on an expected loss model that requires entities to recognise expected credit losses based on unbiased forward looking information and considering changes in credit quality since initial recognition.

By carrying Purchased Debt Portfolios at fair value there are no further impairment considerations as it is implicit within the fair value.

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.

Calculation of the expected loss allowance

The Group uses judgement in assessing expected credit losses for financial assets carried at amortised cost for which there has been a significant increase in credit risk since initial recognition. Judgement requires consideration of, amongst others;

- Measuring expected credit losses – the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Estimating loss given default – this is based on the difference between the contractual cash flows due and those that the Company would expect to receive.

- Probability of default – an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

11. Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 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 2018 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, consolidated statement of changes in equity 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, except for the adoption of new and amended standards as set out below.

i) New and amended standards adopted

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* substantially changes the classification and measurement of financial instruments, requires impairments to be based on a forward-looking model and changes the approach to hedging financial exposures and related documentation as well as the recognition of certain fair value changes.

Based on assessments performed, while there is a change in the Group's accounting policies, management have determined to make no changes to opening equity.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard replaces AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related interpretations.

The Group implemented the new standard on 1 July 2018. Based on assessments performed, management have determined there to be no impact on the Group's accounting or its current business activities.

ii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 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 16 *Leases*

AASB 16 *Leases* is applicable to annual reporting periods commencing on or after 1 January 2019, and unless early adopted will be effective for the 30 June 2020 year end. The Group does not intend to early adopt the new standard and will follow the modified retrospective approach when the new standard becomes applicable.

AASB 16 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. The only exceptions are short-term and low-value leases. 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 potential financial impacts of the above to the Group have not yet been determined though the Group has commenced a review program to thoroughly assess the requirements of the new standard and ensure that new accounting treatments are complied with. Lessees can choose either a full retrospective approach or a modified retrospective approach to transition to the new standard. Under the modified retrospective approach, a lessee does not restate comparative information.

The new standard will affect primarily the Group's accounting for non-cancellable operating leases. The new standard may also result in additional leases being recognised as a result of review of the Group's existing contracts and service agreements.

Amendments to References to Conceptual Framework in IFRS Standards

The *Conceptual Framework for Financial Reporting* is the foundation on which the IASB develops new accounting standards. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. The *Conceptual Framework* may be used as a reference for selecting accounting policies in the absence of specific IFRS requirements.

The changes are applicable to annual reporting periods commencing on or after 1 January 2020 and would be effective for the 30 June 2021 year end. The potential impacts 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.

12. Changes in accounting policies

This note explains the impact of the adoption of AASB 9 *Financial Instruments* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

AASB 9 *Financial Instruments* – Impact of adoption

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 *Financial Instruments* from 1 July 2018 resulted in some changes in classification of financial assets, impairment and accounting policies. The new accounting policies are set out in notes 5 and 6.

a) Classification and measurement

On 1 July 2018 (the date of initial application of AASB 9), the Group assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate AASB 9 categories.

Based on the Group's assessment, the classification of financial instruments remains unchanged with the exception of the convertible note. The Group holds a convertible note of $500,000, which is not traded in an active market. This was previously accounted for at amortised cost consistent with the application of the requirements of AASB 139. Under AASB 9, the note has been reassessed as the equity conversion feature of the asset does not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding. Consequently as an equity instrument it is now measured at fair value through profit or loss. The Group has performed an assessment on the contract terms and future cash flows and determined that the carrying value approximates fair value.

b) Impairment of financial assets

The Group has two types of financial assets that are subject to AASB 9's expected credit loss model:

- receivables from consumer loans; and
- trade receivables from the provision of services.

The Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The Group recognises a loss allowance for such losses at each reporting date.

The Group was required to revise its impairment methodology under AASB 9 for each of these classes of assets. Based on the assessment performed, no adjustment is required to the Group's opening equity.

The revised impairment methodology is described below.

Receivables from consumer loans

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using probability of default and loss given default as per the requirements of AASB 9. For consumer loans the Group recognises a lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months of the expected credit loss. The assessment of whether a lifetime expected credit loss should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime expected credit loss represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months expected credit loss represents the portion of lifetime expected credit loss that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Group uses internal credit risk gradings that reflect its assessment of probability of default of individual counterparties. Borrower and loan specific information collected at the time of application (such as disposable income) is captured by this rating model. The credit grades are calibrated such that the risk of default increase exponentially at each higher risk grade.

The Group has performed historical analysis and identified the economic variable such as unemployment rate as well as various external sources of actual and forecast economic information, impacting credit risk and expected losses for each portfolio.

Trade receivables from the provision of services

The Group recognises a lifetime expected credit loss for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

There has been no significant change in the estimation techniques or significant assumptions made from the initial application of revised impairment methodology and during the current reporting period.

Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 5 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 2018 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
25 February 2019

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 2018, 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 other explanatory notes and the directors' declaration for Pioneer Credit Limited. The Group 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 Group's financial position as at 31 December 2018 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.

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

Basis for qualified conclusion

In applying AASB 9 Financial Instruments, applicable from 1 July 2018, the Group has made a significant accounting judgement in relation to the accounting policy for Purchased Debt Portfolios (PDPs) as set out in Note 10. The Group continues to monitor and assess emerging interpretations of this new accounting standard.

In exercising this judgement the Group has determined that the appropriate accounting policy for PDPs is to recognise and subsequently measure PDPs at fair value through profit or loss as disclosed in Note 6. An alternative judgement of the application of the requirements of AASB 9 to the Group's circumstances would require the Group to initially recognise PDPs at fair value and subsequently measure them at amortised cost. The fair value of PDPs would be disclosed in the notes to the financial statements.

Subsequently measuring PDPs at amortised cost could have a material impact on opening retained earnings on initial adoption of AASB 9 and on revenue from operations, net impairment losses on financial assets and financial assets at fair value through profit or loss for the half-year.

At the date of this report, sufficient and appropriate information is not yet available for us to determine whether the Group's accounting judgement to apply an accounting policy to recognise and subsequently measure PDPs at fair value through profit or loss is appropriate or to assess the impact on the half-year financial report of any adjustments that would be required if PDPs were initially recognised at fair value and subsequently measured at amortised cost.

Qualified Conclusion

Based on our review, which is not an audit, with the exception of the matter described in the Basis for Qualified Conclusion section of our report, 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:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 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
25 February 2019