1 March 2019

Ms Penelope Reid
Adviser, Listings Compliance (Perth)
Australian Securities Exchange

By Email: ListingsCompliancePerth@asx.com.au

Dear Penelope,

Pioneer Credit Limited ("PNC", "the Group"): Half Year Accounts 31 December 2018

I refer to your letter dated 26 February 2019 to Sue Symmons, Company Secretary and respond to the questions raised as follows:-

1. Is PNC able to confirm that in the directors' opinion the Half Year Accounts:

(a) comply with the relevant Accounting Standards; and

(b) give a true and fair view of PNC's financial performance and position?

PNC confirms that in the directors' opinion, the financial statements for the period ended 31 December 2018 (a) comply with the relevant Accounting Standards and (b) give a true and fair view of PNC's financial performance and position.

We note that the review conclusion qualification on the Half Year Accounts is with respect to an accounting policy judgement on which the auditor has noted that sufficient and appropriate information is not yet available for them to determine whether the accounting policy judgement is appropriate. The auditor in their review conclusion has confirmed, with the exception of this matter, as noted below:

"..... we have not become aware of any matter that makes us believe that the half-year financial report of PNC is not in accordance with the Corporations Act 2001 including:

i. 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;

ii. complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001."

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2. Given the qualification with respect to Purchased Debt Portfolios (“PDPs”), and the fact that the PDPs represent 90% of PNC’s assets as at 31 December 2018, why do the directors believe the Half Year Accounts present a true and fair view of PNC’s financial position as at 31 December 2018 and of its performance for the half year ended on that date?

The application of the Accounting Standards and *Corporations Regulations 2001* provide a sound foundation for the directors to declare in their opinion that the financial statements and notes set out are 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 2018 and of its performance for the half-year ended on that date.

In relation to the PDP’s, the acquisition and subsequent servicing of unsecured retail debt portfolios (i.e. the PDPs) gives rise to cash receipts - Liquidations from PDPs. This contractual right to receipt cash meets the definition of a financial asset as defined under AASB 132 *Financial Instruments: Presentation.*

Under AASB 9 *Financial Instruments,* financial assets are classified into one of three measurement categories based on assessing:

- whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (known as the SPPI test); and
- the objective of the entity’s business model for managing the financial assets (known as the Business Model test)

Financial assets are classified and subsequently measured at fair value, with changes in fair value recognised in profit or loss as they arise (“FVTPL”), unless the restrictive criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income (“FVOCI”).

On initial application of AASB 9, PNC has determined that PDPs are required to be classified and measured at fair value through profit or loss.

In relation to the SPPI test, PNC has determined that PDPs do not meet the requirements of the SPPI test.

- For the purposes of applying the conditions in AASB 9 as defined, principal is the fair value of the financial asset at initial recognition, reflecting the economics of the financial asset from the perspective of PNC as the current holder of the financial asset.
- PNC recovers a multiple on this initial investment (principal), and this multiple return is not cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding. Cash flows that arise are not consistent with a basic lending arrangement and the nature of the return is that they have high volatility at the customer account level which is managed at a portfolio level. The investment mix provides a range of differing credit product exposures, credit risk profiles and anticipated liquidation periods such that the variability in returns of any individual arrangement or PDP is mitigated by the return achieved on other portfolio PDPs.

In relation to the Business Model Test, assets that do not meet the SPPI criteria are classified at FVTPL irrespective of the business model in which they are held.

In addition PDPs acquired and serviced by PNC do not meet the Business Model test that could make them eligible to be subsequently measured at amortised cost.

- Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- AASB 9 states, that a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.
- PNC is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

The fair value measurement movement comprising net gains and losses from one reporting period to the next gives rise to disclosure of the Net Gain on Financial Assets at fair value through profit or loss. Consistent with AASB 7 *Financial Instruments: Disclosures,* PNC discloses this Net Gain on Financial Assets at FVTPL as income in the statement of comprehensive income and in the notes to the accounts.

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.

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.

The Group, under AASB 13 *Fair Value Measurement*, utilises the income valuation approach, a technique also known as a discounted cash flow. Forecast cash flows are actuarially determined using predictive models based on statistical evidence.

In applying the Standards, the directors have ensured the financial statements have disclosed the classification and measurement determination for PDPs and ensured appropriate disclosure is made to users of the accounts with respect to the valuation methodology and have included sensitivity analysis to ensure users of the accounts are fully informed of the appropriate valuation inputs and their valuation impact.

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).

The cash flow statement provides clear disclosure on the receipts from liquidation of PDPs and the significance of this to operating activity cash flow and the cash investment in acquisition of PDPs.

Additional disclosure has been included as to the critical accounting estimates, judgements and assumptions making clear there is an appropriate application of professional judgement and importantly an analysis of the critical estimates that are important considerations to the carrying value of PDPs.

The valuation methodology disclosure makes clear that commensurate with the complexity, materiality and business use of the valuation model, the Group mitigates and controls valuation 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.

The directors have:

- properly read, understood and given sufficient attention to the content of the financial statements and reports prior to participating in the directors' resolutions;
- where necessary, made further inquiries with management, the audit and risk management committee (ARMC) and other members of the board prior where matters in the financial statements indicated the need for such inquiries;
- considered whether the financial statements are consistent with the directors' knowledge of the Group's financial position;
- ensured they possess the financial literacy to understand accounting conventions and proper diligence in reading the financial statements;
- taken reasonable steps to ensure they have sufficient knowledge of the financial reporting requirements of the Corporations Act; and
- not solely relied on management or the Group's advisors to ensure compliance with the law.

PNC has had ongoing dialogue with ASIC, of which PwC has been involved and kept informed. As part of that process and to co-operate with the Regulator, PNC has sought Senior Counsel's opinion and we have undertaken to share the outcome of this with ASIC and PwC as our auditor.

3. **On what basis do the directors consider the Half Year Accounts comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements?**

The Group's 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.*

The condensed consolidated interim financial report did not include all the notes of the type normally included in an annual financial report.

Key elements included in the directors' consideration and included in disclosures are outlined below.

The acquisition and subsequent servicing of unsecured retail debt portfolios (i.e the PDPs) gives rise to cash receipts - Liquidations from PDPs. This contractual right to receipt cash meets the definition of a financial asset as defined under AASB 132 *Financial Instruments: Presentation.*

Under AASB 9 *Financial Instruments* paragraphs 4.1.1 to 4.1.4, financial assets are classified into one of three measurement categories based on assessing:

- whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (known as the SPPI test); and
- the objective of the entity's business model for managing the financial assets (known as the Business Model test)

Financial assets are classified and subsequently measured at fair value, with changes in fair value recognised in profit or loss as they arise ("FVTPL"), unless the restrictive criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income ("FVOCI").

On initial application of AASB 9, PNC has determined that PDPs are required to be classified and measured at fair value through profit or loss.

In relation to the SPPI test, PNC has determined that PDPs do not meet the requirements of the SPPI test.

- For the purposes of applying the conditions in AASB 9 as defined, principal is the fair value of the financial asset at initial recognition, reflecting the economics of the financial asset from the perspective of PNC as the current holder of the financial asset.
- PNC recovers a multiple on this initial investment (principal), and this multiple return is not cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding. Cash flows that arise are not consistent with a basic lending arrangement and the nature of the return is that they have high volatility at the customer account level which is managed at a portfolio level. The investment mix provides a range of differing credit product exposures, credit risk profiles and

anticipated liquidation periods such that the variability in returns of any individual arrangement or PDP is mitigated by the return achieved on other portfolio PDPs.

In relation to the Business Model Test, assets that do not meet the SPPI criteria are classified at FVTPL irrespective of the business model in which they are held.

In addition PDPs acquired and serviced by PNC do not meet the Business Model test that could make them eligible to be subsequently measured at amortised cost.

- Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- AASB 9 states, that a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.
- PNC is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

The fair value measurement movement comprising net gains and losses from one reporting period to the next gives rise to disclosure of the Net Gain on Financial Assets at fair value through profit or loss. Consistent with AASB 7 *Financial Instruments: Disclosures,* PNC discloses this Net Gain on Financial Assets at FVTPL as income in the statement of comprehensive income and in the notes to the accounts.

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.

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.

The Group, under AASB 13 *Fair Value Measurement*, utilises the income valuation approach, a technique also known as a discounted cash flow. Forecast cash flows are actuarially determined using predictive models based on statistical evidence.

With respect PNC's determination of the appropriate classification under AASB 9, a detailed and rigorous process was completed as outlined below:

- Subsequent to the June 2017 reporting period, a research and consultation period involving the ARMC and Board resulted in a determination under AASB 9.
- A formal determination paper was tabled to the ARMC and Board and the determination that PDPs will continue to be carried at fair value through profit or loss was approved.
- On 26 October 2017, a meeting was held with the Group's auditor PwC and the determination paper tabled with a formal request seeking clarity with respect to PwC's ability to continue to opine on financial statements based on this determination.

- On 11 December 2017, PwC advised they had signed off in agreement with the proposed determination to classify and subsequently measure PDPs at FVTPL under AASB 9.
- On 26 February 2018, relating to the half-year accounts at 31 December 2017:
  - PwC formally reported to the ARMC their agreement with PNC's determination on classification and measurement of PDPs at FVTPL; and
  - the Half year-review report included appropriate disclosures to this effect.
- On 21 August 2018, relating to the 30 June 2018 annual report:
  - PwC reported to the ARMC their continued agreement with PNC's determination; and
  - PNC reported in the notes to the audited financial statements that PDPs would continue to be classified at fair value through profit or loss under AASB 9.
- Throughout the above time period PNC has had ongoing dialogue with PwC in relation to AASB 9 both during the planning and completion phases of the respective reviews and audits.
- Since October 2018, PNC has had ongoing dialogue with ASIC of which PwC has been involved and kept informed. As part of that process and to co-operate with the Regulator, PNC has sought Senior Counsel's opinion and we have undertaken to share the outcome of this with ASIC and PwC as our auditor.
- On 22 February 2019, PwC advised PNC on completion of the review for the half-year reporting process of the qualification on the half-year report review conclusion. The basis for conclusion states that at the date of their report sufficient and appropriate information is not yet available for PwC 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.
- On 22 February 2019, when PwC's draft qualified review opinion was presented, PNC specifically asked PwC if there was any additional information they required from us. PwC responded that all information they required from PNC had been provided. Further, their formal report to the ARMC noted '*During our review, we received full cooperation from management and had no unresolved disagreements over the scope of their review or disclosures to be included in the financial statements*'.

With the exception of this matter, the review conclusion states that PwC 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:

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

4. Why, given the qualified opinion, and the fact that other ASX listed entities in the same industry appear to have adopted a different approach to valuing PDPs (at amortised cost) has PNC continued to account for their PDPs at fair value through profit and loss?

We are mindful of industry practice and disclosures however, when applying the Accounting Standards we must consider our own circumstances and business practices.

Under AASB 9 *Financial Instruments* paragraphs 4.1.1 to 4.1.4, financial assets are classified into one of three measurement categories based on assessing:

- whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (known as the SPPI test); and
- the objective of the entity's business model for managing the financial assets (known as the Business Model test).

Financial assets are classified and subsequently measured at fair value, with changes in fair value recognised in profit or loss as they arise ("FVTPL"), unless the restrictive criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income ("FVOCI").

On initial application of AASB 9, PNC has determined that PDPs are required to be classified and measured at fair value through profit or loss.

The qualification on the half-year report review conclusion states that at the date of their report sufficient and appropriate information is not yet available for PwC 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. PNC was only advised on 22 February 2019 by its auditor of the qualification on the half-year report review conclusion.

The qualification and the basis outlined does not state that the auditor disagrees with the classification and measurement at FVTPL nor does it state that the auditor believes the amortised cost approach is appropriate.

At reporting date, PNC believe that our determination that PDPs are required to be classified and measured at fair value through profit or loss is appropriate and accordingly have continued to account for PDPs in this manner, consistent with our initial application under AASB 9.

5. Notwithstanding the commentary in Note 10 of the Half Year Accounts, that "a calculation of the carrying value" of PDPs at amortised cost is "not required" and "has not been completed'', in light of the qualified opinion, and given some of PNC's peers value PDPs at amortised cost – has PNC considered a change in accounting policy to value PDPs at amortised cost?

With respect to PNC's determination of classification under AASB 9, a detailed and rigorous process was completed. We are mindful of industry practice and disclosures however, when applying the Accounting Standards we must consider our own circumstances and business practices. The process required that PNC fully considered the requirements of AASB *9 Financial Instruments,* as has been outlined.

This included PNC considering whether the conditions required to subsequently measure PDPs at amortised cost are met.

On initial application of AASB 9, PNC has determined that PDPs are required to be classified and measured at fair value through profit or loss.

PNC's process included receiving positive confirmation from PwC that they had signed off in agreement with the proposed classification at fair value through profit or loss.

On 22 February 2019, PwC advised PNC on completion of the review for the half-year reporting process of the qualification on the half-year report review conclusion. The basis for conclusion states that at the date of their report, sufficient and appropriate information is not yet available for PwC 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.

The qualification and the basis outlined does not state that the auditor disagrees with the classification and measurement at FVTPL nor does it state that the auditor believes the amortised cost approach is appropriate.

PNC has had ongoing dialogue with ASIC of which PwC has been involved and kept informed. As part of that process and to co-operate with the Regulator, PNC has sought Senior Counsel's opinion and we have undertaken to share the outcome of this with ASIC and PwC as our auditor.

6. If the answer to the Question 5 is yes, when does PNC expect this change to occur?

The answer to Question 5 is that PNC and its auditors need to form their own view as to whether the accounting policy determined is an acceptable treatment following further consideration as outlined below.

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 users of its accounts.

PNC has maintained prompt and complete correspondence with ASIC, the responsible regulator and are:

- taking active steps to re-confirm PNC's position with its auditors and lawyers; and
- seeking an opinion from Senior Counsel with experience in this area and will continue to co-operatively engage with ASIC on this matter.

7. If the answer to Question 5 is no, why not?

Please refer to the answer to Question 6.

8. What steps will PNC take to ensure it will receive a "clean" or unmodified audit opinion going forward?

On initial application of AASB 9, PNC has determined that PDPs are required to be classified and measured at fair value through profit or loss.

PNC's process included receiving positive confirmation from PwC that they had signed off in agreement with the proposed classification at fair value through profit or loss.

With respect to PNC's determination of classification under AASB 9 a detailed and rigorous process was completed as outlined below:

- Subsequent to the June 2017 reporting period, a research and consultation period involving the ARMC and Board resulted in a determination under AASB 9.
- A formal determination paper was tabled to the ARMC and Board and the determination that PDPs will continue to be carried at fair value through profit or loss was approved.
- On 26 October 2017:
    - A meeting was held with the Group's auditor, PwC, and the determination paper tabled with a formal request seeking clarity with respect to PwC's ability to continue to opine on financial statements based on this determination.
- On 11 December 2017, PwC advised they had signed off in agreement with the proposed determination to classify and subsequently measure PDPs at FVTPL under AASB 9
- On 26 February 2018, relating to the half-year accounts at 31 December 2017:
    - PwC formally reported to the ARMC their agreement with PNC's determination on classification and measurement of PDPs at FVTPL; and
    - The Half year-review report included appropriate disclosures to this effect.
- On 21 August 2018, relating to the 30 June 2018 annual report:
    - PwC reported to the ARMC their continued agreement with PNC's determination; and
    - PNC reported in the notes to the audited financial statements that PDPs would continue to be classified at fair value through profit or loss under AASB 9.

On 22 February 2019, PwC advised PNC on completion of the review for the half-year reporting process of the qualification on the half-year report review conclusion. The basis for conclusion states that at the date of their report sufficient and appropriate information is not yet available for PwC 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.

The qualification and the basis outlined does not state that the auditor disagrees with the classification and measurement at FVTPL nor does it state that the auditor believes the amortised cost approach is appropriate.

To ensure a “clean” or unmodified audit opinion, PNC and its auditors will need to review, in the case of PNC, and form, in the case of the auditor, their own view as to the appropriate accounting treatment following further consideration.

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 users of its accounts and in compliance with its legal requirements.

PNC has maintained prompt and complete correspondence with ASIC, the responsible regulator, and are:

- taking active steps to confirm PNC's position with its auditors and lawyers; and
- seeking an opinion from Senior Counsel with experience in this area and will continue to co-operatively engage with ASIC on this matter.

9. In light of the qualified opinion, which, as described in the qualified opinion, "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" does PNC consider that the financial condition of PNC to be sufficient to warrant continued listing on ASX in accordance with the requirements of Listing Rule 12.2? In answering this question, please explain the basis for this conclusion.

PNC consider the financial condition of PNC to be sufficient to warrant continued listing on ASX in accordance with the requirements of Listing Rule 12.2.

The financial condition of PNC is informed significantly by the fair value of PDPs and the appropriate revenue recognition associated with this asset.

Importantly the recognition of cash and the appropriate cash flow statement and disclosures contained therein will not change and are not impacted by the classification and measurement accounting policy determination for PDPs.

Under both the fair value through profit or loss and amortised cost approaches, for subsequent measurement, the requirement to estimate cash flows including the estimation of their timing is the same under both methods.

In both methods fair value is used at inception. However the two approaches differ in how discount rates are determined, which may result in different recognition patterns of returns.

The fair value of PDPs has been disclosed consistent with the requirements and would continue to be disclosed in the event the assets were subsequently measured at amortised cost. In this event the valuation would continue to be completed consistent with our current rigorous practice and in compliance with AASB 13 *Fair Value Measurement*.

Under AASB 13, the fair value measurement reflects 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.

We do not foresee any challenges with our financier undertakings should a move to amortised cost be determined to be appropriate. Our financiers are fully informed with respect to the qualification with the results release.

Under the amortised cost method there remains a requirement for entities to disclose the fair value of the PDPs and we would, if this approach were deemed appropriate, be able to continue to report this metric - including for financier covenant purposes.

The Group extended its senior financier purchasing facilities during the year by $10m, on terms that are unchanged and now has a cash advance facility limit of $130m with borrowings drawn of $109.6m and a remaining capacity of $20.3m as at 31 December 2018.

Our market commentary with the results release has illustrated the gearing head room at measurement date.

On 22 February 2019, PwC advised PNC on completion of the review for the half-year reporting process of the qualification on the half-year report review conclusion. The basis for conclusion states that at the date of their report sufficient and appropriate information is not yet available for PwC 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.

On 22 February 2019, when PwC's draft qualified review opinion was presented, PNC specifically asked PwC if there was any additional information they required from us. PwC responded that all information they required from PNC had been provided. Further, their formal report to the ARMC noted '*During our review, we received full cooperation from management and had no unresolved disagreements over the scope of their review or disclosures to be included in the financial statements*'.

With the exception of this matter the review conclusion states that PwC has not become aware of any matter that makes them believe that the half-year financial report is not in accordance with in accordance with the *Corporations Act 2001*, including:

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

The qualification and the basis outlined does not state that the auditor disagrees with the classification and measurement at FVTPL nor does it state that the auditor believes the amortised cost approach is appropriate.

PNC has had ongoing dialogue with ASIC of which PwC has been involved and kept informed. As part of that process and to co-operate with the Regulator, PNC has sought Senior Counsel's opinion and we have undertaken to share the outcome of this with ASIC and PwC as our auditor.

We have undertaken a rigorous analysis of AASB 9 and the directors believe that our financial reporting including the disclosure of fair value is 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.

With respect to the review conclusion, we understand that the auditor's position is that sufficient and appropriate information is not yet available for them to determine under which PDPs classification PNC should report its FY19 full year financial statements under AASB 9 *Financial Instruments* which is newly adopted this financial year. PwC has previously issued unqualified reports in relation to the Group's financials. PwC has made clear in their conclusion that their uncertainty is with respect to the Group's accounting policy which recognises and measures PDPs at fair value through profit or loss. The Group respects PwC's independence and qualified review conclusion, though views this qualification as very cautious.

It is not known whether measuring PDPs at amortised cost would result in a change in opening retained earnings on initial adoption of AASB 9 or on revenue from operations, net impairment losses on financial assets or result in an amortised cost value that is in any way different from that arrived at through fair value through profit or loss.

It is entirely possible that a move to amortised cost may result in no change in reported profits, a decrease in profits or an increase in profits.

Our determination is based on known information at the reporting date. We hold to our commitment to provide our shareholders and all users of our accounts with the best possible reporting and we confirm that all values presented and treatments applied in the reviewed financial statements are true and fair, in accordance with the *Corporations Act 2001*, as reviewed by PwC.

The Group will advise the market on any change to its position as contained herein in accordance with the requirements under the *Corporations Act* 2001 and the Listing Rules.

10. Please confirm that PNC is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

PNC confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Yours faithfully,
Pioneer Credit Limited

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Andrea Hall
Non Executive Director
For and on behalf of the Board

26 February 2019

Ms Susan Symmons
Company Secretary
Pioneer Credit Limited
Level 6, 108 St Georges Terrace
PERTH WA 6000

By email: ssymmons@pioneercredit.com.au

Dear Ms Symmons

Pioneer Credit Limited ("PNC"): Half Year Accounts 31 December 2018

ASX refers to:

A. PNC's half year accounts for the half year ended 31 December 2018 lodged with ASX Market Announcements Platform and released on 25 February 2019 ("Half Year Accounts").

B. ASX notes that the Independent Auditor's Report attached to the Half Year Accounts ("Auditor's Report") contains a qualified opinion together with the basis for qualified opinion:

> *"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."*

C. PNC's Corporate Governance Statement for the financial year ended 30 June 2018 lodged on the ASX Market Announcements Platform on 24 August 2018 which provides confirmation that PNC complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

> *"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the*

entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

D. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing.

E. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX +accounts, the following rules apply.

(a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.

(b) The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.

(c) If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.

(d) If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).

(e) If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.

(f) If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.

Request for Information

In light of the information contained in the Half Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is PNC able to confirm that in the directors' opinion the Half Year Accounts:

   (a) comply with the relevant Accounting Standards; and

   (b) give a true and fair view of PNC's financial performance and position?

2. Given the qualification with respect to Purchased Debt Portfolios ("PDPs"), and the fact that the PDPs represent 90% of PNC's assets as at 31 December 2018, why do the directors believe the Half Year Accounts present a true and fair view of PNC's financial position as at 31 December 2018 and of its performance for the half year ended on that date?

3. On what basis do the directors consider the Half Year Accounts comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements?

4. Why, given the qualified opinion, and the fact that other ASX listed entities in the same industry appear to have adopted a different approach to valuing PDPs (at amortised cost) has PNC continued to account for their PDPs at fair value through profit and loss?
5. Notwithstanding the commentary in Note 10 of the Half Year Accounts, that "a calculation of the carrying value" of PDPs at amortised cost is "not required" and "has not been completed'', in light of the qualified opinion, and given some of PNC's peers value PDPs at amortised cost – has PNC considered a change in accounting policy to value PDPs at amortised cost?
6. If the answer to the Question 5 is yes, when does PNC expect this change to occur?
7. If the answer to Question 5 is no, why not?
8. What steps will PNC take to ensure it will receive a "clean" or unmodified audit opinion going forward?
9. In light of the qualified opinion, which, as described in the qualified opinion, "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" does PNC consider that the financial condition of PNC to be sufficient to warrant continued listing on ASX in accordance with the requirements of Listing Rule 12.2? In answering this question, please explain the basis for this conclusion.
10. Please confirm that PNC is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and PNC's response to the market. Accordingly, PNC's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **4 pm AWST Friday, 1 March 2019**.

Any response should be sent to me by return email at **ListingsCompliancePerth@asx.com.au**. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Yours sincerely

Penelope Reid
Adviser, Listings Compliance (Perth)