1H17 Financial Report

24 February 2017

Pioneer Credit Limited

ABN 44 103 003 505

Interim Report
for the half-year ended 31 December 2016

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 2016 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

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Appendix 4D

Half-Year Report
for the half-year ended 31 December 2016
(previous corresponding period half-year ended 31 December 2015)

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 2016 $'000**	**31 December 2015 $'000**	**Change $'000**	**%**
Revenue from ordinary activities	24,594	21,073	3,521	16.71%
Net profit after taxation for the period attributable to members	4,203	3,317	886	26.71%

Full commentary on the figures presented above and on the results for the period and other significant information is provided in the 1H17 Media Release and Results Presentation and Consolidated Financial Statements – 31 December 2016, released 24 February 2017.

Dividends per ordinary share / distributions

	Amount per security (cents)	**Franked Amount per security**	**Record Date**	**Paid / Payable Date**
Final 2016 Ordinary	6.20	100%	30-Sep-16	31-Oct-16
Interim 2017 ordinary (declared, not yet provided at 31 December 2016)	4.22	100%	31-Mar-17	28-Apr-17

There is no provision for the interim dividend in respect of the half-year ended 31 December 2016. 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 2017 ordinary DRP is 3 April 2017.

Key Ratios

	31 December 2016 (cents)	**31 December 2015 (cents)**
Net tangible assets per fully paid ordinary share	131.35	116.77

Subsidiaries

Pioneer Credit Limited incorporated Pioneer Credit Solutions (NZ) Limited (incorporated in New Zealand) on 5 July 2016. This entity will contribute to the Group's profit from ordinary activities from the second half of the financial year ended 30 June 2017.

Investment in associate

Pioneer Credit Limited has a 14.10% holding in Goldfields Money Limited (GMY). The original holding was acquired during the financial year ended 30 June 2015. GMY is an ASX listed Authorised Deposit-taking Institution.

No review dispute or qualification on the financial statements

The Consolidated Financial Statements at 31 December 2016 and accompanying notes for Pioneer Credit Limited have been reviewed in accordance with ASRE 2410 Review Engagements and the Review Report is not subject to any modifications. The Independent Auditor's Review Report has been provided with the Statements released today.

Pioneer Credit Limited

ABN 44 103 003 505

Interim Report
for the half-year ended 31 December 2016

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 2016. 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
Mr Keith John
Mr Rob Bransby
Mr Mark Dutton
Ms Anne Templeman-Jones (resigned 7 November 2016)
Ms Andrea Hall (appointed 7 November 2016)

Review of operations and the results of those operations

Principal activities

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

Pioneer began life as a financial services provider to people in financial difficulty. Today, with more than 160,000 customers, we continue to focus on helping people get their finances back on track and achieve their financial goals.

In 2016 we commenced the next chapter in our growth story, with the launch of a range of products to our customers. Ultimately, our aim is to help customers achieve home ownership, using loans we will broker back through our valued banking partners.

The delivery of these products is essential to ensuring that, as we continue to work with our customers, we see them achieve financial recovery and evolve into a 'new customer'.

Performance

Pioneer achieved a net profit after taxation of $4.20m for the six months to 31 December 2016 compared with $3.32m for the previous corresponding period, representing a 26.71% increase.

Key financial highlights of the half-year include:

- PDP liquidations of $30.77m (1H16 $28.52m) up 7.91% on prior period equivalent
- Statutory net profit after taxation of $4.20m (1H16 $3.32m) up 26.71% on prior period equivalent
- Earnings per share (basic) of 8.45 cents up 16.87% on prior period equivalent
- Net tangible assets per share 131.35 cents up 12.49% on prior period equivalent
- EBITDA up 6.95% to $14.62m (1H16 $13.67m)
- Interim fully franked dividend declared of 4.22 cents per share with a record date of 31 March 2017 and payment date of 28 April 2017

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

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

Operational Highlights

1H17 can be characterised by four key themes:

1. Pioneer is well positioned to take advantage of the emerging changes in market dynamics;
2. Increasing focus on brand quality in the market in conjunction with decreasing asset prices (albeit modestly to date);
3. Increasing analytical capacity and quality of execution of our strategic plan resulting in accretive PDP investments; and
4. The continued exploration and launch of new product initiatives.

Over the course of the half-year the continued ramifications of challenges in some competitors' businesses has led to a change in the demand-side dynamics for PDPs. As such, for the first time in many years, this has resulted in Pioneer successfully contracting 100% of its expected FY17 PDP investment within the first half (in contrast to FY16 when ~60% was contracted in the first half) at returns which we remain very comfortable with.

Pleasingly, the investment came through the careful selection of several smaller forward flow agreements and discrete inventory parcels where we expect to make better than historical returns, in addition to the typical extension of existing agreements.

Further to securing this investment in Australia, we were very pleased in December 2016 to complete our first investment from a major New Zealand based financial institution (a subsidiary of a major Australian Bank), which diversifies our geographical and economic customer profile. This investment demonstrates Pioneer's continued performance in challenging market conditions, while continuing to maintain our disciplined approach to pricing and servicing capability.

Pioneer continues to closely observe market movements and is well placed to capitalise on recent market dynamics, that is, downward pressure on portfolio prices and increased focus on compliance and brand quality.

New Zealand

An investment in New Zealand PDPs has been an objective of Pioneer for some time and, combined with the recent more favourable market conditions, which allow us to achieve appropriate returns, a considered decision was made to make our first New Zealand investment.

The acquisition of this portfolio enables us to make attractive returns, increase our understanding of the performance of New Zealand consumers and thereafter improve our operational and investment ability in the jurisdiction over time.

While further geographic expansion is not on the agenda, New Zealand is entirely appropriate for Pioneer due to its proximity to Australia, its status as a Commonwealth country and subsequently the similarities in the regulatory environment, and for the operational synergies that will be achieved. Operational synergies include the ability for the PDP to be serviced using the Company's existing customer services teams and resources. Pioneer does not require additional investment into new geographic centres to continue servicing this market.

Refinancing

Capital management is important to Pioneer.

Since its inception, Pioneer has maintained a cautious approach to debt and the amount of equity it requires to continue to grow its business. Our relationship with our primary financier Bankwest has existed for over 7 years from when we were a small private company to today. Bankwest is now a member of a syndicate, including Westpac Banking Corporation, in a 3 year $100m senior debt facility, replacing a $60m facility from Bankwest almost 12 months ahead of schedule.

Moving to a syndicated facility and including a second financier is an important step in continuing to build diversification across Pioneer's business. A positive by-product of this is the thorough due diligence completed by the new financier, providing investors with additional comfort on the quality of Pioneer's business and the carrying value of its assets.

This new facility, which expires in November 2019, is on substantially the same terms as the previous facility.

Pioneer Credit Connect

Pioneer has embarked on its journey to provide appropriate financial services to its rehabilitated customer base through Pioneer Credit Connect.

The journey to becoming a new consumer empowers our customers and enables us to continue a relationship that has been forged during some of the more difficult times our customers have experienced in their lives.

In the initial stages of our offering, the aim of the business is to understand how to fulfil our customers' requirements as fully as possible and in a manner that encourages them to choose to continue to work with Pioneer well into the future. As such, despite remaining very satisfied with our progress, no specific metrics are provided for the current period. We have now provided financial services to our customers across home loans, car loans, unsecured personal loans and small business loans. Importantly, while we are in this discovery and building phase for our new offerings, Pioneer does not use its own balance sheet, thus ensuring we continue with our cautious and disciplined capital management approach. We expect to employ our balance sheet in the future for opportunities which generate appropriate returns for Pioneer.

The build out of these new offerings has also seen the development of our credit history offering, Credit Place, which provides free credit scores to new and existing customers. This credit score assists customers with understanding their financial capability, from a funder's perspective, and what the cost of product may be for that consumer. Credit Place is an important lead generation offering which is being used to re-engage with customers who may no longer be connected to Pioneer (being customers of 1-4 years since completion of their arrangement with Pioneer). Our expectation is that this service will be used to drive additional external customer volumes, once the delivery of Pioneer's offerings is refined.

A more comprehensive update will be provided to shareholders in the Annual Report later this calendar year.

Increasing our analytics expertise

The ability for Pioneer to accurately price customer portfolios is a core capability of the Group. Our ability to leverage insights from our customer data is critical and as Pioneer continues to grow, there has been significant investment into the recruitment of exceptional leaders and analysts.

Our analytical team now includes over 10 people with diverse data science, credit risk, statistics, mathematics and data engineering capabilities from international credit bureaus, major bank credit risk teams, management consulting firms and large scale call centres.

The continued investment in a multi-skilled, expert team is driven by the desire to increase our performance expectations from original forecasts and ensure we have a market leading in-house analytical and forecasting team. This is particularly important as Pioneer enters the realms of large scale funding requirements, which will be necessary as we grow our loan book offering to customers.

Appointment of Independent Non-Executive Director

In November 2016 Ms Andrea Hall was appointed as a Non-Executive Director, replacing Ms Anne Templeman-Jones.

Ms Hall is a highly regarded non-executive director. Ms Hall is a former partner at KPMG with 20 years' experience in corporate and operational governance, risk management, financial management, internal and external audit, including across businesses in the financial services sector.

Ms Hall has been appointed to serve as Chair of the Audit & Risk Management Committee.

Outlook

Since listing, our earnings have been skewed to the second half of each financial year. This is expected to be the case in FY17 though in a less pronounced manner with ~40% of our forecast net profit after taxation achieved to date.

During the coming six months our focus will be to:

1. Continue to explore PDP investment opportunities where we can achieve better than historical returns;
2. Execute on our operational strategy to ensure delivery of FY17 expectations;
3. Set up the Company to capitalise on the changing market dynamics by employing an additional ~100 FTE into our customer service teams;
4. Continue to use our increasing credit risk analytics expertise to drive better operational results, the benefits of which we expect to start seeing next financial year and beyond;
5. Deliver the rollout of financial products to our consumers such that this becomes a measurable revenue stream in the new financial year; and
6. Examine acquisition opportunities in traditional and related markets.

We are pleased to increase our FY17 PDP investment guidance to at least $53m (already contracted), and to confirm yearly net profit after taxation growth of at least 11% to at least $10.50m for FY17.

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 7.

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
24 February 2017

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Auditor's Independence Declaration

As lead auditor for the review of Pioneer Credit Limited for the half-year ended 31 December 2016, 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.

William P R Meston
Partner
PricewaterhouseCoopers

Perth
24 February 2017

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Pioneer Credit Limited

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Consolidated statement of comprehensive income

	Note	Half-year 31-Dec-16 $'000	31-Dec-15 $'000
Revenue from operations	2	**24,594**	21,073
Other income		**28**	14
		24,622	21,087
Employee expenses		**11,068**	9,868
Finance expenses		**1,491**	1,085
Rental expenses		**1,229**	1,307
Direct expenses		**1,131**	791
Information technology and communications		**1,028**	1,010
Professional expenses		**943**	689
Other expenses		**724**	673
Depreciation and amortisation		**677**	580
Travel and entertainment		**302**	254
Share of loss of associate accounted for using the equity method		**41**	22
Profit before income tax		**5,988**	4,808
Income tax expense	3	**1,785**	1,491
Profit from continuing operations		**4,203**	3,317
Total comprehensive income for the half-year		**4,203**	3,317
Total comprehensive income for the half-year is attributable to:			
Owners of Pioneer Credit Limited		**4,203**	3,317
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**8.48**	7.28
Diluted earnings per share		**8.29**	7.20

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

Consolidated balance sheet

	Note	31-Dec-16 $'000	30-Jun-16 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**2,374**	4,894
Trade and other receivables		**3,303**	1,225
Other current assets		**327**	380
Financial assets at fair value through profit or loss	4	**54,400**	51,379
Total current assets		**60,404**	57,878
Non-current assets			
Investments accounted for using the equity method		**2,552**	2,593
Property, plant and equipment		**3,794**	4,115
Deferred tax assets		**1,168**	1,163
Intangible assets		**1,592**	1,847
Other non-current assets		**76**	80
Financial assets at fair value through profit or loss	4	**73,670**	59,730
Total non-current assets		**82,852**	69,528
Total assets		**143,256**	127,406
LIABILITIES			
Current liabilities			
Trade and other payables		**1,285**	3,414
Borrowings	5	**5,970**	5,701
Current tax liabilities		**268**	917
Accruals and other liabilities		**2,238**	2,576
Total current liabilities		**9,761**	12,608
Non-current liabilities			
Borrowings	5	**64,027**	47,709
Provisions and other liabilities		**2,561**	2,332
Total non-current liabilities		**66,588**	50,041
Total liabilities		**76,349**	62,649
Net assets		**66,907**	64,757
EQUITY			
Contributed equity		**52,713**	52,091
Other reserves		**2,007**	1,611
Retained earnings		**12,187**	11,055
Capital and reserves attributable to the owners of Pioneer Credit Limited		**66,907**	64,757
Total equity		**66,907**	64,757

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 2016		**52,091**	**1,611**	**11,055**	**64,757**
Total comprehensive income for the half-year		**-**	**-**	**4,203**	**4,203**
		52,091	**1,611**	**15,258**	**68,960**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	6	**467**	**-**	**-**	**467**
Employee share scheme	6	**155**	**-**	**-**	**155**
Treasury shares and share based payments	6	**-**	**396**	**-**	**396**
Dividends declared and paid	7	**-**	**-**	**(3,071)**	**(3,071)**
		622	**396**	**(3,071)**	**(2,053)**
Balance at 31 December 2016		**52,713**	**2,007**	**12,187**	**66,907**
Balance at 1 July 2015		45,464	1,073	6,341	52,878
Total comprehensive income for the half-year		-	-	3,317	3,317
		45,464	1,073	9,658	56,195
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		831	-	-	831
Treasury shares and share based payments		-	230	-	230
Dividends declared and paid		-	-	(3,085)	(3,085)
		831	230	(3,085)	(2,024)
Balance at 31 December 2015		46,295	1,303	6,573	54,171

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

Consolidated statement of cash flows

	Note	Half-year 31-Dec-16 $'000	Half-year 31-Dec-15 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**29,503**	28,861
Payments to suppliers and employees (inclusive of goods and services tax)		**(17,195)**	(16,289)
		12,308	12,572
Interest received		**28**	14
Interest paid		**(868)**	(733)
Net income taxation paid		**(2,439)**	(1,998)
Net cash inflow from operating activities		**9,029**	9,855
Cash flows from investing activities			
Payments for property, plant and equipment		**(56)**	(391)
Payments for intangible assets		**-**	(266)
Acquisitions of financial assets at fair value through profit or loss		**(25,005)**	(23,151)
Net cash outflow from investing activities		**(25,061)**	(23,808)
Cash flows from financing activities			
Proceeds from borrowings	1	**79,205**	17,820
Repayment of borrowings	1	**(63,112)**	(2,724)
Dividends paid to Company's shareholders		**(3,071)**	(3,085)
Proceeds from issue of ordinary shares and DRP		**467**	831
Treasury shares loan repayment		**23**	30
Net cash inflow from financing activities		**13,512**	12,872
Net decrease in cash and cash equivalents		**(2,520)**	(1,081)
Cash and cash equivalents at the beginning of the half-year		**4,894**	2,168
Cash and cash equivalents at the end of the half-year		**2,374**	1,087

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:

New Zealand

In December 2016, Pioneer acquired a Purchased Debt Portfolio (PDP) in New Zealand.

The PDP will enable Pioneer to increase its understanding of the performance of New Zealand consumers, while generating a return and thereafter improve Pioneer's operational and investment ability in this jurisdiction over time.

Financing arrangements

In December 2016, the Group entered into a new cash advance facility of $100,000,000 with syndicate banks, Bankwest and Westpac Banking Corporation. This facility replaces the Group's $60,000,000 cash advance facility entered into in 2014 at initial public offering (renegotiated from $47,000,000 in September 2015).

The purpose of the new cash advance facility is to partially fund the acquisition of purchased debt portfolios. Refer to note 5 for more information.

The significant movement in borrowings on the Consolidated statement of cash flows reflects the close out and payment of the old facility and establishment and drawdown of the new facility.

2. Revenue from operations

	Half-year	
	31-Dec-16 **$'000**	**31-Dec-15** **$'000**
From continuing operations		
Liquidations from purchased debt portfolios	**30,774**	28,518
Change in value of purchased debt portfolios	**(6,934)**	(7,545)
Net gain on financial assets – purchased debt portfolios	**23,840**	20,973
Services	**754**	100
	24,594	21,073

3. Income tax expense

	Half-year	
	31-Dec-16	31-Dec-15
	$'000	$'000
Current tax on profits for the half-year	1,883	1,392
Adjustments for current tax of prior periods	(31)	-
Deferred income tax	(67)	99
Total current tax expense	1,785	1,491

4. Financial assets at fair value through profit or loss

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

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

	31-Dec-16	30-Jun-16
	$'000	$'000
Purchased debt portfolios		
Current	**54,400**	51,379
Non-current	**73,670**	59,730
	128,070	111,109

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

	31-Dec-16	31-Dec-15
	$'000	$'000
Current and non-current		
At beginning of period	**111,109**	81,922
Additions for the period, net of recourse *	**23,895**	21,828
Liquidations from purchased debt portfolios	**(30,774)**	(28,518)
Net gain on financial assets – purchased debt portfolios	**23,840**	20,973
	128,070	96,205

* Recourse relates to PDP accounts returned, at cost, to the vendor partners per the terms of the debt purchasing arrangement where the underlying account does not meet the contractual terms of the purchase arrangement.

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

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

- at initial recognition Pioneer designates PDPs acquired as at fair value through profit or loss;
- Pioneer manages the PDPs and regularly evaluates their performance on a fair value basis in accordance with a documented risk management or investment strategy;
- Pioneer has information on that basis about the PDPs and provides the information internally to the Company's Key Management Personnel; and
- Pioneer reports this relevant information in the comprehensive disclosures provided.

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

The performance management emphasis of the Group is on a total return basis focusing on growth in its payment arrangement portfolios and the total return to the Group measured as profit after taxation. The evaluation of performance on a total return basis is clearly required by the documented and approved Key Performance Indicators under which the Group’s performance is evaluated.

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

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

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

The fair value gains or losses on financial assets are disclosed in the consolidated statement of comprehensive income as part of cash flows from PDPs net of any change in value.

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

ii) Amounts recognised in profit or loss

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

iii) Fair value and fair value measurements

a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2016				
Financial assets				
Financial assets at FVTPL	-	-	128,070	128,070
30 June 2016				
Financial assets				
Financial assets at FVTPL	-	-	111,109	111,109

Level 1:

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

Level 2:

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

Level 3:

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

b) Transfers between levels

There were no transfers between levels in both periods.

c) Valuation techniques used to derive fair values

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

Level 3

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

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

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

The specific valuation technique used is a Discounted Cash Flow (DCF) which incorporates, at least, the following material variables:

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

d) Fair value measurements using significant unobservable inputs

Analysis of change in fair value for the half-year ended 31 December 2016.

	31-Dec-16 $'000
Actual versus forecast liquidations	2,525
Change in future forecast liquidations	21,315
Net gain on financial assets – purchased debt portfolios	23,840

Changes in valuation techniques

The Group has continued the journey of portfolio sales within the secondary market for portfolios of accounts where we believe the value to be realised from a sale provides the greatest expected value to the Group.

The Group will continue to manage value on an ongoing basis and make decisions about whether long term liquidation or selling financial assets is expected to maximise the return on the portfolio.

Pioneer engages experts in the financial services brokerage market to facilitate any sale process including, but not limited to, portfolio valuation, issuer approval, sales execution and post sales processes.

This progression and the learnings obtained from any sales process concluded improve the ability to derive and extrapolate valuation inputs where directly relevant, based on observable characteristics used by market participants, and where possible these observable inputs have been applied in the fair value model resulting in an improvement in the application of valuation techniques.

Consistent with previous reporting periods, Pioneer has continued to use a Discounted Cash Flow valuation and has continued to improve the valuation process based on maximising the use of observable statistical evidence available to the Group. This has included improvements in the use of characteristics analysis to ascertain the most informative predictive indicators and applying logistic regression statistical techniques to generate the key assumptions that determine the expected liquidation rate over time. A ten year maximum liquidation period continues to apply throughout.

Valuation inputs and relationship to fair value

The following table summarises the quantitative impact on those elements of the purchased debt portfolios 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	$128,070	Discounted Cash Flow and Validation	Expected liquidation rate	1% change in liquidation rate	A reduction in liquidation rate by 1% results in a decrease in fair value on total estimated cash flows by $0.929m, an increase results in an increase in fair value on total estimated cash flows of $0.929m.
			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 $2.786m, an increase results in an increase in fair value on total estimated cash flows of $2.786m.
			Cash flow liquidation period	Impact of an eleven year liquidation period versus a ten year liquidation period	Results in an increase in fair value of $0.411m.
			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 $1.659m, an increase results in a decrease in fair value of $1.591m.
			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 $5.197m, an increase results in a decrease in fair value of $4.586m.

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

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

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

iv) Valuation Process

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

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

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

The valuation of PDPs requires estimation of:

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

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

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

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

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

• Expected liquidation rate	Product characteristics, payment and liquidation history and management experience with historic performance of comparable portfolios and market observable inputs considered to be directly relevant based on observable characteristics used by market participants in determining price.
• Face value	Determined at the date the PDP was acquired.
• Cash flow liquidation period	Up to ten years depending on liquidation history. Weighted average liquidation period is 2.5 years (30 June 2016 2.8 years) indicating that the majority of liquidation occurs in the earlier years.
• Discount rate	Incorporate a risk free rate and appropriate credit risk adjustment for risks not built into the underlying cash flows expected to be recovered. The weighted average discount rate used to calculate fair value is 20.1% (30 June 2016 20.1%) noting that further risk adjustment is not required as the cash flows to which the rates are applied are appropriately risk adjusted.
• Cost	Acquisition cost of acquired PDPs.

Consistent with the manner in which the Group's PDPs are managed, performance is evaluated on a fair value basis. Separate validation of a discounted cash flow approach to fair value is also undertaken. The validation comprises a review of key elements contributing to movements in value including an analysis of the quantum, tenure and qualitative characteristics of the payment arrangements portfolio as well as an assessment of the performance of other key observable portfolio characteristics.

5. Borrowings

	31-Dec-2016			30-Jun-2016		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Secured						
Bank loans	**-**	**63,379**	**63,379**	-	47,046	47,046
Lease liabilities	**353**	**648**	**1,001**	508	663	1,171
Other loans	**5,617**	**-**	**5,617**	5,129	-	5,129
	5,970	**64,027**	**69,997**	5,637	47,709	53,346
Unsecured						
Other loans	**-**	**-**	**-**	64	-	64
	5,970	**64,027**	**69,997**	5,701	47,709	53,410

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

Pioneer Credit Limited has complied with the financial covenants of its borrowing facilities during all periods reported.

Financing arrangements

The Group had access to facilities totalling $110,000,000 as at 31 December 2016 (30 June 2016: $67,060,000). The facilities comprise: a cash advance facility to partially fund the acquisition of PDPs, a bank guarantee facility, an overdraft facility, a direct debit authority facility and a credit card facility.

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

The overdraft facility of $2,500,000 was unused at 31 December 2016 and the undrawn limit on the cash advance facility was $36,350,329 at 31 December 2016 (30 June 2016: $12,953,622).

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

6. Equity

Employee share scheme

During the period, to encourage broad based employee share ownership, the Company completed an Employee Offer which allowed eligible employees of the Company to be gifted up to $1,000 worth of shares and / or to acquire up to $5,000 worth of shares on a tax-deferred basis.

Through participation in the Employee Offer, 90,830 ordinary shares were issued to eligible employees for no cash consideration and 68,617 ordinary shares were acquired by eligible employees by way of salary sacrifice. The Employee Offer shares were valued at $1.71 each which was the five day VWAP prior to 1 July 2016. The shares issued for no consideration are an expense to the Company.

A participant in the Employee Offer must not sell, transfer or create a security interest or otherwise deal in the shares acquired under the Employee Offer until the earlier of:

- up to $1,000 offer, 6 July 2019;
- up to $5,000 salary sacrifice offer, 6 July 2018; or in either case
- the time when the participant ceases to be employed by Pioneer.

Shares issued under the Employee Offer are held under a trading lock and carry the same rights and entitlements of fully paid ordinary Shares, including dividend and voting rights.

Dividend re-investment plan

On 31 October 2016, 193,320 ordinary shares were issued under the dividend re-investment plan, relating to the final dividend for the financial year ended 30 June 2016. This final dividend was declared on 19 August 2016.

Equity Incentive Plan

On 1 July 2016, Board approved offers of performance rights under the FY17 executive award were granted to certain eligible employees. The award is intended to not only attract and reward but also retain participating employees. Therefore, a tenure based vesting condition was determined to be most appropriate. Each Right entitles the holder to acquire one fully paid ordinary share for nil consideration, subject to vesting conditions being met.

320,000 Performance Rights were granted on 1 July 2016. Rights granted will vest in accordance with the following schedule (each a "Vesting Date"):

• 1 July 2018: 28% Rights will vest;
• 1 July 2019: 46% Rights will vest; and
• 1 July 2020: 26% Rights will vest,

provided the holder of the Rights remains employed by the Group at the respective Vesting Date.

The terms of each tranche of Rights are summarised in the table below.

	Tranche 1	**Tranche 2**	**Tranche 3**
Fair value at grant date	$1.51	$1.42	$1.33
Grant date	1-Jul-16	1-Jul-16	1-Jul-16
Share price at grant date	$1.71	$1.71	$1.71
Expiration period (years)	2	3	4
Dividend yield	6.2%	6.2%	6.2%
Vesting date	1 Jul-18	1-Jul-19	1-Jul-20

7. Dividends

On the 19 August 2016 the Directors declared a fully franked dividend of 6.20 cents per share. The dividend had a record date of 30 September 2016 and was paid on 31 October 2016 at $3.071m (2016: $3.085m).

A number of shareholders opted to take up the dividend re-investment plan which returned $0.350m to the Group in the period under review.

8. Subsidiaries

Pioneer Credit Limited incorporated Pioneer Credit Solutions (NZ) Limited (incorporated in New Zealand) on 5 July 2016.

In December 2016, Pioneer acquired a PDP in New Zealand. The acquired PDP enables Pioneer to increase its understanding of the performance of New Zealand consumers and thereafter improve Pioneer's operational and investment ability in this jurisdiction over time.

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 entity and that are believed to be reasonable under the circumstances.

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

The fair value of financial instruments that are not traded in a sufficiently active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions, including considering market conditions existing at the end of each reporting period. The Group uses its judgement and makes assumptions as to the allocation of purchased debt portfolios between current and non-current asset allocations.

11. Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 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 2016 and any public announcements made by Pioneer Credit Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Changes to presentation

Certain classifications on the consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of cash flows have been reclassified. The Group believes that this will provide more relevant information to stakeholders as it is more in line with common practice in the industry the Group is operating in. 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 as set out below:

i) New and amended standards adopted by the Group

The Group did not have to change its accounting policy or make retrospective adjustments as a result of adopting any new or amended standards that became applicable for the current reporting period. There may be some changes to the disclosures in the 30 June 2017 annual report as a consequence of these amendments.

ii) Standards issued but not yet applied by the Group

The Group's current assessment, including known or reasonably available information relevant to assessing the possible impact of new standards being introduced for future financial years and interpretations is set out below.

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

Classification, measurement and derecognition of financial assets and financial liabilities

Financial assets will be classified based on the;

- objective of the entity's business model for managing the financial assets; and
- characteristics of the contractual cash flows.

If certain restrictive conditions are met, financial assets are measured at either amortised cost or fair value through other comprehensive income. All investments in equity instruments will be measured at fair value, and all other financial assets are measured at fair value through profit or loss.

Impairment

Impairment of financial assets will be based on an expected loss rather than incurred loss model.

Hedge accounting

Simplifications to hedge accounting which more closely align with risk management activities.

AASB 9 *Financial Instruments* is applicable to annual reporting periods commencing on or after 1 January 2018, which is the 30 June 2019 financial year, and is available for early adoption in entirety. The Group has not yet determined whether to early adopt the new standard. The Group has commenced a review of the new standard and anticipates commencing an implementation program to ensure an objective and thorough assessment to ensure the new provisions are complied with.

AASB 15 *Revenue from Contracts with Customers* replaces AASB 118 *Revenue* and introduces a single model for the recognition of revenue based on the satisfaction of performance obligations. It does not apply to financial instruments. The standard is applicable to annual reporting periods commencing on or after 1 January 2018, which is the 30 June 2019 financial year, and is available for early adoption in entirety. The Group has not yet determined whether to early adopt the new standard.

AASB 16 *Lease*s amends the accounting for leases and will replace AASB 117 *Leases*. Lessees will be required to bring both operating and finance leases on balance sheet as a right of use asset along with the associated lease liability. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. Lessor accounting remains largely unchanged. The standard is applicable to annual reporting periods commencing on or after 1 January 2019, which is the 30 June 2020 financial year, and is available for early adoption in entirety for entities that apply AASB 15 on or before the initial application of AASB 16. The Group has not yet determined whether to early adopt the new standard.

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

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

Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 8 to 26 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 2016 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
24 February 2017

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 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Pioneer Credit Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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*.

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Independent auditor's review report to the members of Pioneer Credit Limited (cont'd)

Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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*.

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the company for the half-year ended 31 December 2016 included on Pioneer Credit Limited's web site. The company's directors are responsible for the integrity of the Pioneer Credit Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

PricewaterhouseCoopers

William P R Meston
Partner

Perth
24 February 2017