

pioneercredit

Pioneer Credit Limited – Interim Report

for the half-year ended 31 December 2014



Pioneer Credit Limited

ABN 44 103 003 505

Interim report – 31 December 2014

Lodged with the ASX under Listing Rule 4.2A.

Contents

Results for Announcement to the Market	3
Financial Statements	11

Pioneer Credit Limited
Appendix 4D
Half-Year Report
For the half-year ended 31 December 2014
(Previous corresponding period half-year ended 31 December 2013)

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

Results for Announcement to the Market

Key Information	31 December	31 December	Change	
	2014	2013	\$'000	%
	\$'000	\$'000	\$'000	
Revenue from ordinary activities	15,472	11,123	4,349	39%
Net profit after taxation for the period attributable to members	1,315	1,043	272	26%
Operating profit after taxation ¹	1,618	1,787	(169)	-9%

¹ Operating profit after taxation is net profit after taxation before specific items that will not recur in the future and specific items that will not recur in the ordinary course of business.

Dividends per ordinary share / distributions	Amount per security (cents)	Franked Amount per security	Record Date	Paid / Payable Date
Interim 2015 ordinary (declared, not yet provided at 31 December 2014)	1.75	100%	31/03/2015	17/04/2015

There is no provision for the interim dividend in respect of the half-year ended 31 December 2014. Provisions for dividends to be paid by the Company are recognised in the statement of financial position as a liability and a reduction in retained earnings when the dividend has been declared.

Key Ratios	31 December 2014 (cents)	31 December 2013 (cents)
Net tangible assets per fully paid ordinary share	104.26	220.74

The 31 December 2014 half-year report and accompanying notes for Pioneer Credit Limited have been reviewed and are not subject to any qualifications. The review opinion has been provided with the statements released today.

Pioneer Credit Limited

ABN 44 103 003 505

Interim report – 31 December 2014

Contents

Directors' report	5
Auditor's Independence Declaration	10
Financial Statements	11
Independent auditor's review report to the members of Pioneer Credit Limited	27

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 2014 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:

Pioneer Credit Limited
188-190 Bennett Street
Perth Western Australia 6004

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 2014. Throughout the report, the Consolidated Entity is referred to as the Group.

Directors

Unless otherwise indicated, 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 R John
Mr Rob Bransby
Mr Mark Dutton
Ms Anne Templeman-Jones (appointed on 23 September 2014)

Review of operations and the results of those operations

Principal activities

Pioneer is an Australian financial services provider, specialising in acquiring and servicing unsecured retail debt portfolios. These portfolios consist of people with financial obligations to Pioneer. These people become the cornerstone of Pioneer's business and are our customers.

We work closely with our customers who – for a range of reasons – have found themselves in financial difficulty. In a vast proportion of cases this has come about through a major life event such as loss of job, significant health issues, marriage breakdown or domestic violence.

A key goal at Pioneer as it works with its customers is to see them progress towards financial recovery, and through this process evolve as a 'new consumer'.

There was no significant change in the nature of these activities during the period.

Performance

The Group has achieved continued growth and profitability during the six months to 31 December 2014. Key highlights of the half-year are;

- Customer Payments of \$22.184m, up 38% on prior corresponding period
- Revenue of \$15.472m, up 39% on prior corresponding period
- Operating profit after tax of \$1.618m, ahead of expectations
- Net tangible assets of 104.26 cents per share
- Interim fully franked dividend declared of 1.75 cents per share, payable on 17 April 2015

Performance is ahead of expectation as a result of the measured growth and solid execution across all aspects of the Group's operations and focus on its disciplines and core 'Leadership Principles'.

Following an exceptionally busy period through the listing process, the Group has been focused on expanding its client base, along with continuing to progress our strategy of developing new products to offer our customers. As a result, the Group has expanded its employee head count and real estate footprint during the period.

During the half the Group announced the successful completion of a new forward flow agreement with a major financial institution, taking the number of institutions the Group now deals with to three of Australia's "Big 4" banks, along with several other financial institutions. The continued growth in our relationships is a positive endorsement of the Group's offering by the banking and finance sector. While we will continue to seek to expand the network of banks and other financial institutions from which we acquire customer portfolios, we are also committed to building on the very solid and important relationship we have with our largest vendor partner. This long-standing relationship is our broadest in terms of the services we provide to them and the product types we purchase from them and is our closest in terms of how we collaborate. Such collaboration is one of the very significant differences that underpins the Group's

purchasing relationship with the banks, and is an area we are continuously focusing to improve with each one of our partners.

The operating profit after tax is \$1.618m which is ahead of the Group's expectations. The following table summarises key reconciling items between statutory profit after tax attributable to the owners of Pioneer Credit Limited and operating profit after tax.

Reconciliation between statutory profit after tax attributable to the owners and operating profit after tax

Key Information	<i>Financial Statement Note</i>	31 December 2014 \$'000	31 December 2013 \$'000
Statutory profit after tax attributable to the owners		1,315	1,043
Specific items that will not recur in the future :			
Costs associated with the IPO charged to the consolidated statement of comprehensive income	4	-	147
Correction on indirect taxation, relating to prior years *	4	442	-
Correction of income taxation relating to prior years	5	(6)	175
Interest on preference shares incurred while classified as borrowings under the pre-IPO equity structure	4	-	316
Specific items that will not recur in the ordinary course of business :			
Costs on settlement of a commercial claim **		-	215
Tax effect :			
Tax effect on the adjustments outlined above that are deductible for income tax purposes		(133)	(109)
Operating profit after tax		1,618	1,787

* The correction represents an accrual for an indirect taxation position and the associated actual professional services costs incurred, related to an interpretation of legislation.

** A provision for this claim was recognised at 30 June 2014, at the half-year ended 31 December 2013 these are the related costs incurred.

Operating profit after tax is defined as statutory profit after tax before specific items that will not recur in the future and specific items that will not recur in the ordinary course of business.

Operating profit after tax is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific items. The Directors consider operating profit after tax to reflect the core earnings of the Group. Operating profit after tax is used by the Directors for the purposes of providing market guidance to shareholders and the market, and is calculated on a consistent basis year on year.

The operating profit after tax in this table has not been subject to specific review procedures. However, the statutory profit after tax has been extracted from the consolidated statement of comprehensive income and unless otherwise annotated, the specific key reconciling items have been extracted from the notes to the consolidated financial statements as referenced in the table, from the accompanying financial statements for the half-year ended 31 December 2014 which have been subject to review (refer to page 27 for the review report on the consolidated financial statements). The tax effect is calculated by applying the statutory tax rate of 30% to the key reconciling items to the extent to which they are deductible for income tax purposes.

Operational Developments

Resources

In late November 2014 the Group opened its second purpose built operations floor in the Perth CBD to complement the first purpose built facility which opened in July of this financial year. This second floor, which replaced our sub-let floor in the same building, has significantly increased our available number of customer service seats. Being purpose built has enabled the Group to achieve a reduction in operating costs through the utilisation of more efficient materials and more efficient facilities installed following a building upgrade by the landlord, along with the installation of more robust and energy efficient equipment by the Group. In the second half of FY15 the Group will transfer its corporate offices to its CBD facility, which will deliver further savings in FY16 and beyond.

People

Recruitment remains an important aspect of the business to ensure we have the team in place to achieve our growth targets and is therefore a key focus area for our dedicated teams in Human Resources and Team Development. Over the past six months we have increased our headcount in Australia to 212 people and our total head count inclusive of our Philippines operation to 277 people.

During 2015, the Group will continue its drive to attract additional members to the team. The Group's management and the Board are focused on the creation of long term sustainable value. As a result of changes in the Western Australian labour market, we expect an increased pool of applicants from which we are able to grow our customer service team, which will add to that long term sustainable value.

Across the support functions of our business we have significantly added to our Analytics capability with three highly qualified analysts based in our Philippines operation in addition to our Australian based team. We have also renewed the leadership of both our Analytics and Technology teams, consistent with the developing requirements of our growing business.

Additional Revenue Stream

Consistent with our long-standing approach of working towards a complete understanding of the characteristics of the customer portfolios we purchase, and to ensure we realise the appropriate value from those portfolios, the Group has commenced exploration of the secondary sale market for portfolios of accounts that we believe;

- will not meet our requirements for the customers to evolve into the 'new consumer' (Part IX customers and customers we are unable to secure realistic payment arrangements with), and
- where the value to be realised from a portfolio sale is greater than the considered expectation of the Group and the fair value at which the portfolio is carried.

The Group has partnered with a leading unsecured retail debt broker in Australia to initially take a small portfolio to market. The purpose of taking a small parcel was so that we could learn and understand the process and ensure we entered the secondary sale market in a manner that added as much value to our business, and that of our partners, as possible.

The successful sale of this portfolio, which was concluded in December 2014, is the first such sale completed by the Group. The Group has reported this sale, and will report any subsequent sales, separate to our Customer Payments.

New Financial Products

As outlined in the Prospectus and updates to the market since listing on the ASX, the Group is working towards the expansion of its revenue streams, and to that end what we believe will become a key future growth opportunity in the evolution of our new consumer.

Pioneer has progressed discussions with several groups with respect to products that we may sell to our customers once they have met their existing obligations and on the basis that we understand the credit risk associated with such customers, primarily because of our established relationship with them.

We remain committed to trialling our first new product towards the end of 2015 and to reporting to the market the progress of that product as appropriate.

Disciplined Capital Management and Reporting

The Group continues to maintain its cautious approach to the way it recognises revenue and accounts for its assets in its financial statements.

We only ever recognise 'top line' Customer Payments when they 'hit the bank account', that is, Customer Payments is the actual liquidation of purchased debt portfolios. It does not include any change, positive or negative, in fair value which is separately reported.

Likewise the Group's new revenue line this period, 'sale of purchased debt portfolios', is the amount for which a portfolio has been sold.

We confirm that the Group does not capitalise operational expenses (e.g. legal expenses), rather we continue to expense these as incurred.

The continued exercise of caution in valuing our portfolio is part of our long held practice of embedded disciplined capital management; one of the disciplines that we consider will see the Group continue to develop long-term sustainable value.

We have continued to engage PricewaterhouseCoopers (PwC) as our auditors and as our reviewer of the half-year report. We believe the engagement of a 'Big Four' firm provides the most appropriate level of independent scrutiny of our financial statements.

Compliance

The Group's unique and exemplary record in Compliance has continued, with the latest results published by the relevant industry ombudsman confirming that Pioneer still holds the enviable position of being the only purchaser of significance in Australia to never have had a negative outcome at an ombudsman level. Likewise the Group has never been subject to a regulatory order or undertaking.

Our strong compliance record is one of the many reasons financial institutions choose Pioneer and why our customers continue to engage with us in the manner they do.

Board of Directors

With the appointment of Ms Anne Templeman-Jones, a highly regarded professional non-executive director, the Board of Pioneer Credit Limited has a majority of independent directors.

Commencing her appointment in September 2014, Sydney-based Ms Templeman-Jones currently serves on the boards of TAL Superannuation Fund, APN News & Media Limited and Cuscal Limited. Ms Templeman-Jones Chairs the Audit and Risk Committees of the latter two.

In a career spanning over 30 years, Ms Templeman-Jones has worked for a number of leading organisations including PwC, ANZ and Westpac, where over the seven years to 2013 she held the positions of Head of Private Bank in NSW and ACT, Head of Strategy and Risk for the Pacific Bank operations, Director Group Risk Reward and Director Strategy in Westpac's Institutional Bank.

Ms Templeman-Jones has been appointed Chair of the Audit and Risk Committee.

Outlook

As forecast, the growth profile of the Group will result, as occurred in FY14, in a skew in financial performance (to 2H15) as the Group's investment in the first half (predominantly that in growing its operations) provides the foundations for improved performance over the second half of the financial year and beyond. This is consistent with the Group's Prospectus forecast and updates to the market since listing.

The Group reaffirms its Prospectus forecast profit after tax for FY15 of \$6.6m.

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 10.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order 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 R. John
Managing Director

Perth

20 February 2015



Auditor's Independence Declaration

As lead auditor for the review of Pioneer Credit Limited for the half-year ended 31 December 2014, 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.

A handwritten signature in purple ink, appearing to read 'W. P. R. Meston'.

William P R Meston
Partner
PricewaterhouseCoopers

Perth

20 February 2015

Pioneer Credit Limited

ABN 44 103 003 505

Interim half-year financial report – 31 December 2014

Contents

Financial Statements	
Consolidated statement of comprehensive income	12
Consolidated balance sheet	13
Consolidated statement of changes in equity	14
Consolidated statement of cash flows	15
Notes to the consolidated financial statements	16
Directors' declaration	26
Independent auditor's review report to the members of Pioneer Credit Limited	27

Consolidated statement of comprehensive income

		Half-year	
	Notes	2014 \$'000	2013 \$'000
Revenue from operations	2	15,472	11,123
Other income	3	70	11
		15,542	11,134
Employee expenses		7,882	4,940
Rental expenses		1,048	587
Direct expenses		1,000	1,094
Information technology and communications		824	514
Finance expenses	4	806	791
Other expenses	4	694	344
Professional expenses	4	563	566
Depreciation and amortisation		507	171
Travel and entertainment		330	236
Profit before income tax		1,888	1,891
Income tax expense	5	573	848
Profit from continuing operations		1,315	1,043
Total comprehensive income for the year		1,315	1,043
Total comprehensive income for the year is attributable to:			
Owners of Pioneer Credit Limited		1,315	1,043
Earnings per share for profit attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share		2.90	16.38
Diluted earnings per share		2.90	16.38

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

Consolidated balance sheet

		31 December 2014	30 June 2014
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		842	4,458
Trade and other receivables		1,768	2,570
Other current assets		187	246
Current tax receivables		1,474	327
Financial assets at fair value through profit or loss	7	29,063	29,183
Total current assets		33,334	36,784
Non-current assets			
Receivables		12	-
Property, plant and equipment	8	3,413	2,537
Intangible assets		233	161
Other non-current assets		55	61
Deferred tax assets		1,181	1,198
Financial assets at fair value through profit or loss	7	40,317	29,560
Total non-current assets		45,211	33,517
Total assets		78,545	70,301
LIABILITIES			
Current liabilities			
Trade and other payables	9	1,967	11,352
Borrowings	11	10,100	5,376
Accruals, provisions and other liabilities	10	2,335	2,599
Total current liabilities		14,402	19,327
Non-current liabilities			
Borrowings	11	15,104	2,012
Provisions and other liabilities	10	1,500	1,360
Total non-current liabilities		16,604	3,372
Total liabilities		31,006	22,699
Net assets		47,539	47,602
EQUITY			
Contributed equity		45,464	45,464
Other reserves		1,066	1,037
Retained earnings		1,009	1,101
Capital and reserves attributable to owners of Pioneer Credit Limited		47,539	47,602
Total equity		47,539	47,602

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

Consolidated statement of changes in equity

	Contributed equity \$'000	Convertible Redeemable Preference Shares \$'000	Retained earnings \$'000	Share Based Payment Reserve \$'000	Total equity \$'000
Balance at 1 July 2013	3,674	5,417	3,984	-	13,075
Total comprehensive income for the half-year	-	-	1,043	-	1,043
Transactions with owners in their capacity as owners:					
Current and deferred tax through equity	-	(3)	-	-	(3)
Balance at 31 December 2013	3,674	5,414	5,027	-	14,115
Balance at 1 July 2014	45,464	-	1,101	1,037	47,602
Total comprehensive income for the half- year	-	-	1,315	-	1,315
Transactions with owners in their capacity as owners:					
Treasury shares and share based payments	-	-	-	29	29
Dividend declared and paid	-	-	(1,407)	-	(1,407)
Balance at 31 December 2014	45,464	-	1,009	1,066	47,539

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

Consolidated statement of cash flows

	Half-year	
	2014	2013
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	23,188	16,117
Payments to suppliers and employees (inclusive of goods and services tax)	(22,419)	(5,337)
Interest received	59	11
Interest paid	(364)	(375)
Income taxes paid	(1,703)	(1,032)
Net cash (outflow) / inflow from operating activities	(1,239)	9,384
Cash flows from investing activities		
Payments for property, plant and equipment	(1,125)	(185)
Payments for intangible assets	(150)	(71)
Payments for financial assets at fair value through profit or loss	(17,504)	(14,235)
Proceeds from the sale of property, plant and equipment	17	-
Net cash (outflow) from investing activities	(18,762)	(14,491)
Cash flows from financing activities		
Proceeds from issues of convertible redeemable preference shares	-	99
Proceeds from borrowings	25,778	12,387
Repayment of borrowings	(7,999)	(7,380)
Repayment of loans from related parties	-	(484)
Proceeds of loans from related parties	-	408
Dividends paid to Company shareholders	(1,407)	-
Repayment of Treasury share loans	13	-
Net cash inflow from financing activities	16,385	5,030
Net decrease in cash and cash equivalents	(3,616)	(77)
Cash and cash equivalents at the beginning of the half-year	4,458	967
Cash and cash equivalents at the end of the half-year	842	890

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

Notes to the consolidated financial statements

1. Significant changes in the current reporting period

There were no significant changes that affected the financial position or performance of the Group during the six months to 31 December 2014.

A detailed review of operations is on pages 5 to 9 of this Interim Report.

2. Revenue from operations

	Half-year	
	2014	2013
	\$'000	\$'000
From continuing operations		
Operating revenues		
Liquidation of cash flows from purchased debt portfolios	22,184	16,079
Sale of purchased debt portfolios	100	-
Change in value of purchased debt portfolios	(6,867)	(5,109)
Net gain on financial assets - purchased debt portfolios	15,417	10,970
Services	55	153
	<u>15,472</u>	<u>11,123</u>

3. Other income

	Half-year	
	2014	2013
	\$'000	\$'000
Interest income	59	11
Other income	11	-
	<u>70</u>	<u>11</u>

Notes to the consolidated financial statements

4. Other expense items

This note provides a breakdown of specific costs included in profit before income tax that are unusual because of their nature, size or incidence.

	Half-year	
	2014 \$'000	2013 \$'000
Professional expenses *		
Consulting fees	128	65
Accounting fees	-	6
Legal fees	13	76
	<u>141</u>	<u>147</u>
Other expenses		
Correction of indirect taxation, relating to prior years *	164	-
	<u>164</u>	<u>-</u>
Finance expenses		
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss	364	375
Interest on Convertible Redeemable Preference Shares **	-	316
Interest on correction of indirect taxation, relating to prior years *	137	-
Borrowing costs	305	100
	<u>806</u>	<u>791</u>

* 2014 relates to costs charged in relation to a correction of indirect taxes of prior years. 2013 relates to costs associated with the initial public offering of 2014.

** Interest on Convertible Redeemable Preference Shares is included under finance expenses because the shares were classified as liabilities.

5. Income tax expense

	Half-year	
	2014 \$'000	2013 \$'000
Current tax	620	791
Prior period (over) / under provision	(6)	175
Deferred tax	(41)	(118)
	<u>573</u>	<u>848</u>

6. Dividends

On the 28th August 2014 the Directors declared a fully franked dividend of 3.10 cents per share. The dividend had a record date of 30 September 2014 and was paid on 17 October 2014, \$1.407m (2013: \$Nil).

Notes to the consolidated financial statements

7. Financial assets at fair value through profit or loss

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

	31 December	30 June
	2014	2014
	\$'000	\$'000
The amount of the financial assets at fair value is classified as follows:		
Current	29,063	29,183
Non-current	40,317	29,560
	69,380	58,743
Current and non-current		
At beginning of the period	58,743	38,931
Additions for the period	17,504	31,626
Liquidation of cash flows from purchased debt portfolios	(22,184)	(37,230)
Sale of purchased debt portfolios	(100)	-
Net gain on financial assets disclosed in revenue	15,417	25,416
	69,380	58,743

Changes in the fair value of financial assets at fair value through profit or loss are recorded in the consolidated statement of comprehensive income.

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

Consistent with the last annual financial report, the Group designates purchased debt portfolios as financial assets at fair value through profit or loss.

Purchased debt portfolios have been included in this category of financial assets as purchased portfolios are managed and their performance is evaluated on a fair value basis, in accordance with the Group's documented risk management and investment strategy, and information is provided on that basis to key management personnel. When management decisions are made with respect to the investment in the portfolios or the collection of cash flows, these management decisions are made from the point of view of the group of financial assets on a whole of portfolio basis, as opposed to on an individual contract by contract basis. Monthly management reporting prepared on a portfolio basis informs on returns expressed in terms of overall return multiples on investment and internal rate of return. The investment strategy recognises that by diversifying the investment composition and managing performance on an overall total return basis the objective is to manage a reasonable level of volatility of returns in expectation of overall long term growth and returns.

The management of purchased debt portfolios is aligned to the investment strategy of the Group to acquire portfolios at a discount to the contracted face value of the portfolios. We manage these portfolios to realise sufficient cash flows to provide an overall return on investment and improve the Group's considered fair value of the portfolios.

Purchased debt portfolios are initially recorded at acquisition cost and thereafter at fair value in the balance sheet with transaction costs expensed as incurred. In the absence of a sufficiently active market the fair value of a particular portfolio is determined based on a valuation technique. The valuation is based on the present value of expected future cash flows. Note 7(h) below explains how the fair value of purchased debt portfolios are 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 purchased debt portfolios net of any change in fair value of the portfolios.

Purchased debt portfolios 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, which is classified as a current asset.

Notes to the consolidated financial statements

b) 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.

c) Fair value measurements

For information about the methods and assumptions used in determining fair value refer to note 7(h) below.

d) Fair value and fair value measurements

i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair value 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 2014				
Financial assets				
Financial assets at FVTPL	-	-	69,380	69,380
30 June 2014				
Financial assets				
Financial assets at FVTPL	-	-	58,743	58,743

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.

ii) Transfers between levels

The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels at the end of each reporting period.

The strategy is to make an overall return on investment of the purchased debt portfolios and improve the Groups considered fair value through their long term management, as opposed to seeking to buy and sell portfolios at a profit. However, as part of making an overall return on its investments, the Group may undertake to sell portfolios based on its assessment of alternatives to optimise financial performance.

On this basis, the Company concluded and realised proceeds on the sale of a portfolio (commonly referred to as a secondary sale) during the interim reporting period.

As the sale of portfolios held at fair value through profit and loss had concluded at the end of the reporting period there are no transfers between levels at 31 December 2014. There were no transfers between levels for the period ended 30 June 2014.

Notes to the consolidated financial statements

iii) Valuation techniques used to derive level 3 fair value

If one or more of the significant inputs is not based on observable market data (i.e. unobservable inputs), the instrument is included in level 3. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. This is the case for purchased debt portfolios for which there is not considered to be a sufficiently active secondary market.

Consistent with prior reporting periods, the fair value of financial instruments that are not traded in an active market, the purchased debt portfolios, is determined using 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 to determine the fair value of financial instruments is a Discounted Cash Flow approach, which incorporates the following variables:

- Expected liquidation rate - expressed as a percentage of the face value.
- Face value - of purchased debt portfolios acquired.
- Cash flow liquidation period - the period over which cash flows liquidate.
- Discount rate – which factors in a risk free interest rate and appropriate credit adjustment for risks not built into the underlying cash flows expected to be recovered.
- Cost - acquisition cost of recently acquired purchased debt portfolios.

iv) Fair value measurements using significant unobservable inputs (level 3)

See the table in note 7(d) (i) for the analysis of instruments into appropriate fair value hierarchy at the half-year ended 31 December 2014 and at the year ended 30 June 2014.

Analysis of change in fair value for the half-year ended 31 December 2014

	31 December 2014 \$'000
Actual versus forecast cash flow	2,168
Change in future forecast cash flows	13,249
Net gain on financial assets - purchased debt portfolios	15,417

e) Changes in valuation techniques

There were no significant changes made to the discounted cash flow valuation technique applied in the half-year and prior financial year. Within the valuation model there were improvements made based on observable statistical evidence. In the Group's valuation model the evolution of time and ability to perform back testing of actual performance over original expectation has enhanced accuracy confidence in future predictions. In particular the observable evidence of performance in the payment arrangement book has supported extension of the expected liquidation curve to ten years, this had been restricted to a six year curve in prior models consistent with the original pricing due diligence conducted.

Notes to the consolidated financial statements

f) Valuation inputs and relationships 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:

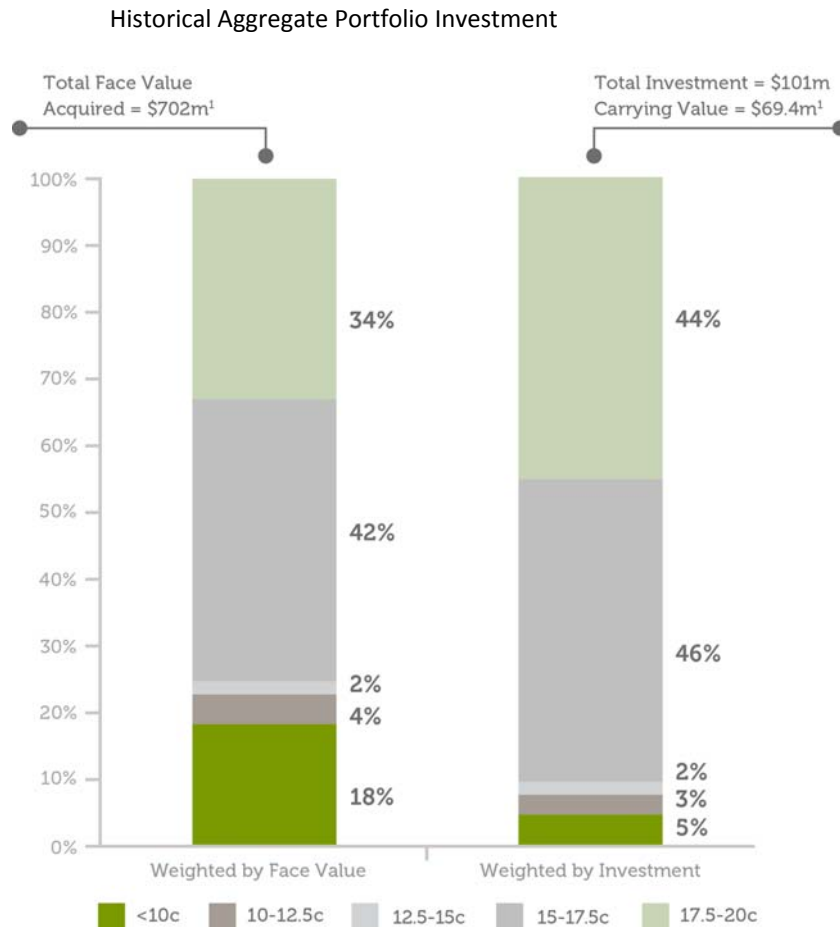
Description	Fair Value \$'000	Valuation Technique	Unobservable Inputs	Range of Inputs	Relationship to Fair Value
Financial Assets at FVTPL	69,380	Discounted Cash Flow and Validation	Expected recovery rate	1% change in recovery rate	A reduction in recovery rate by 1% results in a decrease in fair value on total estimated cash flows by \$606,099, an increase results in an increase in fair value on total estimated cash flows of \$606,099.
			Expected recovery rate	3% change in recovery rate	A reduction in recovery rate by 3% results in a decrease in fair value on total estimated cash flows by \$1,818,298, an increase results in an increase in fair value on total estimated cash flows of \$1,818,298.
			Cash flow liquidation period	Impact of a seven year liquidation period versus a six year liquidation period	Results in an increase in fair value of \$994,150.
			Discount rate	Variance in risk-adjusted discount rate by 100bps	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 \$934,012, an increase results in a decrease in fair value of \$967,594.

A reasonably possible change in liquidation rates has been determined to be plus or minus 3%. A 1% change in liquidation rates has also been disclosed for informational purposes.

Notes to the consolidated financial statements

g) Historical aggregate debt purchases weighted by face value and investment

A breakdown of the Company's total aggregated purchase costs (net of amounts returned to the Vendor Partner due to agreed recourse criteria) by price category to 31 December 2014 is set out below.



Face value acquired \$702m with investment cost (not fair value) \$101m.

h) Valuation process

The key assumption in the valuation of the purchased debt portfolios is determining the liquidation rate. Assumptions about the liquidation rate are made based on product characteristics, payment history, market conditions and management experience.

At 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 and are 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 varying from six to ten years depending on the level of liquidation history and forecasting accuracy confidence based on observable evidence within a portfolio. 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 expected to be recovered.

Notes to the consolidated financial statements

The main level 3 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.
- Face value: Determined at the date the purchased debt portfolio was acquired.
- Cash flow liquidation period: Periods range from six to ten years depending on liquidation history.
- Discount rate: Incorporate a risk free rate and appropriate credit adjustment for risks not built into the underlying cash flows expected to be recovered.
- Cost: Recently acquired purchased debt portfolios may be valued at cost, where it is considered to approximate fair value.

Consistent with the manner in which the Group's purchased debt portfolios are managed, performance is evaluated on a fair value basis. Separate validation of the 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.

8. Property, plant and equipment

In December 2014 the Group concluded the leased fit-out of a second floor in the Perth CBD to accommodate an expansion in operational capacity.

	Plant and equipment \$'000	Furniture, fittings and equipment \$'000	Machinery and vehicles \$'000	Leasehold improvements \$'000	Total \$'000
At 30 June 2014					
Cost at fair value	1,187	145	41	1,949	3,322
Accumulated depreciation	(510)	(38)	(30)	(207)	(785)
Net book amount	677	107	11	1,742	2,537
Half-year ended					
31 December 2014					
Opening net book amount	677	107	11	1,742	2,537
Additions	298	84	-	932	1,314
Disposals	-	-	(9)	-	(9)
Depreciation charge	(184)	(33)	(2)	(210)	(429)
Closing net book amount	791	158	-	2,464	3,413
At 31 December 2014					
Cost at fair value	1,485	229	-	2,881	4,595
Accumulated depreciation	(694)	(71)	-	(417)	(1,182)
Net book amount	791	158	-	2,464	3,413

9. Trade payables

Trade payables at 30 June 2014 included \$10.2m owing on purchased debt portfolios, consistent with the terms of their acquisition. The amount of this payable was unusual and it was paid, in the normal course of business, during this interim reporting period.

Notes to the consolidated financial statements

10. Provisions

A lease make good provision has been recognised in connection with the lease premises in the Perth CBD. The provision is consistent with the lease terms requiring the lessee to make good on fit-out works on conclusion of the lease term.

	31 December 2014			30 June 2014		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Employee benefits	-	114	114	-	84	84
Lease make good	-	189	189	-	-	-
Commercial claim	279	-	279	279	-	279
	279	303	582	279	84	363

Movement in provisions

	Employee benefits \$'000	Lease make good \$'000	Commercial claim \$'000	Total \$'000
At 30 June 2014	84	-	279	363
Charged to profit or loss	30	-	-	30
Capitalised to the balance sheet	-	189	-	189
At 31 December 2014				
Carrying amount at end of year	114	189	279	582

11. Borrowings

	31 December 2014			30 June 2014		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Secured						
Bank loans	5,380	15,104	20,484	804	2,012	2,816
Other loans	4,720	-	4,720	4,471	-	4,471
	10,100	15,104	25,204	5,275	2,012	7,287
Unsecured						
Other loans	-	-	-	101	-	101
	10,100	15,104	25,204	5,376	2,012	7,388

Financing arrangements

The Group had access to a Senior Debt Facility of \$54,060,000 at 31 December 2014 (30 June 2014: \$54,060,000). Within the Senior Debt Facility is a \$1,000,000 overdraft facility that remained unused at 31 December 2014. The undrawn limit on the cash advance facility was \$26,331,000 (30 June 2014: \$43,963,000). The Senior Debt Facility is subject to the Group meeting a number of financial undertakings, all of which have been met. The Facility will expire on 31 July 2017. Management has no reason to believe that the facility will not be renewed and/or extended beyond this date.

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

Notes to the consolidated financial statements

Secured liabilities and assets pledged as security

Consistent with the previous reporting period, the Group's finance provider holds security over all the assets and undertakings of each Pioneer Credit Limited, Pioneer Credit Acquisition Services Pty Limited, Sphere Legal Pty Limited and Pioneer Credit (Philippines) Pty Limited and unlimited cross guarantees and indemnities from each of these entities.

12. 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.

13. Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2014 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 2014 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*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

Impact of standards issued but not yet applied by the Group

AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard applies to annual reporting periods beginning on or after 1 January 2018. Under AASB 139 *Financial Instruments: Recognition and Measurement* applicable to annual reporting periods beginning on or after 1 July 2014 but before 1 January 2018, the Group has designated purchased debt portfolios as at fair value through profit and loss and other financial assets at amortised cost. Financial liabilities are accounted for at amortised cost. The Group has not yet determined the impact, if any, of adopting AASB 9 and the Group has not yet decided whether to early adopt any parts of AASB 9.

Directors' declaration

In the Directors' opinion:

- a) the financial statements and notes set out on pages 12 to 25 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 2014 and of its performance for the half-year ended on that date, and
- b) there are reasonable grounds to believe that Pioneer Credit Limited 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 R. John
Managing Director

Perth

20 February 2015



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 2014, 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 (including the Australian Accounting Interpretations) 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 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 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pioneer Credit Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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

Liability limited by a scheme approved under Professional Standards Legislation.



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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the company for the half-year ended 31 December 2014 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 financial report to confirm the information included in the reviewed financial report presented on this web site.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'W P R Meston'.

William P R Meston
Partner

Perth
20 February 2015