Half-year Report

for the period ended 31 December 2020

pioneer credit

Pioneer Credit Limited

ABN 44 103 003 505

Half-year report
for the period ended 31 December 2020

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 2020 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 is:

Level 6, 108 St Georges Terrace
Perth WA 6000

Pioneer Credit Limited shares are listed on the Australian Securities Exchange (ASX).

Pioneer Credit Limited

ABN 44 103 003 505

Appendix 4D
for the half-year ended 31 December 2020
(previous corresponding period half-year ended 31 December 2019)

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 Dec 2020 $'000	31 Dec 2019 $'000	Change $'000	%
Net Revenue from ordinary activities	26,408	31,728	(5,320)	(16.8%)
(Loss) / Profit from ordinary activities after tax attributable to members	(8,400)	(8,729)	329	3.8%
Net (Loss) / profit for the period attributable to members	(8,400)	(8,729)	329	3.8%

The Company's result for the first half of the 2021 fiscal year was characterised by limited supply of Purchased Debt Portfolios due to the impacts of the COVID-19 pandemic, strong liquidations performance from older vintage portfolios and the impact of one-off costs associated with the terminated Scheme of Arrangement and subsequent refinancing of the Group's senior debt facilities. The Company's liquidations for the period totalled $50.0m.

The Group has taken a thoughtful and deliberate approach to the valuation of its assets, including applying a downward negative overlay of $6.8m. This negative overlay reflects heavily in the Group's Net Revenue. Full commentary on the figures presented above and on the results for the period and other significant information is provided in the 1H21 Investor Update and the Consolidated Financial Statements released with this Appendix 4D.

Dividends per ordinary share / distributions

There is no provision for an interim dividend in respect of the half-year ended 31 December 2020.

Key ratios

	31 December 2020 (cents)	31 December 2019 (cents)
Net tangible assets per fully paid ordinary share *	90.65	134.71

* The Right of Use Asset under AASB 16 *Leases* has been excluded from tangible assets, while the lease liability has been included in liabilities.

Financial Statements

Released with this Appendix 4D are the following statements:

- Consolidated Statement of Profit or Loss and other Comprehensive Income together with notes to the Statement
- Consolidated Statement of Financial position together with notes to the Statement
- Consolidated Statement of Changes in Equity, showing movements
- Consolidated Statement of Cash Flows together with notes to the Statement

Corporate Directory

Directors	Mr Michael Smith (Chairperson) Mr Keith John Ms Andrea Hall Ms Ann Robinson Mr Peter Hall (appointed effective 11 January 2021)
Company Secretary	Ms Susan Symmons
Principal Registered Office	Level 6 108 St Georges Terrace Perth WA 6000 +61 8 9323 5000
Share Registrar	Link Market Services Limited Level 12 250 St Georges Terrace Perth WA 6000 +61 1300 554 474
Auditor	Deloitte Touche Tohmatsu Brookfield Place Tower 2 123 St Georges Terrace Perth WA 6000 +61 8 9365 7000
Solicitors	K&L Gates Level 32 44 St Georges Terrace Perth WA 6000 +61 8 9216 0900
Bankers	Nomura Australia Ltd 1 Farrer Place Level 25 Governor Philip Tower Sydney NSW 2000 +61 2 9321 3531
Stock Exchange Listings	Pioneer Credit Limited shares are listed on the Australian Securities Exchange (ASX).
Website	www.pioneercredit.com.au

Pioneer Credit Limited

ABN 44 103 003 505

Half-year Report
for the period ended 31 December 2020

Contents

Directors' Report

The Board of Directors present their report on the Consolidated Entity ("**the Group**" or "**the Company**") consisting of Pioneer Credit Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Directors

The following people were Directors of Pioneer Credit Limited during the half-year and up to the date of this report:

Mr Michael Smith (Chairperson)
Mr Keith John (Managing Director)
Ms Andrea Hall
Ms Ann Robinson
Mr Peter Hall (appointed 11 January 2021)

Principal activities

Pioneer is a financial services provider that specialises in acquiring and servicing unsecured retail debt portfolios.

Pioneer provides high quality, flexible financial services support to help everyday Australians out of financial difficulty. Pioneer has the trust of long-term vendor partners to do the right thing and respectfully support customers to achieve their financial independence.

Review of operations and results of those operations

The first half of the 2021 fiscal year was a period of two distinct quarters.

The first quarter, to the end of September 2020, was characterised by the impacts of the terminated Scheme of Arrangement, and subsequent refinancing of the Group's debt, through the depths of the pandemic and against an aggressive suitor. The financing solution which was ultimately realised preserved shareholder equity and positioned Pioneer for growth. However the cost to the Company was significant.

The second quarter saw the Company quickly return to a constructive operating environment, the first for some time. Without the constraints imposed by the terminated scheme of arrangement and the lessening impacts of COVID-19, this operating environment is expected to continue to improve.

Through the first half, Pioneer's vendor partners continued to offer debt portfolios to the market but at a markedly slower rate than previous periods. This reflected the financial services industry's commitment to helping customers impacted by COVID-19 and the deferral of customer loan repayments during the early phase of the pandemic.

Consistent with the Company's disciplined approach to debt portfolio acquisition, it continued to assess opportunities with existing and new vendor partners as they presented, with only some meeting the Company's criteria. Pioneer's rigorous and discerning approach to debt portfolio investment well positions the Company to participate in the debt purchasing market as conditions improve.

For the six months to 31 December 2020 the Company's recorded debt portfolio investments was $16.9m (compared to $36.8m for the prior corresponding period ("**pcp**")). This is the Company's lowest investment in debt portfolios in over six years and was a result of the suspension of debt sale programmes by most vendors at the beginning of the pandemic, the slow return of debt sales through the half and the Group's disciplined approach to debt portfolio purchasing.

In this context, the Company's liquidations performance is both pleasing and noteworthy. Liquidations totalled $50.0m for the half (compared to $52.5m pcp). Achieving liquidation levels comparable to pcp, in a period of macro-economic environment challenges and significantly reduced debt sales from vendors, demonstrates the quality of Pioneer's performing arrangements portfolio and 'work in progress' portfolios.

The Company's EBITDA of $27.3m ($20.1m pcp) was underpinned by a strong liquidations performance and robust management of operating costs.

Taking into account the impact of the COVID-19 pandemic, the valuation of the Company's debt portfolio is reported as $253.1m ($260.0m at 30 June 2020) which includes a downward/negative overlay of $6.8m.

In this half year report, the final, one-off costs associated with the terminated Scheme of Arrangement and subsequent refinancing have been recognised.

One off costs and the downward re-valuation of the debt portfolio to reflect macros-economic conditions have resulted in a statutory loss for the period of $8.4m.

It is expected that the Company's financial statements for 2H21 will be free of significant one-off costs and NPAT will reflect improved operations, subject to market conditions.

Events since the end of the reporting period

No matter or circumstance has occurred subsequent to the half-year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

Outlook

With the successful refinancing of the Company's senior debt facility achieved during the period, Pioneer is well placed to grow as the economy stabilises and purchased debt sale volumes normalise.

As with the first half, the Company will maintain its emphasis on growing its performing arrangements portfolio, underpinned by the quality of its customer base.

The Group has now commenced a refinancing process, as foreshadowed at its AGM in November 2020, to reduce its cost of funds such that they reflect the strength of the business and its future prospects. The Company is encouraged by the engagement of parties it has consulted with. This refinancing is a key piece in the strategy to return the Company to its normal growth and profitability levels.

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 3.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports) relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

Keith John
Managing Director

Perth
25 February 2021

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Pioneer Credit Limited
Level 6
108 St Georges Terrace
Perth WA 6000

25 February 2021

Dear Directors

Auditor's Independence Declaration to Pioneer Credit Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Pioneer Credit Limited.

As lead audit partner for the review of the financial statements of Pioneer Credit Limited for the half year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

L Karamfiles
Partner
Chartered Accountants

Pioneer Credit Limited

ABN 44 103 003 505

Half Year Report
for the period ended 31 December 2020

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Consolidated statement of profit or loss and other comprehensive income

	Note	Half Year 31 Dec 20 $'000	Half Year 31 Dec 19 $'000
Continuing operations			
Interest income at amortised cost		**28,971**	29,564
Net impairment (losses) / gains on purchased debt portfolios at amortised cost		**(2,734)**	1,408
Other income		**171**	756
		26,408	31,728
Employee expenses		**(15,609)**	(19,328)
Finance expenses	5	**(10,019)**	(6,023)
Information technology and communications		**(2,181)**	(2,283)
Direct liquidation expenses		**(1,131)**	(2,260)
Office facility outgoings expenses		**(570)**	(644)
Depreciation and amortisation	5	**(1,864)**	(1,922)
Other expenses		**(1,050)**	(1,540)
Professional expenses		**(1,726)**	(3,376)
Impairment of tangible and intangible assets		**(106)**	-
Travel and entertainment		**(104)**	(422)
Net impairment losses on other financial assets		**145**	(15)
Loss on sale of Consumer Loan Book		**-**	(2,263)
(Loss) / Profit before income tax		**(7,807)**	(8,348)
Income tax expense		**(593)**	(381)
(Loss) / Profit for the period from continuing operations		**(8,400)**	(8,729)
Total comprehensive (loss) / income for the half-year is attributable to:			
Owners of Pioneer Credit Limited		**(8,400)**	(8,729)
(Loss) / Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)		**(13.25)**	(13.80)
Diluted (cents per share)		**(13.25)**	(13.80)

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

	Note	31 Dec 20 $'000	30 Jun 20 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**8,176**	11,019
Trade and other receivables		**2,380**	1,844
Other current assets		**847**	1,182
Current tax asset		**53**	634
Purchased Debt Portfolios	7	**82,182**	87,255
Total current assets		**93,638**	101,934
Non-current assets			
Property, plant and equipment		**684**	1,070
Deferred tax assets		**2,168**	2,761
Intangible assets		**1,052**	932
Other non-current assets	8	**2,418**	-
Right of use assets		**6,181**	7,440
Purchased Debt Portfolios	7	**170,931**	172,792
Total non-current assets		**183,434**	184,995
Total assets		**277,072**	286,929
LIABILITIES			
Current liabilities			
Trade and other payables		**3,508**	2,849
Borrowings	9	**674**	206,292
Provisions		**631**	521
Lease liabilities		**2,516**	2,568
Accruals and other liabilities		**3,575**	4,099
Total current liabilities		**10,904**	216,329
Non-current liabilities			
Borrowings	9	**195,023**	-
Lease liabilities		**4,875**	5,722
Provisions		**1,077**	919
Total non-current liabilities		**200,975**	6,641
Total liabilities		**211,879**	222,970
Net assets		**65,193**	63,959
EQUITY			
Contributed equity		**80,310**	80,049
Share Based Payment Reserve		**5,977**	3,870
Warrant Reserve	3	**6,904**	-
Retained earnings (deficit)		**(27,998)**	(19,960)
Capital and reserves attributable to the owners of Pioneer Credit Limited		**65,193**	63,959
Total equity		**65,193**	63,959

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

	Contributed Equity $'000	Share Based Payment Reserve $'000	Warrant Reserve $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2020	**80,049**	**3,870**	**-**	**(19,960)**	**63,959**
Total comprehensive loss for the half-year	-	-	-	(8,400)	(8,400)
	80,049	**3,870**		**(28,360)**	**55,559**
Transactions with owners in their capacity as owners					
Treasury shares acquired	**(745)**	-	-	-	**(745)**
Issue of treasury share to employees	**426**	**(426)**	-	-	-
Warrants Issued	-	-	**7,484**	-	**7,484**
Warrants Converted	**580**		**(580)**	-	-
Options Issued	-	**2,325**	-	-	**2,325**
Treasury shares and share based payments	-	**208**	-	**362**	**570**
	261	**2,107**	**6,904**	**362**	**9,634**
Balance at 31 December 2020	**80,310**	**5,977**	**6,904**	**(27,998)**	**65,193**
Balance at 1 July 2019	78,131	4,032	-	20,576	102,739
Total comprehensive income for the half-year	-	-	-	(8,729)	(8,729)
	78,131	4,032	-	11,847	94,010
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	-	-	-	-	-
Employee share scheme	229	-	-	-	229
Dividend reinvestment plan	-	-	-	-	-
Treasury shares and share based payments	-	777	-	-	777
Issue of treasury shares to employees	1,268	(1,268)	-	-	-
Equity plans	-	-	-	-	-
Dividends declared and paid	-	-	-	-	-
	1,497	(491)	-	-	1,006
Balance at 31 December 2019	79,628	3,541	-	11,847	95,016

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

Consolidated statement of cash flows

	Half Year 31 Dec 20 $'000	Half Year 31 Dec 19 $'000
Cash flows from operating activities		
Receipts from liquidations of PDPs and services (inclusive of goods and services tax)	**51,374**	54,324
Payments to suppliers and employees (inclusive of goods and services tax)	**(20,359)**	(29,933)
	31,015	24,391
Interest received	**13**	13
Interest paid	**(33,112)**	(4,263)
Other cash outflows[1]	**(2,418)**	-
Net income taxation refund / (paid)	**581**	(3,905)
Net cash inflow from operating activities before Consumer Loans	**(3,921)**	16,236
Cash flows from Consumer Loans		
Proceeds on sale of Personal Loan book	**-**	5,344
Net consumer loans recovered / (advanced)	**-**	846
	-	6,190
Net cash inflow from operating activities	**(3,921)**	22,426
Cash flows from investing activities		
Payments for property, plant and equipment	**(55)**	(8)
Receipts/(Payments) for intangible assets	**(422)**	-
Acquisitions of purchased debt portfolios - financial assets	**(15,073)**	(37,726)
Net cash outflow from investing activities	**(15,550)**	(37,734)
Cash flows from financing activities		
Proceeds from borrowings	**169,000**	139,313
Repayment of borrowings	**(141,726)**	(130,100)
Replacement Facility transaction costs	**(8,892)**	(1,867)
Payments for shares acquired by the Incentive Plan Trust	**(745)**	-
Lease payments	**(1,009)**	(1,062)
Net cash inflow from financing activities	**16,628**	6,284
Net (decrease) / increase in cash and cash equivalents	**(2,843)**	(9,024)
Cash and cash equivalents at the beginning of the half-year	**11,019**	11,184
Cash and cash equivalents at the end of the half-year	**8,176**	2,160

[1] Other cash outflows from operating activities include payment of rental guarantee deposit

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

Contents of the notes to the consolidated financial statements

1. Basis of preparation

This condensed consolidated interim financial report of the Pioneer Credit Limited Group for the half-year reporting period ended 31 December 2020 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This 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 2020 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 consolidated financial statements are presented in Australian dollars.

New standards and interpretations

The implications of new or amended Accounting Standards relevant to the Company have been considered and determined to have no material impact on the financial statements. The Company continues to monitor Standard amendments.

2. Going Concern

The financial statements have been prepared on the going concern basis which assumes the realisation of assets and the settlement of liabilities in the ordinary course of business.

On 16 September 2020 the Company entered into a binding agreement for a new senior syndicated facility agreement ("**SFA**") with a facility limit of $189.0m for the purpose of refinancing the Company's Senior Debt facility and to finance future acquisitions. The key terms of the SFA are outlined in note 3.

As is customary, the SFA contains certain covenants including the Senior Loan Book Value (LBV) and Total LBV covenants which are closely linked to the carrying value of the Purchased Debt Portfolios (PDPs) and are sensitive to the level of PDP acquisitions and liquidations which include sales. Whilst the forecast prepared by Management using their best estimate assumptions does not indicate any covenant breaches in the 12 month period to February 2022, due to the sensitivities noted above, this may change.

If a breach of a covenant appeared likely to occur or did occur, the Company can seek a waiver from the financiers. The Company has a number of options to prevent or remedy a breach under the terms of the SFA, beyond increasing liquidations. These include, but are not limited to, the ability to raise funds through an equity issue, selling non-core assets including its investment in other entities or selling part of its PDP portfolio and subsequently paying down the debt to a level such that the covenant would be met.

If a breach of a covenant is not waived or remedied, and with the necessary approval of the majority of financiers, an event of default would occur and the financiers could declare that all or a part of the debt is due and payable on demand. In addition, a default under the SFA would cause a cross default under the Medium Term Notes.

The Directors consider that the expected liquidity from forecasted PDP liquidations and acquisitions as well as the available funding under the SFA will be adequate to enable the Group to meet its covenants and its debts and obligations as and when they fall due for the twelve-month period from signing this financial report, subject to the matters described below.

The Directors have assessed the cash flow forecast based on their expectation of PDP drivers, including liquidations and acquisitions. In making their assessment the Directors have factored in the expected impact of operational changes made during the half year period which are anticipated to result in higher levels of PDP liquidations and increased PDP acquisitions compared to those experienced since June 2020.

The Group's ability to meet its ongoing operational and financial obligations is primarily dependent on (a) achieving the cash flow forecast for the period through to February 2022 which is dependent on achieving the key assumptions on EBITDA, including those in respect of PDP acquisitions and liquidations and (b) the ongoing compliance with the financial debt covenants and other undertakings under the SFA and the Medium Term Notes.

The key assumptions underpinning the cash flow forecast are inherently uncertain and are subject to variation due to factors which are outside the control of the Group. For example, Government or debt vendor policy changes as a result of COVID-19 could impact on the Group's ability to acquire or liquidate PDPs. Notwithstanding this, the Directors believe that it is appropriate to continue to adopt the going concern basis of preparation.

3. Significant events in the current reporting period

Standstill Agreements

On 18 May 2020, the Company entered into a standstill agreement with Project Robin, L.P. ("**Senior Financier**") for the period 18 May 2020 to 17 July 2020 ("**Standstill Agreement**"). The Standstill Agreement provided that the Senior Financier would not, subject to the Company's compliance with its terms, take any action during the term of the Standstill Agreement in relation to any anticipated or subsisting defaults under the senior facility agreement.

All interest and the make-whole payable under the Senior Debt Facility was included in Borrowings as at 30 June 2020.

On 20 July 2020, the Standstill Agreement entered into on 18 May 2020 was extended to 14 August 2020 by means of an Amendment Deed.

The amended and extended standstill provided amongst other things that (a) the Senior Financier would not, subjected to the Company's compliance with its terms, take any action during the term of the extended Standstill Agreement in relation to any anticipated or subsisting defaults on the Company's senior facility agreement; (b) allow for the orderly refinancing of all monies owed to the Senior Financier; and (c) allows the ability for the Company to recommence its debt purchasing program within agreed parameters.

In consideration for the Financier agreeing to the amendment of the Standstill Agreement, the Company paid the Senior Financier a non-refundable extension fee of $2.5m. The Company agreed to the reimbursement of certain legal, accounting, tax, financial advisory and other costs and out of pocket expenses of the Senior Financier and an increase in the default interest rate from 10% to 15% effective 7 April 2020 to 17 July 2020.

Senior Syndicated Facility Agreement

On 16 September 2020, the Company entered into a syndicated facility agreement of $189,000,000 providing for the refinancing of its existing senior facilities ("**SFA**"). As part of the refinancing, the Company repaid $163.4m, comprised of $141.7m principal plus amounts for interest and make whole. The SFA comprises:

- $169,000,000 term facility;
- $20,000,000 acquisition facility, for up to 50% of the value of PDPs ("**Acquisition Facility**"); and
- 15,750,626 zero cost detachable warrants to be issued to the syndicate ("**Warrants**")

and contains the following key terms:

- Weighted average interest rate of BBSY +11% p.a.;
- Commitment fee of 2.5% on the undrawn commitment under the Acquisition Facility;
- Exit fee of 2.0% per annum on actual amounts drawn and outstanding;
- Top-up fee to achieve an internal rate of return ("**IRR**") of 14.5%, including the value of warrants issued to the syndicate;
- Maturity date of 30 September 2022 with the ability, subject to conditions, to extend this to 1 July 2023; and
- Financial covenants to be tested on a quarterly basis from 31 December 2020.
- The financial covenants included are:
    - Senior Leverage Ratio (Debt to Adjusted EBITDA) (net senior secured debt to EBITDA)
    - Interest Cover Ratio (EBITDA to senior interest expense)
    - Senior LBV (net senior secured debt to amortised cost portfolio value)
    - Total LBV (total net secured debt to amortised cost portfolio value)

Due to the inclusion of the top-up fee to achieve an IRR of 14.5%, a potential liability may exist in the future. As at the reporting date, no liability exists.

The Warrants have a nil exercise price, are detachable and expire 4 years from 16 September 2020. The Warrants were issued in two tranches to the syndicate as follows:

- 9,509,737 Warrants issued immediately; and
- 6,240,889 Warrants issued following Shareholder approval at the Group's AGM on 19 November 2020.

The Warrants are classified as equity and presented in a separate reserve because they can be converted into a fixed number of ordinary shares. A summary of the movement on Warrants in the period and the closing balance of the Warrant reserve are outlined below.

	Number	$'000
Opening balance 1 July 2020	-	-
Issued	15,750,626	**7,484**
Exercised and converted	(1,617,911)	**(580)**
Closing balance 31 December 2020	14,132,715	**6,904**

Medium Term Notes

On 10 July 2020, Noteholders for the Medium Term Notes ("**Notes**") approved a series of modifications to the Notes, subject to completion being achieved under the SFA. This occurred on 16 September 2020 and the key changes to the terms of the Notes which came into effect on that date include:

- An increase in the margin from 5.25% p.a. to 7.25% p.a.;
- An increase in maturity by 12 months to 22 March 2023; and
- An increase in frequency of optional redemption dates (by Pioneer Credit Limited as the issuer), to the end of each quarter.

Noteholders received a consent fee of 0.5% of the outstanding principal amount of each Note held if they voted in favour of the changes.

4. Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Board to exercise its judgement in the process of applying the Company's accounting policies.

The Group makes estimates and assumptions concerning the future. The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The Group also exercises judgement in applying the Group's accounting policies.

Uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed below:

Purchased debt portfolios

Classifying PDPs at amortised cost and the use of the credit-adjusted effective interest rate ("**EIR**") method requires the Group to estimate future cash flows from PDPs at purchase date and at each balance sheet date.

Estimating the timing and amount of cash flows for both the calculation of EIRs and subsequent re-measurement of the carrying amount of PDPs requires significant management judgement regarding key assumptions. The underlying estimates that form the basis for amortised cost accounting depends on variables including how the customer accounts were originated and managed and by which financial institution, the quality and depth of information on the customer, how much time has elapsed since a payment was made against the accounts, amounts due, the time elapsed since acquisition and the personal circumstances and characteristics of the customers. The Group adjusts the carrying amount of the portfolios to reflect the revised estimated cash flows. Events or changes in assumptions and management's judgement will affect the recognition of revenue in the period.

The Group has used information and data obtained from debt vendors at acquisition and observation of PDP attributes to determine expected cash flow forecasts for the calculation of EIRs. In addition, the Group applies judgement and considers long term expectations of performance informed by historic analysis to ensure the setting of EIRs is based on the best estimates that incorporate the lifetime expectation of credit losses for the PDP. These cash flow forecasts are reviewed by management, with model overlays used to address any modelling anomalies observed. Once the EIR is determined, it is locked in and not revised. Any changes to PDP attributes from that point on, when additional information and data is sourced or becomes available, will result in changes to cash flow forecasts and impairment gains or losses. The Group has a policy of continually reviewing its estimation of cash flow forecasts.

Cash flow forecasts are generated using models incorporating a number of factors which are informed by customer and account level data, credit agency data and the Company's historical experience with accounts which have similar key attributes.

Management also review the model on a portfolio basis to take into account factors, which have impacted historical, or will impact future performance and where necessary portfolios are calibrated to take into account these known factors. The assumptions and estimates made are specific to the particular characteristics of each portfolio.

If total forecasted cash flow projections utilised in determining the value of the portfolio were to change by ±5%, the carrying value of PDPs at 31 December 2020 of $253.1m would change by $12.7m in a downside scenario and $12.7m in an upside scenario. If resolution of any uncertainty results in an increase or decrease in carrying value of PDPs, this is recognised in the statement of profit or loss at that point in time as an impairment gain or loss.

The model continues to be enhanced with several changes incorporated since the previous half year period, in particular:

- Disaggregating the recovery curve from a single portfolio average to curves based on specific emergence patterns;
- Increasing the granularity of prediction level from portfolio to tranche level;
- The use of the most recent cash flow experience to remove the requirement for a general scaling factor; and
- The separation of the model overlay adjustments into a scenario based macroeconomic overlay, incorporating impacts on operational performance, and a model risk overlay.

COVID-19 pandemic

The COVID-19 pandemic has resulted in significant health, societal and economic impacts across the globe. The full effects of COVID-19 on the Australian economy are not yet known or quantifiable and the impacts on specific industries and businesses will vary widely.

At the onset of the COVID-19 pandemic the Company experienced a drop in its average payment instalments and lump sum settlements, consistent with the expectation that customers would naturally become more cautious about their finances. The reduction in payments has generally been treated as deferrals of customer payments rather than hard defaults.

As at 31 December 2020 the future impacts of COVID-19 continue to be unclear, and while particular parts of Australia have seen restrictions eased and some businesses reopened, the current government support has been reducing since October 2020 with further reductions expected from March 2021. This could result in increased unemployment levels in the future and there is a risk that a reduction in a customer's disposable income could impact estimated future cash flows, both in timing and quantum. Further to this, while key vendors have resumed new debt sales, there is a risk that volumes remain subdued while economic uncertainty remains.

Accounting for taxation

Deferred income taxes arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating the Company's ability to recover its deferred tax assets, it considers all available evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, the results of recent operations and events occurring after reporting date. The assumptions about future taxable income, including PDP liquidations, require the use of significant judgement and may ultimately vary from management's best estimate.

5. Other expense items

This note provides a breakdown of specific costs included in (loss) / profit before income tax.

	Half Year 31 Dec 20 $'000	Half Year 31 Dec 19 $'000
Finance expenses		
Bank fees and borrowing expenses	**550**	1,236
Interest and finance charges paid / payable for financial liabilities not at fair value through profit and loss	**9,214**	4,480
Lease liability	**255**	307
	10,019	6,023
Depreciation and amortisation		
Depreciation	**441**	265
Amortisation	**164**	398
Right of use of asset amortisation	**1,259**	1,259
	1,864	1,922

6. Cash and cash equivalents

	31 Dec 20 $'000	30 Jun 20 $'000
Cash at bank and in hand	**8,176**	11,019

7. Purchased Debt Portfolios

	31 Dec 20 $'000	30 Jun 20 $'000
Purchased Debt Portfolios		
Current	**82,182**	87,255
Non-current	**170,931**	172,792
	253,113	260,047

PDPs are recognised at fair value at the date of purchase and are subsequently measured at amortised cost. The fair value of PDPs at 31 December 2020 approximates the carrying value measured under amortised cost as the discount rate applied to determine fair value would be similar to the credit-adjusted effective interest rate.

PDPs are reported in accordance with the rules for purchased or originated credit–impaired assets, that is, at amortised cost applying the credit-adjusted effective interest method with the lifetime expected credit losses incorporated into the calculation of the EIR at inception. This EIR is the rate that exactly discounts the estimated future cash receipts of the purchased portfolio asset to the net carrying amount at initial recognition (i.e. the price paid to acquire the portfolio). All changes in lifetime expected credit losses subsequent to the assets' initial recognition are recognised as an impairment change (gain or loss).

The carrying amount of each portfolio is determined at each reporting period by discounting projected future cash flows to present value using the EIR as at the date the portfolio was acquired.

Movement in the carrying value between reporting periods includes the following items:

	Half Year 31 Dec 20 $'000	Half Year 31 Dec 19 $'000
Movement on purchased debt portfolio at amortised cost:		
At the beginning of the period	**260,047**	**249,776**
Additions for the period	16,862	36,813
Liquidations of PDPs	(50,033)	(52,489)
Interest accrual	28,971	29,306
Net impairment (loss) / gain	(2,734)	1,408
	253,113	**264,814**

A detailed analysis of the critical accounting estimates and judgements in note 4 outlines the elements considered in the application of judgement to estimate future cash flows at the time the EIR is determined and at each subsequent reporting date, including the key underlying variables that are analysed.

In calculating the carrying value of the assets based on expected future cash flows, inclusive of an impairment charge, Pioneer evaluates a range of possible outcomes and takes into account the time value of money, past events, current and future economic conditions. All PDP assets are considered at a tranche level as these are substantially homogeneous based on shared credit risk characteristics exhibited by purchased credit-impaired debt.

Recovery methods include implementation and management of payment plans and multiple attempted communication with the customer to tailor an appropriate outcome. When the Group has exhausted all practical recovery methods, and there is no reasonable expectation of recovering cash flows from the financial asset, the financial asset is written off.

Impacts of an Uncertain Macroeconomic Environment

The estimating of future cash flows for the purposes of assessing the carrying value of the PDP portfolio involves significant management judgement. The uncertain macroeconomic environment (including COVID-19) and its potential impact on the operational performance of the Company has the potential to affect forecast future cash flows and thereby impairment of the carrying value of the PDP portfolio.

Given the uncertainty surrounding the future outlook and the potential for lower than forecasted cashflows, both as a result of customers' ability to repay debt in the expected timeframes as a result of macroeconomic changes or the Company's ability to fully operationalise its workforce, the Company has included a negative overlay of $4.6m when determining the carrying amount of the portfolio at 31 December 2020.

Model Risk

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

- effective challenge and critical analysis involving objective, qualified and experienced parties in the line of business in which the model is used; and

- output verification to ensure that the model performed as expected in line with design objectives and business use.

Additional analysis is performed through back testing, stability testing and sensitivity analysis. The results, outcomes and actions affirmed the conceptual soundness of the model. However, given the inherent limitations of historic information predicting future liquidations, additional model risk mitigation is achieved through appropriate downward calibration of the expected future cash flows, resulting in a model risk overlay of negative $2.2m.

8. Other Non-current Assets

	31 Dec 20 $'000	30 Jun 20 $'000
Other non-current assets	**2,418**	-

Other non-current assets represent amounts held on deposit for rental guarantee purposes. This was previously included in net borrowings and has been reclassified.

9. Borrowings

		31 Dec 20			30 Jun 20	
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Secured						
Senior debt facilities	**412**	**155,677**	**156,089**	166,560	-	166,560
Medium term notes	**72**	**39,346**	**39,418**	39,499	-	39,499
Other loans	**190**	**-**	**190**	233	-	233
	674	**195,023**	**195,697**	206,292	-	206,292

Changes in borrowings arising from the financial activities

	Opening Balance 1 Jul 20 $'000	Cash inflow $'000	Cash outflow $'000	Non-cash flow $'000	**Closing Balance 31 Dec 20 $'000**
Borrowings	206,292	169,000	(178,456)	(1,139)	**195,697**

Borrowings are initially recognised at fair value, net of directly attributable transaction costs incurred. Subsequent to initial recognition, borrowings and interest are measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan and capitalised. These transaction costs include the fair value of the Warrants at transaction date and are amortised using the effective interest rate method.

Senior debt facilities

On 16 September 2020, the Company entered into a syndicated facility agreement of $189,000,000, providing for the refinancing of its existing senior facilities, comprised of a $169,000,000 term facility and a $20,000,000 acquisition facility (“**SFA**”).

Further details are outlined in Note 3.

As at 31 December 2020 the Group had not drawn down on the acquisition facility and had unused finance facilities of $20,000,000.

Medium Term Notes

The Group issued $40.0m in medium term notes (“Notes”) on 22 March 2018. On 10 July 2020, Noteholders approved a series of modifications to the Notes, subject to completion of the SFA. Further details are outlined in Note 3.

10. Government Grants

Grants that compensate the Group for expenses incurred are recognised through profit or loss on a systematic basis in the periods in which the expenses are recognised. To the extent that any of the Group entities are eligible to participate in the Government stimulus packages in the wake of COVID-19, receipts of approximately $2.8m have been accounted for as government grants and are presented as a reduction of the related employee costs and not revenue.

11. 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 statement of affairs of the Group or economic entity in subsequent financial years.

Directors' declaration

In the Directors' opinion:

i. the financial statements and notes set out on pages 4 to 18 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 2020 and of its performance for the half-year ended on that date; and

ii. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

This declaration is made in accordance with a resolution of Directors.

Keith John
Managing Director

Perth
25 February 2021

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Independent Auditor's Review Report to the Members of Pioneer Credit Limited

Conclusion

We have reviewed the half-year financial report of Pioneer Credit Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 5 to 19.

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 the Group is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Deloitte.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

L Karamfiles
Partner
Chartered Accountants
Perth, 25 February 2021