GCR GLOBAL CREDIT RATING CO.
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Transaction Capital Limited

South Africa Financial Institution Analysis — November 2016

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	A-(ZA)	Stable	June 2017
Short-term	National	A1-(ZA)		
Long-term	International LC	BB	Stable	June 2017

Financial data:

(USDm comparative)

	30/09/14	30/09/15
R/USD (avg.)	10.57	11.26
R/USD (close)	12.01	14.03
Total assets	790.8	677.5
Total capital‡	336.2	255.0
Borrowings‡	408.9	388.2
Net advances	531.7	439.1
Liquid assets	103.6	79.6
Operating income†	184.2	179.0
Profit after tax†	31.2	36.0
Market cap.*	ZAR6.8bn/USD461m	
Market share	n.a.	

‡ Subordinated debt is included as Tier 2 capital.
† Continuing operations only.
* Valuation on 8 June 2016 (ZAR/USD 14.74).

Rating history:

Initial/last rating (not applicable)
Long-term: New rating
Short-term: New rating
Long-term (International LC): New rating
Rating outlook: New rating

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2016

Global Criteria for Rating Finance and Leasing Companies, updated March 2016

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Summary rating rationale

- The ratings of Transaction Capital Limited ("TC", "the group") reflect its strong, flexible financial profile (featuring solid capitalisation and substantial but diversified debt funding), ample liquidity, and acceptable returns. Availability of resources for acquisitions, moderated by weak economic and consumer fundamentals and regulatory changes, were also considered.
- TC's business structure and risk profile have changed significantly following subsidiary sales in FY14, the subsequent restructure of remaining operations into asset-backed lending ("SA Taxi") and Transaction Capital Risk Services ("TCRS") divisions, and an accounting policy change (IFRS 9 adoption) which resulted in FY15 opening balance restatements. Thus, GCR's analysis focused on divisional performance/features, resource management/utilisation, and continuing business prospects. FY15/1H FY16 metrics have been given more weight than FY14 metrics, based on their long term relevance.
- SA Taxi provides developmental credit, insurance and allied services to small and medium-sized entities operating in the minibus taxi industry. At FY15 SA Taxi had gross loans of R6.2bn (to 21,300 clients), contributing 53% of group headline earnings. TCRS' credit/collection services and capital solutions offered to large consumer credit providers, contributed 34% of FY15 group income.
- Adequate capitalisation at divisional and group levels is evident. The non-risk weighted capital/assets ratio was 37.6% at FY15 (FY14: 42.5%), impacted by an IFRS 9 related equity reduction, rising to 38.2% at 1H FY16. Subordinated debt of R1.2bn at FY15/1H FY16 supports equity of R2.6bn (R2.7bn at 1H FY16).
- TC's interest-bearing funding, which grew 7.5% to R6.6bn (including Tier 2 capital) at FY15 (1H FY16: R6.7bn), comprises debt raised through domestic capital markets (securitisation of SA Taxi loans, unrated and unlisted debt from institutions, on balance sheet debt from institutions and banks), and development finance institutions ("DFIs"). As 77% (1H FY16) of SA Taxi debt is amortising, TC depends on regular wholesale funding to support business growth, and maintenance of a manageable repayment profile and diversified funding base are key supportive rating factors. In FY15, the group raised R2.9bn in debt (1H FY16: R1.9bn), and strives to keep committed funding coverage at 12 months' operating requirements. The establishment of a R2bn unsecured Note Programme to be listed on the JSE in 2H FY16 is planned.
- As part of its refinancing and liquidity risk management, the group runs a positive cumulative liquidity position, funding debt repayments from operating cashflows. Cash and liquid funds comprised 9.8% of total assets at 1H FY16 (FY15: 11.8%). These levels are considered large and may not be sustained once suitable investment opportunities are identified.
- TC's credit metrics improved in FY15 and 1H FY16, driven by strong collections, strict credit criteria and improved recoveries on refurbished vehicles. The non-performing loan ("NPL") ratio declined to 17.0% at 1H FY16 and FY15 (FY14: 25.7%), while the credit loss ratio fell to 3.2% at 1H FY16 (FY14: 5.2%), illustrating the strength of pre write-off collection and recovery processes. Since FY15, pre-collateral NPL coverage has exceeded 40%.
- Earnings performance was resilient in FY15 and 1H FY16. Funded income was driven by modest loan growth/margin compression, while non-interest income (debt servicing, collections on purchased books by TCRS, and growth in SA Taxi's diversified revenue streams) expanded. Moderate cost growth, and lower impairment costs yielded FY15 pre-tax profit growth of 22% to R499m (FY14: R409m). In FY15, TC delivered ROaA of 4.4% and ROaE of 16.7% (1H FY16: 4.2% and 15.9% respectively). The business' defensive nature diminishes return volatility. Cost efficiencies and improved credit metrics are starting to bear fruit.

Factors that could trigger a rating action may include

Positive change: Evidence of healthy and stable financial/credit metrics through the economic cycle, together with an improvement in the operating environment.

Negative change: A material deterioration in profitability, asset quality, liquidity and capital ratios. Furthermore, the international scale rating will be sensitive to changes in the sovereign rating of the country.

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Organisational profile

Business overview

TC was formed in 2007 through the merger of five specialist financial services businesses (four of which were commonly owned by the group's founding shareholders). The group operates in South Africa, and listed on the JSE in 2012.

TC targets leading positions in its selected market segments, utilising an entrepreneurial culture, human capital and technological capabilities, and vertical integration to cement competitive advantages. Operations focus on financial services opportunities which are both defensive (ie, continue to generate solid returns under a range of economic conditions), and have scope for growth, both organically through accessing adjacent markets, and by acquisition of compatible businesses. Since 2014, the sale of two businesses (Paycorp, a provider of ATMs, and Bayport Financial Services, an unsecured lender) and restructuring have increased TC's cyclical resilience and operational efficiency. Restructuring included the separation of the group's remaining businesses into the operating segments, SA Taxi, and TCRS, each of which comprises a number of components (Table 1).

Table 1: Business division description
SA Taxi Finance Holdings (Pty) Ltd and its subsidiaries
Vertically integrated provider of finance, insurance and related products using credit assessment, collections, and capital management competencies. Operational capabilities include vehicle and spare parts procurement, and vehicle refurbishment (Taximart); direct vehicle sales (SA Taxi Direct); insurance (SA Taxi Protect) and telematics. SA Taxi applies these capabilities to finance fixed route minibus taxis and point-to-point metered taxis (Zebra Cabs) as income-producing assets for SMEs.
Transaction Capital Risk Services (Pty) Ltd and its subsidiaries
Transaction Capital Recoveries (Pty) Ltd (formerly MBD Credit Solutions (Pty) Ltd) its subsidiaries and affiliated businesses.
Provider of customer management and capital solutions to some of the largest Southern African credit providers. • Customer management: early and late stage collections, legal collections, and structural outsourcing. • Capital solutions: distressed debt purchases and bespoke and structural capital solutions.
Transaction Capital Business Solutions (Pty) Ltd (formerly Rand Trust Financiers (Pty) Ltd)
Providers of working capital and commercial receivables management solutions to SMEs.
Transaction Capital Payment Solutions (Pty) Ltd (formerly BDB Data Bureau (Pty) Ltd)
Provider of payment processing services (to corporate clients), via EFT and related products.
Principa Decisions (Pty) Ltd
Provider of customer management solutions (focusing on the consumer credit lifecycle) leveraging consulting, data analytical, software development and technology capabilities.

Source: TC.

SA Taxi contributed 53% of group headline earnings and 78% of assets in FY15, while TCRS, contributed 34% and 14% of FY15 headline earnings and assets respectively. SA Taxi and TCRS are complemented by a group executive office ("GEO") which performs oversight, support and treasury functions.

Strategy

TC's evolving business focus and composition are a product of its strategy focussed on optimising corporate structure, and developing businesses which are defensive and have scope for growth (organically and/or by acquisition of compatible businesses). In particular, vertical integration within existing businesses and developing complementary/associated businesses are key themes. In this regard, the parent has invested its resources in organic growth of the SA Taxi franchise and businesses of TCRS (of which Transaction Capital Recoveries (Pty) Ltd is the largest) while maintaining solid capitalisation and liquidity, and remaining open to suitable acquisitions. In the course of its corporate restructuring, TC began reporting the SA Taxi and TCRS segments separately in FY14. From September 2015, (after the transfer of Transaction Capital Business Solutions and Principa from TC to Transaction Capital Risk Services (Pty) Ltd) TC's 'risk services' businesses have all been consolidated into TCRS, to create an integrated service organisation in the customer engagement space, which would be internationally relevant, and grow its leading market position in South Africa through the extraction of synergies and cost savings from TCRS' deep intellectual property.

SA Taxi is entrenched in the fixed route minibus taxi finance and insurance business, and its strategy includes extending the range of services offered within this line to control additional value streams, while enhancing recoveries. The launch of 'Taximart' (refurbishment/repair facility), and SA Taxi Direct (taxi dealership) highlight recent strategy implementation. Recent plans to finance, maintain and insure vehicles in the point-to-point (metered) taxi market (Zebra Cabs) align with the overarching objective of investing in complementary businesses.

TCRS specific strategies focus on synergy and efficiency creation between divisional units, utilising capital to develop client-bespoke solutions, deepening industry specialisation in targeted client segments and widening its revenue base by accessing adjacent market verticals, accelerating technology enhancements in order to remain at the forefront of the industry, and enhancing employee development and incentive plans to align business/staff objectives.

The SA Taxi value chain encompasses capital allocation and management; loan origination and vehicle sales; risk management and collections; repossession /refurbishment/resale of assets. TCRS' value chain involves origination, management and collection of loans/receivables. Group and divisional strategies mainly target increased divisional vertical integration in order to extract additional value, or enhancing efficiencies within business or operational processes. Stakeholder value creation and a high-performance culture are considered to be critical business issues, while managing capital adequacy and allocation, credit and investment risks, as well as regulatory risk, drive the risk management agenda.

Organisational structure

Ownership structure

Table 2 sets out TC's 31 March 2016 shareholding.

Table 2: Effective shareholding	%
Directors	47
Allan Gray	10
Old Mutual	10
Public Investment Corporation	4
Other institutional shareholders	22
Other private shareholders	7

Source: TC 1H F16 Interim Results.

During FY15, as part of the group's Broad Based-Black Economic Empowerment strategy, Transaction Capital Recoveries (a subsidiary of Transaction Capital Risk Services (Pty) Ltd) and Principa entered into an ownership transaction in respect of which the iThemba Trust acquired 17% of the equity of these companies. Management (some of whom are significant TC shareholders) is not aware of intended changes to the shareholding structure, and based on the current strategy and financial position of the group, there is no need to raise additional capital.

Governance structure[1]

Table 3 summarises the composition of the board of directors ("board") and group adherence to selected aspects of good corporate governance. The board has indicated that TC materially complies with King III principles/recommended practices, where applicable, as well as JSE listing requirements, the Companies' Act, and other relevant regulatory provisions. The group's financial services operations as a non-deposit taking financial institution ("NBFI") are regulated by the National Credit Regulator ("NCR") and Financial Services Board ("FSB"), amongst others.

Table 3: Corporate governance summary at 31 March 2016	
Number of directors	10
- Independent NEDs	5
- Non-independent NED	1
- Executives	4
Separation of the chairman	Yes
Frequency of Board meetings	Quarterly. 4 meetings held in FY15.
Board committees	Audit, Risk and Compliance ("ARC"), Nominations, Remuneration, Social and Ethics, and Asset and Liability ("ALCO") Committees are in place. ARC comprises independent NEDs; all Committees have independent NEDs as chairperson.
External auditors, rotation policy	Deloitte & Touche. ARC confirmation, annually, 5-year partner rotation.
Internal control and compliance	Yes, reports to ARC.

NEDs – Non-executive directors.
Source: TC FY15 Annual Report.

[1] Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test compliance.

Board members conduct an annual self-review of the effectiveness of the board and its committees. FY15 reviews did not highlight required improvements. Corporate governance enhancements during 1H FY16 included the appointment of an independent NED (to replace a resignation during FY15) and the elevation of ALCO to a board committee.

Control structure

The ultimate management, oversight and governance structures of the group are robust and led by TC's board, which sets strategy, risk parameters and ethics/ governance direction, approves financial results and budgets, and monitors the performance of the boards and managers of the operational divisions relative to their delegated responsibilities (and TC's strategic framework). Each business has its own board (including NEDs, some of which are TC board members and therefore non-independent).

Management is delegated to CEO-led executives at divisional and subsidiary levels. Consequently, there are SA Taxi and TCRS executive committees ("Excos"), into which subsidiary Excos report. Oversight is provided by the divisional and TC boards and exercised through board-approved authority matrices. Common governance and control structures prevail throughout TC's operating entities, supported by an integrated strategic/tactical outlook (which is appropriate given common environmental, operating and regulatory changes), a strong, stable executive team, and appropriate compliance and operational policies. Operations are subject to internal/external reporting oversight. Subsidiary, divisional and consolidated annual budgeting/ monthly performance reporting are supplemented by internal and external audits.

Risk management and compliance structures

The board has delegated its responsibility for the governance and management of risk to ARC, which oversees the risk management function and provides feedback to the board. In particular, an ARC-developed and approved risk management framework guides the risk management policies and plans (including internal audit) and monitoring processes. ARC sets group risk tolerances at least annually. Risk management is devolved through the organisation's executives. TC's chief financial officer oversees the group risk function, while subsidiary/divisional executives integrate risk management into daily operations. Regular risk workshops are held in all businesses, and monitoring, reporting and resolution of risks is consolidated through subsidiaries, divisions and at group level, with ARC and the board providing ultimate oversight. The risk management framework requires the establishment of objectives linked to business imperatives; identification, quantification and mitigation of risks; and determination of additional capital required to be held for risk management purposes.

As TC's operations are complex, highly regulated and subject to rapidly changing legislation, the group compliance and legal team is supported by business level compliance departments. Compliance matters are collated by the group compliance department, for escalation to TC executive management and ARC. Risk management, internal audit and compliance structures have been enhanced during FY15 through a strengthened group compliance reporting framework, and the elevation of ALCO to a board committee.

Human resources and staffing
TC has exhibited stable management, in part due to the significant ownership stakes of certain executives, and in part due to the company practice of promoting talent from within the group. Senior executives within each business have extensive experience in their respective fields, supporting high levels of management competence and the retention of institutional memory. This is critical given the complex and highly regulated environments in which most of TC's businesses operate. At FY15, the staff complement totalled 3,913 (SA Taxi: 627, TCRS: 3,265, and the remainder in the GEO). Staffing is considered adequate to support TC's current operational scale and immediate development goals. By 1H FY16, operational efficiencies from restructuring resulted in a marginally lower headcount of 3,822 people.

Reporting structure and access to information
TC's financial accounts are prepared in accordance with IFRS. The annual and interim financial reports are detailed, transparent and timely. Deloitte & Touche, the group's external auditors, issued unqualified audit opinions on the group's financial statement spanning the review period. Investor communications are timely and disseminated by the company as appropriate.

Operating environment

TC's businesses are indirectly exposed to lower-income customers and/or entities, primarily through the customers of income-producing assets SA Taxi finances, and the consumer credit providers serviced by Transaction Capital Recoveries. Consequently consumer confidence, employment rates, indebtedness levels, consumer lending trends and related considerations, may impact potential business growth and profitability.

Economic overview
South Africa's 2015 real GDP growth moderated to 1.3% (2014: 1.5%). Continued labour unrest and energy constraints contributed to lower productivity and rising inflationary pressures. The Rand traded weaker against major currencies in 2015, closing at R15.53/USD at end-2015 (end-2014: R11.61/USD), exacerbating inflationary pressures. The South African Reserve Bank ("SARB") raised the repo rate by 50bps in January and 25bps in March 2016 (2015: cumulative 50 bps), in response to inflation estimates which exceeded the 3-6% target range. While lower oil prices offered some respite in 2015, the Rand has remained weak, and weakened further following a December 2015 shuffle in the Finance Ministry.

Global economic malaise, low commodity prices, rising interest rates, volatile labour relations, drought, poor investment/business confidence, and increasing polarisation of socio-political sentiment continue to weigh on South Africa's economic growth prospects. Downward pressure on disposable incomes is likely to persist, and SARB's real GDP growth projections for 2016 have been revised down to 0.6% (from 1.5% in September 2015). The country is also at risk of a sovereign rating downgrade to non-investment grade.

In 2015 and 1H 2016, corporate performance was muted, while consumer spending/household income growth have been slow (due to high unemployment levels, low consumer confidence, and modest lending growth). While debt to disposable income levels (a debt affordability proxy) trended downward in 2014, it was erratic during 2015, culminating in a downward trend in the last quarter. Growth in households' financial liabilities combined with a slower appreciation in the value of housing stock and equity holdings has contributed to a moderation in household net wealth growth.

Industry overview
The 2007 promulgation of the National Credit Act ("NCA") began a process of structural change in the consumer lending industry's composition, while also providing statistics from non-bank credit providers, which have increased their share of consumer loan issuance from 16% (2007) to 22% (2015), per NCR statistics. Developmental finance (the category within which SA Taxi's lending falls) has been included in NCR statistics since 2012, and comprised 3-4% of consumer loan issuance in 2015.

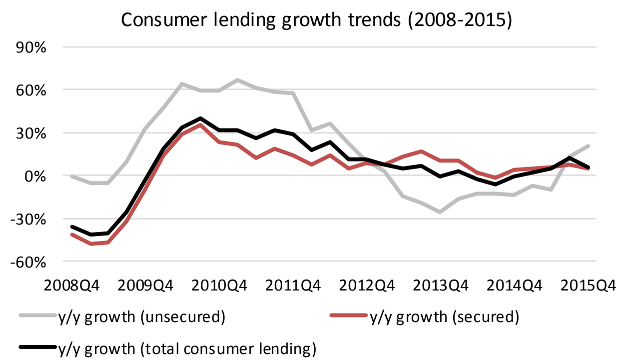
Regulatory developments
In recent years, regulation has been aimed at curbing consumer over-indebtedness, while balancing financial inclusion objectives. Such regulation affects registered credit providers which lend to consumers or small/micro businesses, with much legislation implemented or promulgated since the beginning of 2015. A discussion of those developments directly or indirectly pertinent to TC's businesses follow.

The Department of Trade and Industry ("DTI") published regulations for interest rate limits and fees for credit agreements (effective from 6 May 2016). Interest rate and fee caps affect most consumer credit to some extent. Profitability for lenders and pricing for borrowers will be most impacted in the unsecured (in particular, short term) credit segment, where much of the lending is priced close to the regulatory upper limits. These regulations broadly include changes to the formula for calculating maximum prescribed interest rates, as well as initiation and servicing fees which may be charged on various types of consumer credit agreements. Contrary to stricter maximum interest rate limits on most credit categories, rate limits for developmental credit were raised.

Although these regulations are intended to enhance financial stability, support consumer protection and make credit more affordable, as well as lowering NPL levels in consumer lending, they are also likely to have a negative influence on the supply of household credit in the economy.

Consumer lending trends

Consumer lending trends may impact clients of Transaction Capital Recoveries. Challenging macroeconomic conditions and an evolving regulatory landscape have largely shaped trends in consumer credit supply/demand over the past few years. Lending to individuals is still subdued relative to 2011-13 levels. Higher delinquency on loans issued during this period has constrained credit supply, while a deterioration in consumer confidence, persistent labour market instability, and stagnant disposable income levels have had negative credit supply and demand implications.



Source: NCR statistics

Since 2012, secured credit issuance (mainly instalment sales/mortgages) has shown moderate positive growth, while unsecured loan issuance has been broadly negative (with substitution from unsecured to secured credit categories evident), turning positive again in 2015.

Intensifying economic pressure is starting to dampen demand for vehicles and house purchases, feeding through into the credit markets, while tighter regulations are constricting supply. Credit application rejection rates have moderated slightly in the past few quarters, but are expected to increase again in the wake of recent regulatory changes, despite some recent signals that both credit quality and consumer indebtedness measures are improving. GCR views the outlook for consumer lending growth as neutral to negative, given the prevailing economic and regulatory environment. While this should ultimately have a positive impact on asset quality and consumer indebtedness levels, the social cost of a potential reduction in financial inclusion is harder to measure.

While these broad trends highlight the direct and/or indirect challenges market participants face, their specific areas of focus and lending practices continue to be the key determinants of each credit provider's actual experience. Consequently, while the industry overview provides historical and aggregate context, performances reflect companies' strategic choices and risk appetites. While TC operates primarily in defensive segments of the finance and collections markets, its operational complexity and volume-driven nature, and potential impact of changing regulation, are noted.

Specialist industry segment – developmental credit

SA Taxi and all of its credit providing entities are Registered Developmental Credit ("DC") Providers as defined by the NCA. There are three types of DC (ie, loans for educational purposes, loans to build, expand or improve low-cost housing, and loans to set up small/medium-sized businesses). DC as a category has been separately reported in NCR statistics since 4Q 2012, at which time it comprised 1.6% of consumer loan issuance. In 4Q 2015 it comprised 3.6% of issuance, but only 2% of outstanding consumer loan balances, given the relatively shorter terms of DC credit relative to secured loan categories.

DC issuance levels have been highly volatile over time, with no clear trend. In part this highlights the fact that such credit is aimed at higher risk/more marginalised customers, and may become unavailable in times of perceived consumer stress. It also reflects institutions' requirements to specifically register as DC providers in order for loans to be reported in this category. While the period over which trends can be assessed is short, DC asset quality appears to be improving, with balances 90+ days in arrears averaging 5.3% in 2015 relative to a 7.2% average in the preceding two years.

While this asset class remains highly restricted and specialised, the outlook for DC issuance is positive, and GCR expects growth to start exhibiting a more predictable positive trend in the next 12-18 months, premised on a number of factors:

- Maximum DC interest rates were raised in recent interest rate cap legislation (implying government encouragement of DC loan issuance);
- The positive developmental/financial inclusion impacts of such lending is attracting funding from DFIs, for on-lending; and
- Lending to SMEs is gaining ground across Africa as a driver of economic growth/margin expansion for financial institutions.

Provided that systems/processes adequately price for and manage the attendant risks, lenders focussing on DC have strong prospects for growth, and a potential funding advantage, given the political/developmental popularity of DC. That said, the sector's positive outlook is tempered by macroeconomic/regulatory changes, compounded by the negative consumer environment, which may constrain credit growth.

Competitive position

TC is involved in the credit markets in various ways, but the main drivers of earnings and competitive advantage are SA Taxi and Transaction Capital Recoveries, both of which have significant positions in their respective markets.

At FY15, 93% of TC's gross loans were issued through SA Taxi, and represented 19.3% of total DC issued at that date, per NCR data. Consequently, SA Taxi has a significant market share of the total DC asset class. Furthermore, TC estimates that it finances around one third of the national financed minibus taxi fleet (such taxis provide about 67% of all public transport in South Africa), which, together with its levels of specialisation, gives it a key competitive advantage in this niche market segment. Competitors include vehicle asset finance providers, although none specialise in the lower end of the taxi market, which requires a non-traditional approach to credit assessment, vertical integration and proprietary data to optimally manage credit risk and recoveries.

While the market share of TCRS is more difficult to quantify given its unique, diversified service offering, TC has disclosed that at 1H FY16 there were 4.4m unique Transaction Capital Recoveries customers, and that TCRS effectively covers 20% of all credit active South Africans and 50% of non-performing credit consumers. Its competitors for servicing outsourcing and delinquent book purchases include other (smaller) servicers, many of which are highly specialised or linked to a particular originator. Transaction Capital Recoveries' cross-sector specialisation, independence, compliance orientation, ability to structure bespoke capital solutions and proven collections performance are competitive advantages. Per management, TCRS is unmatched in South Africa with regard to its integrated service offering, providing it with a strong competitive position to excel in each of its service areas.

Financial profile

Given significant recent changes in TC's business structure, comparison of historical trends are of limited analytical value. As such, GCR primarily considers the business post restructure, with reference to the current business composition, present and future capital and funding needs, and related earnings generation capacity. As a NBFI, TC is funded primarily by shareholders' equity (bolstered by earnings retention), and wholesale debt funding (secured and unsecured borrowings). The FY14 sale of subsidiaries, combined with the restructuring, resulted in a change in the group's earnings generation capacity, asset base and funding requirements. TC's tangible asset base reduced by R4.2bn (31%) to R9.5bn in FY14.

Likelihood of support

The group has access to shareholder support, mainly in the form of a dividend policy/reinvestment ethos, which considers the expansion objectives and capital requirements of the business.

Capital structure

Total capital and reserves reduced 25.7% in FY14 and 10.6% in FY15. However, the capital/total assets ratio remained in a relatively stable range (1H FY16: 38.2%, FY15: 37.6%, FY14: 42.5%)[2] due to a commensurate reduction in risk assets, driven by sales of subsidiaries and lower net loans (FY15: R6.2bn, FY14: R6.4bn). TC's new structure does not appear to have significantly impacted corporate leverage and the relative size of the capital cushion.

The FY14 capital reduction comprised a distribution of capital (R1,290m), creation of R253m in reserves related to subsidiary divesture, subordinated debt repayment and share repurchases, partly offset by earnings retention. In FY15, equity reduced further as a result of TC's decision to early-adopt IFRS 9[3] (which requires more conservatism in loan valuation, including provisioning earlier in the NPL cycle). FY14 comparatives were not restated as the FY14 change in business structure made this impracticable. The change in accounting policy effectively reduced FY15 opening retained earnings by R672m. At the same time, several asset balances were restated, with the most significant impact being an increase in loan provisions, and write down to carrying value of entry level vehicles, written off books, and purchased book debts (partly offset by deferred tax adjustments). FY15 retained earnings totalled R290m.

Table 4: Capitalisation	FY14 Rm	FY15 Rm	1H FY16 Rm
Total reported capital	**2,963**	**2,581**	**2,707**
Paid up ordinary shares	*483*	*468*	*460*
Eligible reserves	*2,480*	*2,113*	*2,247*
Less: Goodwill	(192)	(197)	(200)
Total primary capital	**2,771**	**2,384**	**2,507**
Add: Eligible subordinated debt	1,267	1,194	1,168
Total available capital	**4,038**	**3,578**	**3,675**
Total balance sheet assets	**9,498**	**9,506**	**9,626**
Selected ratios (%):			
Total capital/Total assets†	42.5	37.6	38.2
Dividend payout ratio*	27.9	31.2	32.4
Total borrowings/Total capital	122	152	151
Net borrowings/Total capital	92	128	124

† Assets include cash balances. TC reports capital adequacy of 43.3% (FY15) and 49.5% (FY14), excluding cash and goodwill balances.

* Dividend per share/Earnings per share.

Source: TC FY15 Annual Report and 1H FY16 Interim Results.

[2] GCR measures capital adequacy of NBFIs using the ratio of capital/total assets (excluding goodwill). These ratios are slightly lower than TC's disclosed CAR (1H FY16: 42.8%, FY15: 43.3%), in which cash and goodwill are excluded from assets (akin to a risk-weighted measure).

[3] IFRS 9 early adoption removed uncertainty related to the impact of this accounting policy change, increased provisioning conservatism, and aligns TC's accounting treatment with operational strategy.

Despite declining absolute capital levels, risk asset reductions and lower capital intensity of remaining businesses partly mitigated the decline in capital adequacy/leverage during FY15. As an NBFI, the group is not constrained by the same capital reserving rules and disclosure minima applied to deposit taking institutions. Nonetheless, adequate capital relative to total assets is a key financial stability measure. The group's capital/assets ratio diminished from 42.5% (FY14) to 37.6% (FY15), with about 70% of the decline related to IFRS 9 adoption. GCR assesses TC's capitalisation (which rose slightly to 38.2% at 1H F16) to be ample given the business' risk profile.

Capital is allocated to businesses in order to meet or exceed risk-appropriate target capital levels set for each entity. At 1H F16, capital targets were exceeded in each business and at group level. TC's dividend cover target of 3-4 times (previously 4-5 times) reflects the business balance and reduced capital needs. TC seeks to maintain a strong capital base to promote investor, creditor and market confidence, and sustain future business flexibility/development.

Funding structure

TC's balance sheet was 69.9% wholesale debt-funded at FY15 (FY14: 65.0%). Given its significant reliance on debt funding, and the potential for demand/pricing volatility in wholesale funding markets, TC has developed and adheres to debt principles which support conservative management of refinancing, liquidity, foreign exchange, interest rate, concentration and price risks. In this regard, TC maintains a positive liquidity mismatch (debt is repaid with collections on assets, while new debt raised funds asset growth), limiting refinancing risk. Amortising instruments are preferred to bullet repayments, in order to smooth the repayment profile (but raise refinancing frequency). Short-term/rolling instruments are utilised on a limited and carefully managed basis. At FY15, debt was equally split between secured/unsecured loans.

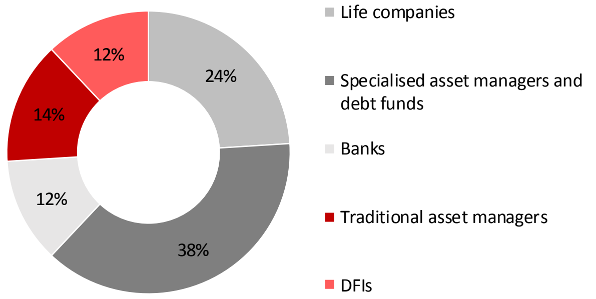
Table 5 sets out TC's debt composition (including currency, senior/subordinated, amortising/bullet, and fixed/floating instrument components).

Table 5: Debt funding Profile	FY14 Rm	FY14 %	FY15 Rm	FY15 %
Secured borrowings (ZAR)	**2,555**	**41.4**	**3,295**	**49.6**
Senior notes	*2,555*	*41.4*	*2,956*	*44.5*
Junior/sub/mezzanine	*-*	*-*	*339*	*5.1*
Other borrowings	**3,623**	**58.6**	**3,345**	**50.4**
ZAR senior loans	*1,996*	*32.3*	*1,863*	*28.1*
*ZAR sub/mezzanine loans**	*1,440*	*23.3*	*977*	*14.7*
EUR and USD senior loans†	*187*	*3.0*	*505*	*7.6*
Total	**6,178**	**100.0**	**6,640**	**100.0**
% ZAR funding		97.0		92.4
% senior funding		76.7		80.2
% bullet funding		33.9		30.7
% fixed rate funding		14.8		11.7

* R775m (FY15), R1,033m (FY14) are structurally subordinated.
† Hedged at inception (refer to 'Risk management' section).
Source: TC AFS.

Total debt, including subordinated debt reflected in capital, rose 7.5% to R6.6bn in FY15 (supported by R2.9bn in fresh debt issuance to 11 institutions). While debt levels remained stable in 1H FY16, issuance totalled R1.9bn during the period. Regular new debt is required to maintain business growth due to the amortising nature of around 77% of funding (1H FY16), and growth in SA Taxi's loan book. The group's broad range of debt instruments (public, private, syndicated or bilateral; unsecured or secured; senior or mezzanine/subordinated) yields diversification by funding structure, credit rating and investor.

Figure 1: Diversification by funder category (1H FY16)

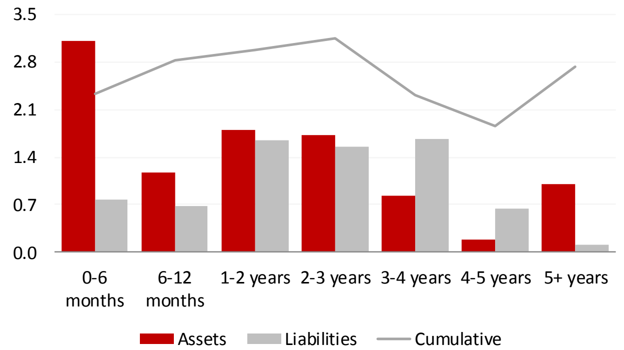


Regular engagement with existing and new funding partners is prioritised to ensure a strong funding pipeline. TC has identified debt capital market investors, banks, and DFIs (local, foreign and 'impact' investors) as its key funding partners. While the group has long term liability mix targets (in terms of investor type, tenor and currency), it remains opportunistic in its financing activities. Given SA Taxi's regular funding needs (due to the amortising debt structure and growing loan book), the group aims to have a committed 12 month 'funding runway' available at all times. At 1H FY16, TC had a 'high certainty' funding pipeline of R2.2bn, and plans a debut debt issue (subject to market conditions) in 2H FY16 under its envisaged R2bn Note Programme, for general corporate purposes within the group.

Liquidity

In line with the group's debt principles, an overall positive liquidity position is maintained (Figure 2). Staggered funding needs, proven ability to raise finance from a variety of sources, and a proactive funding plan largely mitigate liquidity timing risks.

Figure 2: FY15 liquidity structure (Rbn)



Leverage
Debt requirements are primarily linked to finance operations. Following the FY14 decrease in assets and relative credit risk exposure, leverage has risen in FY15, with total and net debt to capital ratios increasing to 152% and 128% at FY15 (FY14: 122% and 92%) respectively, declining slightly in 1H FY16. The FY15 leverage increase mainly reflected IFRS 9 related capital reductions. TC's capitalisation and leverage metrics remain relatively conservative. TC and its regulated subsidiaries complied with statutory requirements/covenants in FY15.

Outlook
As TC's lending operations expand, capital adequacy should moderate and leverage rise, within acceptable levels. SA Taxi targets a total CAR of 26-28%, while TCRS will target a CAR of 30%. Overall, a group CAR target in the region of 30% (20% Tier 1) is seen as appropriate given current business risk and mix.

Other considerations
Funding cost – TC's weighted average funding cost increased by 20-30 bps in FY15, primarily as a result of rising interest rates combined with tight liquidity in debt capital markets (especially in longer tenors). The group's net interest margin ("NIM") reflected this trend, contracting from 12.8% (FY15) to 12.3% in 1H FY16.

Covenants – TC has a number of covenants linked to structured transactions, and selected loans/facilities. These are monitored monthly on a group and 'per business' basis to ensure that relevant metrics are comfortably within covenant limits. Consolidated capital management reporting (including a covenant coverage analysis) is submitted to ALCO/the board.

Encumbrances – 49.6% of group assets (SA Taxi loans) are encumbered. However, TCRS' cashflows, income on TC's subordinated notes in lending subsidiaries (12% of SA Taxi cashflow) and earnings from non-lending SA Taxi operations are available for settlement of unsecured obligations at TC level.

Operational profile

Risk management
Risk management framework and oversight structures place additional emphasis on financial risks which have been identified as most significant, namely: credit, liquidity, capital and interest rate risks. Operational (people), transformation, and compliance risk are also high on the risk management agenda.

At FY15, TC's balance sheet structure was stable, with net advances totalling 65% of group assets. Liquid assets (net of overdrafts facilities) remained significant as a proportion of total assets (1H FY16: 9.8%, FY15: 11.8%; FY14: 13.1%), largely as a result of conservative liquidity management, coupled with limited acquisition opportunities in the period. TCRS is generally quite 'asset-light' (refer to the divisional operating overviews which follow).

Table 6: Asset mix	FY14		FY15	
	Rm	%	Rm	%
Liquid assets†	1,345	14.2	1,169	12.3
Cash at bank	*1,189*	*12.5*	*869*	*9.1*
Ceded cash in SPVs	*156*	*1.6*	*300*	*3.2*
Loans and advances	6,386	67.2	6,160	64.8
Purchased book debts	552	5.8	561	5.9
Other loans receivable	293	3.1	257	2.7
Investments	238	2.5	343	3.6
Property and equipment	70	0.7	92	1.0
Other assets	614	6.5	924	9.7
Total BS assets*	**9,498**	**100.0**	**9,506**	**100.0**

† Liquid assets utilised elsewhere in this report of R1,117m (FY15) and R1,244m (FY14) are calculated after netting off bank overdrafts of R52m and R101m respectively.
* Net of goodwill.
Source: TC AFS.

Credit risk
TC's credit risk is mainly sourced from finance leases or instalment sales to taxi operators (SA Taxi), and discounted invoices/ other receivables/purchased book debts (Transaction Capital Business Solutions), reflected at recoverable value. In FY14-15 and 1H FY16, credit exposure remained at around 80% of group assets (Table 7).

Table 7: Credit risk Exposure	FY14		FY15	
	Rm	%	Rm	%
Loans and advances	**6,386**	**67.2**	**6,160**	**64.8**
Finance leases†	*5,889*	*62.0*	*5,685*	*59.8*
Mortgage loans	*47*	*0.5*	*35*	*0.4*
Discounted invoices	*450*	*4.7*	*440*	*4.6*
Other loans/receivables	**1,303**	**13.7**	**1,385**	**14.6**
Purchased book debts	*552*	*5.8*	*561*	*5.9*
Other loans receivable	*293*	*3.1*	*257*	*2.7*
Trade/other receivables	*458*	*4.8*	*567*	*6.0*
Total credit exposure	**7,689**	**81.0**	**7,545**	**79.4**
Total BS assets	**9,498**	**100.0**	**9,506**	**100.0**

† Net of impairments at FY15 of R553m (FY14: R383m).
Source: TC AFS.

Transaction Capital Business Solutions
Transaction Capital Business Solutions' portfolio (invoices discounted/business loans receivable from SMEs) fell slightly in FY15, largely as a result of macroeconomic conditions impacting its client base. Factoring (disclosed only) is based on strict client and invoice eligibility criteria. At FY15 the book had a 60% LTV ratio, and 44 day term.

SA Taxi
The SA Taxi portfolio is granular, and comprised 25,033 loans at FY15 (1H FY16: 25,591), exhibiting some geographical concentration, with 55% of the portfolio exposures in Gauteng and Kwa-Zulu Natal, South Africa's more economically vibrant provinces. The average term remaining of loans on book was 44 months at FY15. R1.9bn in premium-vehicle loans were originated in FY15, with an average loan term of 66 months and loan size of R322,000 (FY14: R303,000).

The credit quality of the SA Taxi loan portfolio poses TC's single largest financial risk. Collections are by debit orders or cash payment (with 84% of collections settled in cash). As such, the probability of 'technical' delinquency is high, and management considers that an account more than 30 days in arrears reflects an increase in the loan's risk profile. SA Taxi has an in-house call centre, with scripts designed for various circumstances in which taxi operators may find themselves. Advanced telematics support the collection strategy adopted in each case. Loans are considered to be non-performing if they are 3.5 instalments in arrears (including repossessed stock on hand), if no qualifying payment – defined as 'more than 50% of the cumulative instalment raised over the three month reference period' has been received. Loans are written off after the sale of repossessed vehicles. In-house refurbishment and dealership operations are boosting recovery rates.

Asset quality
Table 8 sets out TC's asset quality on a consolidated basis (relative to disclosed loans and advances).

Table 8: Asset quality	FY14 Rm	FY15 Rm	1H FY16 Rm
Gross advances†	**6,737.0**	**6,713.0**	**7,143.0**
Performing	3,729.0	3,841.0	5,930.0*
Past due but not impaired	1,277.0	1,734.0	n.a.
<90 days overdue	*765.0*	*1,140.0*	*n.a.*
90+ days overdue	*512.0*	*594.0*	*n.a.*
Impaired (NPLs)	1,731.0	1,138.0	1,213.0
Less: Impairment provisions	**383.0**	**553.0**	**542.0***
Specific impairments	*345.0*	*410.0*	*542.0*
Portfolio impairment	*38.0*	*143.0*	*n.a.*
Net advances	**6,354.0**	**6,160.0**	**6,601.0**
Collateral (impaired assets)	1,659.0	632.0	n.a.
Key selected ratios (%):			
Gross NPL ratio	25.7	17.0	17.0
Net NPL ratio	21.2	9.5	10.2
Net NPLs/Total capital	33.4	16.4	18.3
Credit loss ratio	5.2	3.6	3.2
NPL coverage ratio (total)	22.1	48.6	44.7

* Detail not provided in 1H F16 Interim Results.
Source: TC FY15 Annual Report and AFS.

TC's asset quality improved during FY15, largely as a result of entry level vehicle write-downs in the SA Taxi book, following cessation of this business. Gross loans remained stable in FY15, expanding by 6.4% in 1H FY16, while the gross NPL ratio fell from 25.7% (FY14) to 17.0% (FY15 and 1H FY16). In FY15, net NPLs reduced relatively more than gross NPLs, driven by the net effect of NPLs falling 34.3%, 'past due but not impaired' loans increasing 35.8%, and provisions rising 44.4% (specific – 18.8%), partly due to IFRS 9 adjustments. Furthermore, NPLs not covered by provisions are collateral covered (as is the entire loan portfolio, given the secured nature of the lending). TC's credit loss ratio (which is well below NPL ratios) also improved from 3.6% (FY15) to 3.2% (1H FY16), driven by conservative underwriting, strong collections performance and improved efficiency in recoveries. Specifically, repair/refurbishment through Taximart, combined with taxi sales by SA Taxi's dealership (SA Taxi Direct), gets taxis back on the road faster, reducing NPL clearance times. Management expects improvements in credit performance to continue, targeting gross NPLs of 15% and a credit loss ratio of 3-4% in the medium term.

Other risks

Market (interest rate) risk
Given the size of its funded lending operations, TC is exposed to interest rate risk. At FY15, the group had net financial assets of R2.2bn (FY14: 2.8bn). 11.7% of the loan portfolio was at fixed rates at FY15, and the group attempts natural hedging (matched funding) of fixed rate financial asset/liabilities. Interest rate risk declined significantly in FY15 (FY15: R324m net floating rate assets, FY14: R1.8bn net floating rate liabilities) bolstered by large cash holdings. The pre-tax profit impact of a 1% rise in interest rates was calculated at R24m in FY15 (FY14: R21m), around 6% of pre-tax profit. TC fully hedges its currency risk (arising from foreign currency funding) at inception.

Operational segment focus

Key segment/divisional metrics for SA Taxi, TCRS, and GEO including treasury are shown in Table 9.

Table 9: Division/segment Performance (FY15)*	Group Rm	SA Taxi Rm	TCRS Rm	GEO Rm
Selected BS indicators (Rm)				
Total assets	9,703	7,528	1,374	801
Net loans and advances	6,160	5,703	457	-
Cash and equivalents	1,169	594	57	518
Capital†	3,805	2,339	653	37
Debt†	5,446	5,011	467	744
Selected IS indicators (Rm)				
Total operating income	2,016	914	1,024	78
Net profit after tax	405	212	142	51
Selected ratios (%)				
Capital adequacy ratio	43.3	33.2	46.5	n.a.
NIM	12.8	11.3	n.a.	1.8
Gross NPL ratio	17.0	18.2	n.a.	n.a.
NPL coverage ratio	48.6	47.0	n.a.	n.a.
Credit loss ratio	3.6	3.9	n.a.	n.a.
Cost/income ratio	64.2	48.7	82.5	n.a.
ROaA	4.4	3.0	9.9	1.2
ROaE	16.7	28.4	27.8	n.a.

* Data from TC's Annual Report and Interim Results (segmental reporting and data sheets). Assets and capital balances include goodwill.
† Divisional figures grossed up for intergroup funding.
Source: TC FY15 Annual Report, GCR estimates.

The FY15, IFRS 9 accounting restatement impacted many consolidated financial trends, so the analysis which follows focusses on specific divisional features, and utilisation of group resources in FY15 (and 1H FY16, where data is available), rather than trends over time.

SA Taxi
Being TC's primary lending entity, SA Taxi raises and uses the majority of group funding and capital resources, generating most of its net interest income

and 20% of group non-interest income. Furthermore, it is the key determinant of TC's asset quality, provision coverage and credit loss ratios. At FY15, SA Taxi had a capital adequacy ratio of 33.2% (group: 43.3%) which is adequate for a high yielding lending business. SA Taxi's ROaA was a modest 3.0% in FY15 (group: 4.4%, 1H FY16: 3.1%). FY15 ROaE of 28.4% (1H FY16: 25.4%) illustrated a generous yield on equity risk, and judicious use of Tier 2 capital instruments. SA Taxi's cost/income ratio of 48.7% in F15 (group: 64.2%) reflects its level of specialisation, contained staff numbers, and technology-supported operations.

TCRS

TCRS generates 80% of the group's non-interest income by utilising staff, systems and processes, although Transaction Capital Business Solutions' advances and Transaction Capital Recoveries' purchased books use balance sheet resources (R1.0bn at FY15). TCRS had a capital adequacy ratio of 46.5%, which is comfortable considering that it is primarily a services business. This is further underscored by strong return ratios (ROaA of 9.9%, ROaE of 27.8%) and a high cost/income ratio of 82.5% in FY15 (highlighting the staff, volume and IT systems drivers), together with potential for post-restructure efficiency extraction. These metrics were largely unchanged at 1H FY16.

GEO

GEO houses the group executive, compliance/legal and centralised reporting functions, including group treasury. GEO channels funds between operating entities to optimise subsidiary balance sheets, while providing for their investment/operational needs. GEO also houses group excess capital and cash.

The FY15 GEO balance sheet highlights the reasons for the group's modest ROaE (1H FY16: 15.9%, FY15: 16.7%, FY14: 10.9%) based on continuing operations. In particular, low yields on invested cash and excess capital reduce the group's ROaE relative to returns recorded in more optimised divisions. The group cost/income ratio of 64.2% reflects the blended result of its two operating segments.

Financial performance

A five year financial synopsis is shown at the back of this report, supplemented by commentary (covering the group's consolidated results) below.

Despite the economic downturn, weak consumer fundamentals and regulatory changes, earnings performance remained resilient. Based on continuing operations, operating income rose 3.5% in FY15. Net interest income was impacted by stable advances and NIM compression from 12.8% (FY15) to 12.3% (1H FY16) due to rising funding costs and low yields on excess cash, whereas FY15 non-interest income grew 5.5%. South African commuters' reliance on minibus taxis for public transport, together with the non-discretionary nature of transport spend supported net interest income, while non-interest income (FY15: 59.3% of pre-impairment operating income), supported revenue diversification. In FY15, non-interest income rose 5.5%, driven mainly by fee and commission income on debt servicing, collections growth in diversified revenue streams within SA Taxi (including insurance and dealership revenue).

Modest (6.1%) cost growth, together with a lower impairment costs (partly impacted by IFRS 9 which resulted in higher opening balance provisions/lower opening loan fair values in FY15) yielded pre-tax profit growth of 22% to R499m (FY14: R409m). A stable effective tax rate resulted in after tax profit growth of 23% to R405m in FY15 (FY14: R330m). On a consolidated basis, in FY15 TC delivered ROaA of 4.4% and ROaE of 16.7%, impacted by excess capital and cash levels during FY15. At 1H FY16, ROaA and ROaE decreased to 4.2% and 15.9%, respectively, as higher funding costs and provisioning requirements (of IFRS 9) offset lower credit losses.

Prospects

Current returns appear to be acceptable to investors, given TC's risk averse stance, and the challenging operating environment. Furthermore, the business' defensive nature diminishes the likelihood of return volatility. Furthermore, 1H FY16 figures point to improved cost efficiency in TCRS, while NPL and credit loss ratios are beginning to respond positively to SA Taxi's increased control over the end-to-end taxi sale, financing, collection and recovery processes being delivered by vertical integration (in insurance, Taximart and the dealership channel). Consequently, group profitability is expected to exhibit a stable or improving trend, despite significant macroeconomic challenges, particularly in South Africa's consumer and SME segments.

The group's significant financial flexibility and high liquidity enhance comfort levels for debt investors in uncertain times. Consequently, refinancing risk appears moderate. Furthermore, the business has the capital and liquid resources to take advantage of acquisitive opportunities, if presented.

Consequently, TC's financial profile and focussed financing strategy supports its regular refinancing requirements, while debt service continues to be covered from consistent asset and operational performance.

Transaction Capital Limited

(South African Rands in millions except as noted)

Year end: 30 September	2011	2012	2013*	2014	2015#	1H F16#
Income Statement Analysis						
Interest income	1 785	2 222	1 225	1 413	1 504	806
Interest expense	(798)	(874)	(539)	(599)	(683)	(377)
Net interest income	**987**	**1 348**	**686**	**814**	**821**	**429**
Fee and commision income	1 106	727	559	601	632	286
Other operating income	715	933	464	532	563	325
Total operating income	**2 808**	**3 008**	**1 709**	**1 947**	**2 016**	**1 040**
Impairment charge	(566)	(740)	(283)	(322)	(233)	(112)
Operating expenditure	(1 788)	(1 784)	(1 071)	(1 220)	(1 295)	(656)
Non-operating income (incl. equity accounted income)	-	-	4	4	11	2
Net profit before tax	**454**	**484**	**359**	**409**	**499**	**274**
Tax	(108)	(96)	(76)	(79)	(94)	(62)
Net profit after tax	**346**	**388**	**283**	**330**	**405**	**212**
Minority interests	(26)	(60)	(49)	-	(4)	(2)
Other after tax income	(73)	195	425	559	14	(17)
Total comprehensive income	**247**	**523**	**659**	**889**	**415**	**193**
Balance Sheet Analysis						
Ordinary share capital	908	1 792	1 779	483	468	460
Reserves (incl. net income for the year)	877	1 380	1 936	2 480	2 113	2 247
Hybrid capital instruments (incl. subordinated debt)	1 602	1 477	2 131	1 267	1 194	1 168
Minority/Non-controlling interest	91	132	180	-	30	32
Less: Goodwill	(930)	(927)	(594)	(192)	(197)	(200)
Total capital and reserves	**2 548**	**3 854**	**5 432**	**4 038**	**3 608**	**3 707**
Bank overdrafts	183	158	71	101	52	22
Borrowings (incl. loans and securities issued)	1 243	2 611	2 216	1 368	1 806	n.a.‡
Short-term funding (< 1 year)	**1 426**	**2 769**	**2 287**	**1 469**	**1 858**	**22**
Borrowings (incl. loans and securities issued)	4 624	4 265	5 254	3 543	3 640	5523‡
Long-term funding (> 1 year)	**4 624**	**4 265**	**5 254**	**3 543**	**3 640**	**5 523**
Payables/deferred liabilities	652	999	764	448	400	374
Other liabilities	**652**	**999**	**764**	**448**	**400**	**374**
Total capital and liabilities	**9 250**	**11 887**	**13 737**	**9 498**	**9 506**	**9 626**
Other loans receivable (incl. purchased book debts)	538	575	700	845	818	611
Equity and financial investments	167	316	485	238	343	425
Property, plant and equipment (incl. software)	319	344	117	70	92	108
Receivables/deferred assets	1 156	1 372	1 948	770	1 224	916
Non-earnings assets	**2 180**	**2 607**	**3 250**	**1 923**	**2 477**	**2 060**
Bank placements (incl. call deposits)	350	500	255	1 189	869	965
Loans and advances (net of provisions)	6 720	8 780	10 232	6 386	6 160	6 601
Total earning assets	**7 070**	**9 280**	**10 487**	**7 575**	**7 029**	**7 566**
Total assets (excl. goodwill)	**9 250**	**11 887**	**13 737**	**9 498**	**9 506**	**9 626**
Ratio Analysis (%)						
Capitalisation						
Internal capital generation	13.8	16.5	17.7	30.0	16.1	14.3
Total capital / Total assets	26.6	31.3	38.2	42.5	37.6	38.2
Liquidity						
Net advances / Total funding (excl. equity portion)	114.9	128.1	139.4	133.3	116.7	119.8
Liquid and trading assets / Total assets	5.5	8.2	4.4	13.1	11.8	9.8
Liquid and trading assets / Total short-term funding	36.0	35.2	26.3	84.7	60.1	51.8
Liquid and trading assets / Total funding (excl. equity portion)	8.5	13.8	8.0	24.8	20.3	17.0
Asset quality						
Impaired loans / Gross advances	40.7	13.0	16.2	25.7	17.0	17.0
Total loan loss reserves / Gross advances	7.8	10.4	3.1	5.7	8.2	7.6
Bad debt charge (income statement) / Gross advances (avg.)	8.3	8.7	5.1	5.2	3.6	3.2
Bad debt charge (income statement) / Total operating income	20.2	24.6	16.6	16.5	11.6	10.8
Growth in loan loss reserves	61.2	79.4	(67.8)	16.4	44.4	(2.0)
Profitability						
Net income / Total equity (avg.)	16.9	24.2	35.9	29.3	17.1	14.6
Net income / Total assets (avg.)	2.7	4.6	8.7	9.4	4.5	3.9
Net interest margin†	14.5	16.0	12.5	13.1	12.8	12.3
Non-interest income / Total operating income	64.9	55.2	59.9	58.2	59.3	58.8
Cost ratio	63.7	59.3	62.7	62.7	64.2	63.1
Effective tax rate	n.a.	n.a.	21.2	19.3	18.8	22.6
ROaE	21.9	15.2	12.8	10.9	16.7	15.9
ROaA	3.5	2.9	3.1	3.5	4.4	4.2
Nominal growth indicators						
Total assets	19.8	28.5	15.6	(30.9)	0.1	1.3
Net advances	17.6	30.7	16.5	(37.6)	(3.5)	7.2
Shareholders funds	33.8	77.7	17.1	(20.2)	(12.9)	4.9
Total capital and reserves	470.7	51.3	40.9	(25.7)	(10.6)	2.7
Total funding (excl. equity portion)	(8.4)	16.3	7.2	(33.5)	9.7	0.9
Net income (pre-adjustment for comprehensive income)	51.4	12.1	(27.1)	16.6	22.7	4.7

Includes effects of IFRS 9 early adoption. Relevant 1H F16 ratios annualised.

* Restated to reflect earnings from subsidiaries sold in F14 as 'discontinued operations'.

‡ Split of long-term and short-term debt not disclosed in 1H FY16 Interim Results.

† Calculated as net interest income divided by average gross loans and advances.

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Annual Report	A status report on the current financial condition of a company. It usually includes the chairman's report, the auditor's report and detailed financial statements. It is issued once a year for shareholders to examine before the annual general meeting (AGM). In many markets, comprehensive Integrated Reports covering a wide spectrum of information have replaced traditional annual reports.
Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Collateral	Asset provided to a creditor as security for a loan.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
Equity	Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Facility	The grant of availability of money at some future date in return for a fee.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Hedge	A risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, future, option or swap. Hedging may prove to be ineffective in reducing the possibility of loss as a result of, inter alia, breakdowns in observed correlations between instruments, or markets or currencies and other market rates.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Institutional Investors	Financial institutions such as pension funds, asset managers and insurance companies, which invest large amounts in financial markets on behalf of their clients.

Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest Rate Risk	Interest rate risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are repricing/mismatch, basis and yield curve risk.
IFRS / International Financial Reporting Standards	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Investment Grade	Credit ratings equal to or higher than 'BBB-'.
Investment Risk	The risk of a decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself (eg, reputation and the quality of management).
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
JSE	Johannesburg Stock Exchange.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.
Monetary Policy	Measures taken by the central bank to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth.
Mortgage Loan	A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan.
National Credit Act	The National Credit Act 34 of 2005 (South Africa).
Net Interest Margin	Net interest income divided by average interest earning assets. Measures a bank's margin after paying funding sources and how successful a bank's interest-related operations are.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Pledge	An asset or right delivered as security for the payment of a debt or fulfilment of a promise, and subject to forfeiture on failure to pay or fulfil the promise.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Primary Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other regulatory deductions.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Refinancing	The issue of new debt/loan to replace maturing debt/loan. New debt may be provided by existing or new lenders, with a new set of terms in place.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Secured Loan	A loan which is backed by a pledging of real or personal property (collateral) by the borrower to the lender. Unlike unsecured loans, which are backed by a promise by the borrower that he will repay the loan, in case of a secured loan, the lender can initiate legal action against the borrower to reclaim and sell the collateral (pledged property).
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.

Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Tenor	The time from the value date until the expiry date of a financial instrument.
Working Capital	Refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

For a detailed glossary of terms utilised in this report please click here

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Transaction Capital Limited participated in the rating process via management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Transaction Capital Limited with no contestation of the ratings.

The information received from Transaction Capital Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results of the group to 30 September 2015 (plus four years of comparative numbers);
- Interim financial results of the group to 31 March 2016;
- Budgets for Transaction Capital Limited for FY16;
- Latest internal and/or external audit reports to management;
- A breakdown of facilities available and related counterparties;
- Corporate governance and enterprise risk framework; and
- Information specific to the rated entity or industry.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.