

ASX Announcement

1 August 2019

2019 Full Year Results Update

Pioneer Credit Limited (ASX: PNC) ('Pioneer' or 'the Company') advises it will release its financial results for the year ended 30 June 2019 on Tuesday 27 August 2019. An investor briefing will be held as per the following details:

Date:	27 August 2019
Time:	9 am (AWST) / 11 am (AEST)
Conference Call Access Number:	Toll Free: 1800 558 698
	Toll: +61 2 9007 3187
Conference ID:	10001104

The Company has previously advised it will adopt Amortised Cost as the primary classification and measurement method of its Purchased Debt Portfolio ('PDP') for the year ended 30 June 2019 (refer ASX announcement 11 June 2019).

As this is the first reporting period for which Pioneer will classify and measure its PDP, and report the carrying value using Amortised Cost, the Company provides the following supporting information.

Amortised Cost classification

Pioneer has adopted Amortised Cost as its primary classification and measurement method and will also report the PDP carrying value in its accounts using Fair Value, through note disclosure.

Pioneer recognises the importance of facilitating comparability in reporting across the sector and believes that its move to Amortised Cost will allow better comparison of peer companies. ASIC has noted the decision by the Company to make this change.

Valuation model development

Consistent with the requirements of the accounting standards for PDPs, Amortised Cost is the value of future cash flows discounted to their present value by applying the Credit-Adjusted Effective Interest Rate (CAEIR) which is set at inception (i.e. the time of purchase).

A CAEIR is the Internal Rate of Return that exactly discounts estimated future cash flows to the inception value (i.e. purchase cost) of the PDP.

Pioneer's PDP valuation under Amortised Cost will continue to be determined from sophisticated, regression-based forecast models of future cash flows.

The complex process of forecasting PDP cash flows is not unique to Pioneer. To eliminate bias and provide users of the Pioneer financial accounts with comfort, the Pioneer data science team developed its Amortised Cost model with guidance from Deloitte Risk Analytics.

PDP valuation expected to be similar under Amortised Cost

The Company has previously advised that it expects a small, although not material, positive revaluation of assets when the PDP is measured using Amortised Cost at the transition date of 1 July 2018 (against the previously reported carrying value of \$224.6 million).

Impact on earnings recognition

The Company has previously advised that it expects Net Profit after Taxation to be similar under both reporting methods. The cash flows receipted as PDP liquidations do not change under Amortised Cost.

Under both the Amortised Cost and Fair Value approaches the requirement to estimate future cash flows, including of their timing, is the same. However, the two approaches differ in how discount rates are determined (refer to the table below), which may result in a different recognition pattern of returns.

	Classification method	Initial measurement	Straight line amortisation?	Subsequent measurement	Estimated future cash flows	Present value discount rate
PDPs	Fair Value ('FV')	Fair value (transaction price)	No	PV of estimated future cash flows	Same	Benchmark to market
	Amortised Cost ('AC')	Fair value (transaction price + costs)				Effective interest rate set at inception

Additional items for noting

Under Amortised Cost:

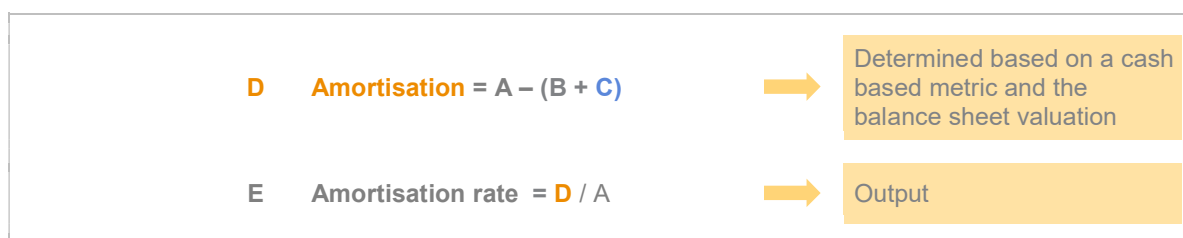
- PDPs are purchased or originated credit-impaired assets (POCI)
- POCI assets at Amortised Cost are initially recognised at fair value (i.e. purchase cost)
- Credit losses are included in the forecast cash flows at inception
 - There is no loss provision recorded at inception
- The credit-adjusted forecast cash flows are used to determine the CAEIR
- Changes in the expected credit losses result in a re-assessed cash flow forecast
 - These changes must result in either an impairment gain or loss

- A positive return multiple to purchase cost should result in a net impairment gain
- The calculation and disclosure of net impairment gain and loss are required under Amortised Cost as follows:
 - Where the future cash flow estimates move up or down, relative to a prior period, so too will the asset's carrying value. This change must be disclosed as a net impairment gain or loss
 - Where cash is received on a PDP, for which the carrying value has previously reduced to zero (i.e. no value on the balance sheet), this must be reported as an impairment gain.
 - The balance sheet must reflect the present value of any expected future cash flows (in the carrying value of the PDP)
- Product mix and price are critical criteria in assessing PDP valuation
- Amortised Cost does not cap the PDP carrying value at the original purchase cost
- Revenue must be disclosed as interest earned, and a net impairment gain or loss reported
- The amortisation rate is a valuation output. It is not an input.

Under Amortised Cost this may be analysed as:

		Opening asset value	→	Determined through cautious and sophisticated valuation approach
Add		PDP Additions during the period	}	Known 'banked' amounts per the cash flow statement
Less	A	PDP Liquidations		
Add	B	Interest earned	→	Mechanically calculated using CAEIR
Reconciled by	C	Net impairment gain or (loss) on financial assets		
Equals		Closing asset value	→	Determined through cautious and sophisticated valuation approach

Amortisation rate would be calculated as:



Pioneer's auditor fully informed

PwC, Pioneer's auditor, has been fully informed of Pioneer's dialogue with the Regulator, the opinion sought and considered from Senior Counsel and the process and method for adopting the Amortised Cost classification and measurement developed in consultation with Deloitte.

Pioneer expects its annual financial statements to 30 June 2019 to be approved and issued with a clean audit opinion by its auditor for release on 27 August 2019.

ENDS

Investor and media enquiries:

Leslie Crockett
Chief Financial Officer
Pioneer Credit Limited
P: 08 9323 5008

John Gardner
Citadel-MAGNUS
M: 0413 355 997

About Pioneer

Pioneer Credit is an ASX-listed company (ASX: PNC) providing high quality, flexible, financial services support to help everyday Australians out of financial difficulty. Pioneer Credit has the trust of long-term vendor partners to do the right thing and respectfully support customers to achieve their financial independence.

With a track record of consistent earnings growth, Pioneer Credit has established a solid foundation to pursue further growth by leveraging its outstanding industry relationships, compliance record and customer-focused culture.

www.pioneercredit.com.au