GOVERNANCE

CHAIRMAN'S REPORT

CHRISTOPHER SEABROOKE
CHAIRMAN

INTRODUCTION

The 2016 financial year was characterised by heightened concerns regarding South Africa's economic potential and socio-political stability, with the concomitant risk of a sovereign ratings downgrade a central theme of national discourse. Systemically, employment levels remain low with little or no real wage growth, with consumers and smaller businesses being most vulnerable to the effects of inflationary pressures and currency volatility.

In this environment, Transaction Capital's divisions again demonstrated the resilience afforded by their defensive positioning, with the group achieving headline earnings growth of 17% to R458 million. In anticipation of the potential deterioration in South Africa's credit rating, the group was successful in securing the funding required to drive growth and enhance the competitive position of its divisions, while at the same time continuing to diversify its funding base.

Transaction Capital has made strong progress in enhancing the organic growth potential of its divisions, within both existing and adjacent market segments, and announced three strategic acquisitions that will augment its capabilities and give effect to the group's ambition to expand internationally.

These initiatives are discussed in the divisional reviews (pages 42 to 57), the strategy section on page 24 and in the CEO's report on page 30.

GOVERNANCE AND ORGANISATIONAL CHANGES

On 1 August 2016, Mark Herskovits assumed the role of capital management executive for Transaction Capital, having served as group chief financial officer since January 2014. Mark will be exclusively responsible for Transaction Capital's funding and capital markets engagements, with a predominant focus on SA Taxi. Mark will remain an executive director of Transaction Capital and a member of the group's asset and liability committee (ALCO). With effect from 1 August 2016, Ronen Goldstein was appointed as financial director of Transaction Capital.

The board welcomed two new independent non-executive directors in the year. Moses Kgosana, appointed to the board on 14 March 2016, brings over 34 years of accounting, audit and advisory experience to the board, and chairs the group's audit, risk and compliance committee. On 1 August 2016, Kuben Pillay was appointed to the board, bringing a wealth of business experience. Kuben has served as chief executive officer and non-executive chairman of the Primedia Group, and was a founding executive of the Mineworkers Investment Company Proprietary Limited. The board looks forward to the contributions of its new directors.

David Woollam, who has served on the board since February 2012, and Dumisani Tabata, who has served on the board since February 2010, have indicated that they will not be available for re-election at the next annual general meeting. The board thanks them both for their valuable contribution to the board, and wish them well in their future endeavours.

On 1 April 2016, Transaction Capital's ALCO was constituted as a formal committee of the Transaction Capital board. The ALCO, elevated from its previous status as a management committee, will continue to oversee and monitor the activities and risks arising from the management of Transaction Capital's assets and liabilities.

The annual performance evaluation of the board, conducted in November 2016, reaffirmed the effectiveness of the board in its direction of the group.

The governance report starting on page 76 provides more information on the findings of the evaluation and the activities of the board in the year.

The King IV Report on Corporate Governance, released in November 2016, further advances South Africa's leadership in corporate governance and places the spotlight firmly on ethical and effective leadership. Transaction Capital is in the process of performing a gap analysis against King IV, and will aim to adopt King IV in the next financial year, to the extent possible.

SHAREHOLDING

The restructure of shareholding was approved by shareholders at the general meeting on 20 October 2016, resulting in JMR Holdings Proprietary Limited, a company controlled by Transaction Capital's founding shareholders, now owning approximately 43.5% of the company. This increased investment and commitment of the founding shareholders will facilitate continued confidence in Transaction Capital, thus enhancing its debt and equity capital market activities and ability to attract and retain management talent and skills.

The implementation of the Transaction Capital Limited Conditional Share Plan (CSP) was also approved by shareholders at the same meeting on 20 October 2016. The CSP strengthens Transaction Capital's ability to attract and retain key employees while providing them with the opportunity to share in the success of the relevant division in which they are employed, and creates alignment between their interests and that of shareholders.

CONCLUSION

Transaction Capital's intentional positioning in market segments perceived to be of higher risk, and its ability to apply its specialist capabilities to mitigate this risk and to create an avenue for providers of capital to invest in niche asset classes, are defining features that will continue to serve the group well even as challenging economic conditions persist.

The management team of Transaction Capital have the depth of skill, entrepreneurial flair and sense of strategic clarity to conduct the business of the group in a manner that will continue to create value for its stakeholders. I extend my appreciation to the group's leadership, and thank the board for their ongoing guidance and commitment. I also thank our bankers, funders and advisers for their continued support.

GOVERNANCE REPORT

THE TRANSACTION CAPITAL BOARD OF DIRECTORS IS THE FOCAL POINT OF ITS CORPORATE GOVERNANCE FRAMEWORK. THE GROUP FOLLOWS A STAKEHOLDER-INCLUSIVE APPROACH TO GOVERNANCE, WITH THE BOARD BEING ULTIMATELY RESPONSIBLE AND ACCOUNTABLE TO STAKEHOLDERS FOR THE PERFORMANCE, ACTIVITIES AND CONTROL OF THE GROUP.

The board maintains a high level of individual and collective responsibility, accountability, fairness and transparency, which together drive a culture of risk awareness, ethical behaviour and value creation.

The board is responsible for strategic direction and sets the group's values and ethics charter. The group's values, set out on page 10, provide the foundation for effective leadership and are the basis for all deliberations, decisions and actions at board level as well as within every area of the business.

BOARD OF DIRECTORS

The board provides effective and responsible leadership based on an ethical foundation by directing strategy and operations in a way that supports sustainable business, while considering the short- and long-term impacts on society, the environment and stakeholders, as per the group's sustainability policy.

The board is responsible for appointing the chief executive officer (CEO) and for monitoring his management of the performance of Transaction Capital's assets and resources against approved strategic and financial objectives.

The board recognises that strategy, risk, performance and sustainability are inextricably linked. The board informs and approves the strategy and ensures that it is aligned to the purpose of the group, its value drivers and the legitimate interests and expectations of its stakeholders.

The board is specifically responsible for monitoring the management of risks in the reputational and sustainability risk categories of the enterprise-wide risk management framework.

Details of risk categories managed by the board sub-committees are included in the risk report starting on page 82.

The board delegates specific responsibilities to appropriately mandated and constituted sub-committees, which are set out on page 79. The audit, risk and compliance (ARC) committee and the social and ethics committee both fulfil the statutory governance requirements on behalf of Transaction Capital and its divisions.

The board acts as the custodian of governance and has approved a formal charter that sets out its responsibilities in this regard.

The board is satisfied that it has discharged its duties and obligations effectively during the year under review.

KING III

Transaction Capital's governance structures are in accordance with the principles and recommended practices, where applicable, of the King Code on Governance Principles for South Africa 2009 (King III).

In addition, the board is committed to complying with all legislation, regulations and best practices relevant to the group. The board regards the process of analysing and monitoring adherence to adopted governance standards as dynamic and endeavours to continually improve the governance structures within the group.

The directors confirm that the company has complied with the principles as set out in King III, with one partial compliance area noted as follows:

> *Principle 9.3 Sustainability reporting and disclosure should be independently assured.*

Although a process for independent assurance of sustainability-related information and disclosure has not been implemented, a sustainability policy has been approved by the board and adopted by the group. In addition, the ARC committee oversees the preparation of the Integrated Annual Report, with certain sections being reviewed by the external and internal auditors where appropriate. External verification will be sought at an appropriate time.

The King Committee published the final King IV Report on Corporate Governance for South Africa (King IV) on 1 November 2016. King IV replaces King III in its entirety. King IV is effective in respect of financial years commencing on or after 1 April 2017. Transaction Capital is in the process of performing a gap analysis and will aim to adopt King IV in the next financial year, to the extent possible.

GOVERNANCE AND COMPLIANCE FRAMEWORK

Transaction Capital's governance and compliance framework facilitates the board's role of providing direction and oversight. It sets a high level of accountability to support consistent compliance with regulatory requirements and the group's risk appetite, and at the same time encourages an entrepreneurial mindset as a key driver of performance.

Each of Transaction Capital's divisions has its own board of directors, with each division's governance processes being aligned to Transaction Capital's governance framework, thereby appropriately allocating various levels of authority to individuals and committees throughout the group structure. The activities of each business's board include reviewing and providing opinions on the corporate strategy, business plans, risk propensity, budgets and sustainability of their respective divisions. The strategies, business plans and performance criteria for each division are clearly defined, with appropriate key performance indicators having been implemented to measure and monitor performance against their strategies.

The composition of each division's board includes non-executive directors, some of whom may be executive or non-executive directors of Transaction Capital. Directors of these boards are of sufficient calibre, experience and number for their views to carry significant weight in the decisions of the group and divisional CEOs.

BOARD APPOINTMENTS, EVALUATIONS AND PROCESSES

Transaction Capital's board comprises the following members:

INDEPENDENT NON-EXECUTIVE DIRECTORS

> Christopher Seabrooke (chairman)
> Phumzile Langeni
> Dumisani Tabata
> David Woollam
> Moses Kgosana (appointed 14 March 2016)
> Kuben Pillay (appointed 1 August 2016)

Shaun Zagnoev resigned as an independent non-executive director on 8 December 2015.

NON-EXECUTIVE DIRECTOR

> Roberto Rossi

EXECUTIVE DIRECTORS

> David Hurwitz (CEO)
> Ronen Goldstein (financial director) (appointed 1 August 2016)
> Mark Herskovits (executive director: capital management) (appointed 1 August 2016, previously group chief financial officer)
> Jonathan Jawno (executive director)
> Michael Mendelowitz (executive director)

From 1 August 2016, Mark Herskovits was appointed as capital management executive for the Transaction Capital group, in which position he is responsible for Transaction Capital's funding and capital markets engagements, with a predominant focus on SA Taxi. Mark remains an executive director of Transaction Capital and a member of the group's asset and liability committee (ALCO). With effect from that date, Ronen Goldstein was appointed as the financial director of Transaction Capital.

Refer to page 36 for the biographies of group directors.

In compliance with King III, Transaction Capital's board for the period covered by this report comprised of 12 directors, being:

> Seven non-executive directors (six of whom are independent); and
> Five executive directors.

David Woollam and Dumisani Tabata will not be available for re-election at the company's forthcoming annual general meeting (AGM). As a result, they will respectively resign from such date. To augment the board's skillset, and in line with Transaction Capital's gender diversity policy, the company is pleased to announce the appointment of Funke Ighodaro to the board effective from 1 April 2017.

Following the above-mentioned changes, the board will comprise six non-executive directors (five of whom are independent) and five executive directors.

CHAIRMAN

Christopher Seabrooke is the independent non-executive chairman of the Transaction Capital board and is responsible for leading the board in fulfilling its mandate. The offices of chairman and CEO are separate. The board appoints the chairman from among its members annually and, together with the nominations committee, is responsible for the succession plan of the chairman. The chairman's performance is reviewed as part of the board's annual self-assessment.

CHIEF EXECUTIVE OFFICER

David Hurwitz is the group CEO, responsible for the leadership of Transaction Capital and the implementation of the strategies, structures and policies adopted by the board. The board appoints the CEO and sets the terms of his employment contract.

The board and its sub-committees have delegated authority to the CEO and management in line with the approved authority framework. Each year during November, the chairman and company secretary facilitate a formal performance appraisal of the CEO comprising an evaluation by each director. In addition, the CEO's employment contract is assessed for adequacy on an annual basis.

FINANCIAL DIRECTOR

As described on page 77, and in line with the group's succession planning, Ronen Goldstein was appointed as financial director of Transaction Capital with effect from 1 August 2016. The ARC committee as well as the board are satisfied with the financial director's qualifications, experience and competence to fulfil this role. The finance function was assessed as adequate by the ARC committee for the full financial period.

COMPANY SECRETARY

With effect from 1 August 2016, Statucor Proprietary Limited (Statucor) replaced Ronen Goldstein as company secretary. The board is satisfied with the qualifications, experience and competence of Statucor as a provider of company secretarial services.

All directors have access to the services and advice of the company secretary, who supports the board as a whole and the directors individually in fulfilling their duties.

The company secretary is required to fulfil duties under the Companies Act and the JSE Listings Requirements, and to ensure that appropriate procedures and processes are in place for board proceedings. The company secretary is a resource in the group on governance, ethics and legislative changes. The company secretary is entitled to obtain independent advice to achieve these objectives.

The board has considered the consultants, shareholders and board of Statucor, and is satisfied that an arm's length relationship is maintained between itself and Statucor.

SKILL, EXPERTISE AND EXPERIENCE REQUIREMENTS

The directors bring independent judgement and experience to the board's deliberations and decisions. Non-executive directors are chosen based on the appropriateness of their business skills and expertise to the strategic direction of the group. The nominations committee and the board take into account the diversity of academic qualifications, technical expertise, industry knowledge, experience, business acumen, race and gender when board appointments are considered.

In addition to the above, Transaction Capital supports the principles and aims of gender diversity at board level. Transaction Capital has adopted a gender diversity policy, whereby it voluntarily targets employing at least two women directors at board level. With the appointment of Funke Ighodaro to the board effective 1 April 2017, the above voluntary targets will be met. The nominations committee will assess the set targets and fulfilment thereof annually.

APPOINTMENT AND INDUCTION PROCESS

The nominations committee assists with identifying suitable board members and performs background and reference checks prior to their appointment. No one individual or group of individuals has unfettered powers of decision-making. New directors are introduced to Transaction Capital through a formal induction programme, which is the responsibility of the company secretary and/or financial director, and consists of an information pack, detailed discussions on the environment and operations of each of the major businesses as well as site visits.

CONSULTATION PROCESS

Directors are encouraged to take independent advice, where necessary, for the proper execution of their duties and responsibilities. This is done at Transaction Capital's expense, after consultation with the chairman. In addition, directors have unrestricted access to the group's auditors and professional advisers, and to the advice and services of the company secretary.

After advising the CEO of their intention to do so, directors may attend any committee or subsidiary board meeting and have unrestricted access to any executive, manager or employee in the group as well as to any information generated by the group.

ASSESSMENT OF THE EFFECTIVENESS OF THE BOARD, ITS COMMITTEES AND THE COMPANY SECRETARY

A formal performance evaluation of the board, its committees and the company secretary is conducted annually by means of an evaluation questionnaire, to review the mix of skills, performance during the year, contribution and independence of individual directors and the effectiveness of committees. Results of the evaluations provide the basis for improvement of the board and its committees for the following year.

Based on the annual evaluations undertaken during November 2016, the board is satisfied that:

> All directors are committed to their roles and are performing to acceptable standards.

> The board and its committees are effective and operating to an appropriate standard.

> The group's risk management processes are operating effectively.

> All directors and committee members have the appropriate qualifications, experience and skills required to fulfill the respective committee's mandate.

> Independent non-executive directors meet the criteria for independence in terms of King III.

> The expertise, performance and experience of the chairman, CEO, financial director and the company secretary are adequate.

SUCCESSION PLANNING

The nominations committee is responsible for formulating the formal succession plans of the board, the CEO and the CEO's direct reports. The committee reviews these succession plans annually. On approval of the succession plans, the CEO conducts alignment discussions with potential successors, where necessary, which may result in direct development interventions.

BOARD SUB-COMMITTEES

The governance function of the board sub-committees is outlined in the respective approved committee terms of reference. A brief description of each committee's mandate can be found at www.transactioncapital.co.za.

Included in each committee's terms of reference is the imperative to enhance the standard of governance within the group together with clearly defined authority delegation and reporting procedures. The board receives formal feedback from the chairman of each committee at each board meeting. Copies of the minutes of committee meetings are included in board documentation.

BOARD SUB-COMMITTEES

	NOMINATIONS[1]	REMUNERATION[1]	SOCIAL AND ETHICS	AUDIT, RISK AND COMPLIANCE[1]	ASSET AND LIABILITY[1]
Chairperson	Christopher Seabrooke[2]	Dumisani Tabata[2]	Phumzile Langeni[2]	Moses Kgosana[2]	David Woollam[2]
Members	Dumisani Tabata[2] Roberto Rossi[3]	Christopher Seabrooke[2] Kuben Pillay[2] Jonathan Jawno[4]	David Hurwitz[4] Ronen Goldstein[4]	Phumzile Langeni[2] Christopher Seabrooke[2] David Woollam[2]	Christopher Seabrooke[2] David Hurwitz[4] Mark Herskovits[4] Jonathan Jawno[4]
Functions managed	> People > Succession	> People > Remuneration	> Transformation > Sustainability > Ethics	> Accounting/tax/compliance > Information technology > Internal audit > Risk > Credit	> Funding > Capital
Number of meetings per year	At least two	At least two	At least two	At least three	At least four
Composition	Non-executive directors, the majority of whom are independent. The chairperson is the independent non-executive chairman of the board.	A majority of independent non-executive directors.	The chairperson is an independent non-executive director.	Independent non-executive directors.	Includes independent non-executive directors as necessary.

1 Note proposed changes below 2 Independent non-executive director 3 Non-executive director 4 Executive director

As a result of the forthcoming board changes described above, the following committee appointments and/or changes will be made effective from the AGM and the appointment of Funke Ighodaro:

> Kuben Pillay will be appointed as chairman of the remuneration committee.

> Kuben Pillay will be appointed to the nominations committee.

> Funke Ighodaro will be appointed as a member of the ARC committee and ALCO.

> David Hurwitz will be appointed as the chairman of ALCO.

BOARD MEETINGS

Directors are required to attend all board meetings. The board follows a formal work plan that includes strategy, operational performance, risk and governance. Progress against the group's strategic objectives is reported on at each meeting.

The company secretary is responsible for circulating the agenda and other meeting papers in good time. Formal board papers are prepared for each item on the meeting's agenda, including reports by the executive office. At least four board meetings are held annually, one of which includes a strategic review.

Board and committee meeting attendance in the year under review was as follows:

		Independent board[1]	Board	Audit, risk and compliance	Nominations	Remuneration	Social and ethics	Asset and liability
Number of meetings held for the year		**2**	**5**	**3**	**2**	**3**	**2**	**3**
Board member	**Status**							
Christopher Seabrooke	Independent non-executive	2	5	3	2	3	–	3
Phumzile Langeni	Independent non-executive	2	5	3	–	–	2	–
Dumisani Tabata	Independent non-executive	2	4	–	1	2	–	–
David Woollam	Independent non-executive	1	4	2	–	–	–	2
Moses Kgosana[2]	Independent non-executive	–	3	3	–	–	–	–
Kuben Pillay[3]	Independent non-executive	2	3	–	–	3	–	–
Roberto Rossi	Non-executive	–	4	–	2	2*	–	–
David Hurwitz	Executive	–	5	3*	2*	3*	1	3
Mark Herskovits	Executive	–	4	–	–	–	1	2
Jonathan Jawno	Executive	–	5	3*	2*	3	–	3
Michael Mendelowitz	Executive	–	5	–	2*	3*	–	–
Ronen Goldstein	Executive	2	5	3*	2*	3*	2	3*
Statucor	Company secretary[4]	2*	3*	2*	–	–	–	–

* *Invitee*

1 *The independent board was constituted to assess the fairness of the JMR restructure transaction described in the chairman's report starting on page 74.*

2 *Appointed as an independent non-executive director on 14 March 2016 and attended all relevant meetings since date of appointment.*

3 *Appointed as an independent non-executive director on 1 August 2016 and attended all relevant meetings since date of appointment.*

4 *Ronen Goldstein was company secretary until 31 July 2016, after which date he was replaced by Statucor.*

COMPLIANCE

Regulatory compliance is non-negotiable. This approach is explicitly articulated in Transaction Capital's values and ethics charter.

The board proactively oversees the review of the group's systems of control and governance. It also continuously recommends enhancements to ensure that each business is managed ethically, in compliance with legislative requirements and in line with best practice governance guidelines.

Suitably qualified compliance officers are employed in the businesses that have high levels of regulatory compliance requirements, interaction and reporting. The roles of the compliance officers are to:

> Identify the applicable legislative, regulatory and governance requirements.
> Prepare relevant monitoring programmes relating to the above-mentioned requirements.
> Recommend improvements to the functional heads within the businesses, and assist with implementation.

Quarterly compliance reports are submitted by the businesses to the group legal and compliance function, which in turn prepares a consolidated compliance report which is submitted to the ARC committee for consideration.

The businesses affected by proposed new legislation have actively engaged legal counsel to garner advice on the application and implementation thereof and the potential effect on their respective businesses. No fines or non-monetary sanctions for non-compliance were levied against any business in the group during the year.

REGULATORY ENVIRONMENT

Due to the nature of its businesses, the group is subject to a range of regulations and legislation including, without limitation:

> National Credit Act (NCA).
> Debt Collectors Act (DCA).
> Insurance-related legislation including the Financial Advisory and Intermediary Services Act (FAIS), the Short-term Insurance Act and Long-term Insurance Act.
> Financial Intelligence Centre Act (FICA).
> Consumer Protection Act (CPA).
> Competition Act.
> Legislation relating to the corporate affairs of the group, including the Companies Act, the Financial Markets Act (FMA), the JSE Listings Requirements and the JSE Debt Listings Requirements.
> Tax-related legislation including the Income Tax Act and the Value-Added Tax Act.
> Labour-related legislation including the Labour Relations Act, the Basic Conditions of Employment Act and the Employment Equity Act.
> Second-Hand Goods Act.

Compliance with the letter and spirit of all laws, regulations and codes is required. The board, supported by the ARC committee, is responsible for keeping abreast of changes to the legislative landscape.

Transaction Capital Limited (the legal entity) does not employ any employees, and as such no employment equity statistics for this entity have been included in this report.

INTERNAL AUDIT

The purpose, authority and responsibility of the internal audit function is defined in the internal audit charter, which is aligned with the requirements of the International Standards for the Professional Practice of Internal Auditing and of King III.

The group internal audit, fraud and ethics executive reports administratively to the Transaction Capital CEO and functionally to the ARC committee chairman. Internal audit has remained independent of all operational functions.

The role of internal audit is to support the achievement of strategic objectives (and the supporting operational, financial and compliance objectives) through a systematic, disciplined approach to evaluating and recommending improvements that serve to increase the effectiveness of internal controls, risk management and governance processes. The annual internal audit plan is based on an assessment of risk areas identified by internal audit and management and is updated as appropriate to ensure it is responsive to changes in the business. KPMG performed an independent quality review on internal audit during 2016 and the internal audit function was found to generally conform to the International Standards for the Professional Practice of Internal Auditing, which is the highest rating awarded during such a review.

In accordance with Transaction Capital's combined assurance model, internal audit continues to liaise with external audit and other identified assurance providers to effectively assure against key risks.

ETHICS

The Transaction Capital ethics charter requires all group operations to conduct their business with honesty and integrity, and in accordance with the highest legal and ethical standards.

The charter aligns the requirements for ethical conduct with the group's key principles and values, guiding stakeholders in how to act in accordance with these values.

The board reviews the charter annually, which is supported by a group ethics strategy, awareness framework and governance policies. Transaction Capital has an independent whistle blowing hotline operated by an external service provider. Reports can be made anonymously through the hotline and reports are directed to the group ethics officer for escalation or investigation. In addition, reporting of unethical or fraudulent behaviour to line management and the respective human resources departments of the group's businesses is encouraged.

RISK REPORT

TRANSACTION CAPITAL'S PRIMARY RISK EXPOSURES ARISE FROM GENERAL CONDITIONS IN THE FINANCIAL SERVICES SECTOR, THE GROUP'S BUSINESS OPERATIONS AND TO A LESSER EXTENT THE MACRO-ECONOMIC ENVIRONMENT.

For more on regulatory developments impacting the financial services environment in which the group operates, see the CEO's report starting on page 30.

For an overview of funding markets, see the financial director's report starting on page 60.

For more on the macro-economic environment and its impact on the group, see the CEO's report starting on page 30.

IFRS 9 was early adopted in the 2015 financial year, resulting in a higher quality of earnings as a result of a more conservative provisioning methodology against loans and advances, and the amortisation profile of purchased book debts being better aligned with the collection profile. This early adoption has reduced balance sheet risk for Transaction Capital and removed uncertainty relating to the implementation of IFRS 9 on future financial results and ratios.

For more on credit performance, see page 88 of this report.

APPROACH TO RISK MANAGEMENT

Transaction Capital defines risk as uncertain future events that could influence its ability to achieve its objectives. Risk is quantified by the combination of the probability of an event occurring and the consequence thereof.

Risk is a condition in which the possibility of loss is inextricably linked to uncertainty. Thus a detailed framework for managing risk is required to facilitate rational decision-making under uncertain circumstances.

Risk management entails the deliberate planning, arranging and controlling of activities and resources to minimise the negative impact of all risks to tolerable levels, and to maximise potential opportunities and positive impacts of all risks in the pursuit of achieving the group's strategic objectives.

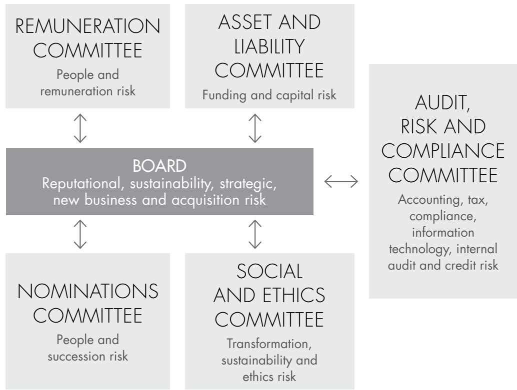
Risk tolerances are determined by each of the group's divisions and approved and monitored by the audit, risk and compliance (ARC) committee.

RISK FRAMEWORK AND THE GOVERNANCE OF RISK

The board is ultimately responsible for the governance of risk. The board delegates the responsibility for managing risks appropriately to respective board committees, divisional boards and management, and monitors risk identification and management quarterly.

In terms of the enterprise-wide risk management framework, the board itself retains responsibility for monitoring reputational and sustainability risk, while the monitoring of all other risks is assigned to sub-committees with continuous board oversight, in line with the overall governance structure. The risk framework specifically identifies the risk categories that comprise the group's risk universe. These risk categories, and the respective committees to which oversight responsibility is mandated, are illustrated on the next page.

Risk universe



Management risk committees are in place for each division, significant business functions (such as the capital markets team) and for the group as a whole. These committees are responsible for maintaining detailed risk registers, including mitigating factors and management's responses thereto. The individual risk registers are reported and discussed at divisional board meetings, with material risks and mitigants being reviewed by the ARC committee and board where appropriate.

The profile of each risk details the nature of the threats the group faces, their impact on the business (taking into account financial and non-financial impacts) and the likelihood of occurrence, and incorporates information pertaining to the level of controls in place and corrective actions either required or in place.

The group considers financial risk against targets according to a return on equity (ROE) model, which is considered appropriate as the group's sustainability is founded on profit measures coupled with appropriate capital structures. In this regard, the group's capital structure is managed centrally by the executive, capital markets, risk and cash management teams.

Ongoing engagement with stakeholders ensures that external views are represented in the risk identification process. For the purpose of risk identification, stakeholders are prioritised according to their influence, the time and effort the group invests in managing the relationship, and the group's dependency on them. Transaction Capital's sustainability policy sets out the responsibility for overseeing the relationship with each stakeholder group.

Engagement with stakeholders is considered and discussed at divisional and group board level. Group-wide stakeholder engagement is reported on at each social and ethics committee meeting, the minutes of which are included in the board packs ahead of quarterly board meetings. A stakeholder engagement report is submitted to divisional and group boards bi-annually.

SIMPLIFIED RISK FRAMEWORK

OBJECTIVE ESTABLISHMENT

> Link to strategy
> Set financial and non-financial targets and timelines

RISK IDENTIFICATION

> Stakeholder engagement
> Risk workshops
> Understand key revenue/loss points
> Relevant data

RISK QUANTIFICATION

> Event description
> Likelihood assessment (per approved risk quantification framework)
> Impact assessment (per approved risk quantification framework)

RISK MITIGATION

> Existing controls
> Required improvements including responsibilities and timelines
> Monitoring of the above
> Opportunity maximisation

DETERMINATION OF ADDITIONAL CAPITAL HELD FOR RISK PURPOSES

> Risk exposure based on above
> Simple 'rule of thumb' calculations
> Mathematical simulations using actual loss data
> Market guidance on capital levels including existing investors and/or credit rating agents

TOP RISKS

TOP RISKS ARE IDENTIFIED THROUGH THE ENTERPRISE RISK MANAGEMENT (ERM) PROCESS. THE GROUP'S TOP RISKS, MITIGATING ACTIONS AND RELATED STAKEHOLDER CONCERNS ARE AS FOLLOWS:

RISK 01

Uncertain regulatory environment, including the volume of new or amended regulations being promulgated and the potential for unintended consequences of pro-consumer regulations.

STAKEHOLDER CONCERNS

> Transaction Capital's ability to effectively and efficiently respond to regulatory uncertainty and change.

> The impact of regulatory uncertainty and change on the sustainability of the business.

MITIGATION

Ongoing engagement with regulators and appropriate representation on industry bodies, to gain an early understanding of proposed legislation and appropriately position Transaction Capital for change.

Refer to the CEO's report on page 30 for further detail on regulatory risk management.

Compliance functions are embedded within the divisions that have high levels of regulatory compliance requirements, act as a resource for regulatory compliance information and provide guidance to avoid regulatory breaches.

The group legal function partners with the divisions to provide guidance on the interpretation of legal and regulatory requirements and facilitates the process of obtaining independent views from attorneys and senior counsel, where doubt exists in the interpretation of regulatory requirements.

Mitigation efforts have resulted in Transaction Capital being largely unaffected by regulatory developments.

RISK 02

Funding and capital risk, including a challenging debt and capital raising environment due to market events (such as the potential for a sovereign ratings downgrade and generally challenging market conditions).

STAKEHOLDER CONCERNS

> Maintaining appropriate access to funding in an environment where funding is scarce.

MITIGATION

A dedicated capital markets team is focused on managing the group's funding requirements, including a diversified fundraising strategy and applying a focused strategy to each funding source. The group's funding strategy seeks to diversify funding sources on the basis of:

> Geography (local and international funders).

> Funder type (including banks, asset managers, institutional investors, Development Finance Institutions, impact investors and hedge funds).

> Individual investors.

> Structure type (including securitisation, note programmes, syndicated loan programmes and bespoke funding structures).

> Instrument (such as rated or unrated, listed or unlisted, bilateral and syndicated loans, and bespoke debentures).

Quarterly asset and liability committee (ALCO) meetings provide rigorous monitoring and oversight of concentration, roll-over, interest rate, counterparty and regulatory risks. ALCO has approved and established policies and tolerances to manage these risks, while providing the flexibility needed to maintain agility in responding to changing economic and business conditions.

The above-mentioned measures have led to SA Taxi fulfilling most of its annual debt requirements for the 2017 financial year.

Refer to the financial director's report on page 60 for further detail.

RISK 03

Acquisition risk, including the ability to identify, implement and integrate potential acquisitions, and the potential for disproportionate demands on executive time.

STAKEHOLDER CONCERNS

> The executive team's ability to integrate and manage acquisitions outside South Africa.

> Effective integration of recent acquisitions to be value accretive.

> The group's ability to conclude further appropriate acquisitions.

MITIGATION

Acquisitions are assessed against Transaction Capital's acquisition strategy and stringent investment criteria. Further considerations include whether:

> A sound financial and business case exists for the potential acquisition.

> There will be a good cultural fit between the group and the acquisition.

> The acquisition can be funded through an appropriate combination of debt and equity, which would result in an appropriate risk-adjusted return.

> The target is not inappropriately exposed to regulatory, compliance or other risks.

In addition, appropriate board approval is required to conclude transactions. Rigorous implementation processes ensure that Transaction Capital's governance and reporting requirements are adequately met, the progress of which is monitored by the divisional and group boards.

Transaction Capital executives are actively involved in the management and ongoing affairs of acquisitions after a transaction is implemented.

Refer to page 22 for Transaction Capital's acquisition strategy and investment criteria.

RISK 04

Risk of reduced ROE following recent acquisitions.

STAKEHOLDER CONCERNS

> Transaction Capital's ability to generate returns on invested capital to meet shareholder requirements.

MITIGATION

In line with the strict acquisition criteria discussed under Risk 3 above, recent acquisitions are expected to be ROE accretive once implemented.

The group continues to actively pursue various organic and acquisitive growth opportunities.

RISK REPORT *continued*

RISK 05

Public sector finances are generally in a poor state, making it a class of counterparty which needs to be managed closely to ensure payments are received timeously (Transaction Capital Recoveries (TCR)).

STAKEHOLDER CONCERNS

> Non-adherence to payment terms and working capital strain.

MITIGATION

Management engages regularly with relevant parties in the public sector to ensure compliance with agreement terms.

RISK 06

The ability to acquire a sufficient number of non-performing loan portfolios at an acceptable price, and to then generate sufficient yield from these acquired portfolios (TCR).

STAKEHOLDER CONCERNS

> Appropriate return on funds invested to acquire purchased books.

MITIGATION

Operational initiatives include:

- Substantial investment in and development of technology infrastructure to further improve collections.
- Continuous enhancement of analytics capabilities to leverage superior data.
- Centralised call centre infrastructure to ensure consistent collections performance.
- Obtaining appropriate group and divisional executive approval for potential purchases.
- TCR has initiated exclusive negotiations with several of its larger clients, ensuring high-quality purchases and enabling bespoke purchase agreements.

Refer to page 67 for performance in acquiring non-performing loan portfolios.

RISK 07

The impact of difficult economic conditions on revenue (Transaction Capital Risk Services (TCRS)).

STAKEHOLDER CONCERNS

> Loss of revenue.

MITIGATION

- TCRS's strategy includes increasing revenue from non-NCA regulated clients, including the outsourced collection of outstanding claims in the insurance, telecommunications and public sectors in addition to Tier 1 banks.
- A co-ordinated go-to-market strategy following the integration of TCRS's businesses, with account managers assigned to key clients.
- New products being developed and implemented to create new revenue streams.
- Recent acquisitions will diversify TCRS's revenue by geography and product type.

Refer to page 24 for more detail on recent acquisitions.

RISK 08

The ability to diversify revenue streams beyond minibus taxis into other market segments, to ensure growth over the longer term (SA Taxi).

STAKEHOLDER CONCERNS

> Constraints to long-term sustainable growth.

MITIGATION

SA Taxi is strategically positioned to extend operations into adjacent market segments while leveraging its exisiting competencies.

This includes expanding its direct sales retail channel nationally, developing its insurance offering and integrating the Zebra Cabs operations.

Refer to SA Taxi's divisional review starting on page 42 for more on how it is expanding beyond the financing of minibus taxis.

RISK 09

Market forces beyond the group's control (interest rates, exchange rates, fuel prices, limited fare increases, increases in vehicle prices) impacting the affordability of monthly instalments (SA Taxi).

STAKEHOLDER CONCERNS

> Credit quality of book and of new business may be negatively impacted.

MITIGATION

- Credit policies are adhered to, with credit vintages being consistently monitored.
- Product innovation and design initiatives are being implemented.
- The efficiency of SA Taxi's ability to repossess, refurbish and resell vehicles assists in maintaining low levels of ultimate credit loss.
- The effectiveness of SA Taxi's ability to manage this risk is reflected in continued improvements in its credit performance.

Refer to page 88 for SA Taxi's credit performance.

MANAGED RISKS

Managed risks refer to those included in the prior year that have been successfully managed to the extent that they no longer represent a top risk.

Risks	How they are managed
Non-authenticated early debit orders (NAEDO): > NAEDO will be phased out over a period of time, to be replaced by authenticated collections.	The implementation of this legislation has been delayed and will be phased in until October 2019. Despite this delay, TCRS continues to explore various alternative payment options.
Risk of reduced ROEs following disposals of subsidiaries.	Subsequent to the financial year-end, Transaction Capital deployed in excess of R500 million to three acquisitions. After these acquisitions, the group remains appropriately capitalised with approximately R300 million liquid cash on its balance sheet to fund organic and acquisitive growth.

KEY RISKS

Key risks are those risks that require specific and ongoing operational, governance and strategic management. Key risks are different from top risks (set out on pages 84 to 87) as they are anticipated to be ongoing due to the strategy and business model of the group, while top risks are identified through the ERM process.

Transaction Capital's key risks are detailed in the sections that follow:

CREDIT RISK

Credit risk, or default risk, relates to the lender's risk of loss arising from a borrower who does not pay their full contractual instalment. In the case of Transaction Capital, as a result of its target market, the risk of non-payment is higher than for traditional lenders. This heightened credit risk is controlled through substantial operational capacity, coupled with a higher risk-adjusted yield.

The adoption of IFRS 9 in the 2015 financial year has resulted in the recognition of credit losses utilising an expected loss model. Losses are now recognised prior to actually being incurred, resulting in more conservative credit metrics than in prior years.

The loss allowance for a financial instrument is measured at the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. Purchased non-performing loan portfolios are considered credit-impaired assets that are specifically impaired (stage 3) and are measured using lifetime expected credit losses from the onset. These assets remain in stage 3 for the duration of the financial instrument.

At group level, credit risk is monitored by the ARC committee, while SA Taxi and Transaction Capital Business Solutions (TCBS) have their own credit committees responsible for credit risk, which meet at least quarterly.

Aspects of credit risk that are monitored include changes to origination strategies, new business approvals and collections strategy and performance.

The group has limited exposure to a single counterparty, with the largest exposure to a single borrower being negligible as a percentage of assets exposed to credit risk. The largest indirect exposure to any single counterparty group is the minibus taxi industry in general.

During the year, SA Taxi continued to lend to lower-risk applicants and to refurbish and resell high-quality vehicles, both of which improved the non-performing loan (NPL) ratio.

In TCR, purchased non-performing loan portfolios have inherent credit risk and this is reflected in the heavily discounted purchase price to face value. TCR has its own investment committee responsible for credit risk, which meets as required when portfolios are being considered for acquisition. The approval of an investment in a new non-performing loan portfolio involves the divisional executives and group executive directors, depending on whether its value falls above a certain threshold.

Credit risk is managed operationally at the time of origination and in terms of collections thereafter. TCR has entered into a collection agreement with various public-sector counterparties. Public sector finances are generally in a poor state, making it a class of counterparty that needs to be managed closely to ensure payments are received timeously.

The cost of the risk relating to SA Taxi at 30 September is calculated below.

	2016	2015
Interest income % average gross loans and advances	**22.2**	21.6
Interest expense % average gross loans and advances	**(11.1)**	(10.3)
Net interest income % average gross loans and advances (net interest margin)	**11.1**	11.3
Impairment expense % average gross loans and advances (cost of credit)	**(3.1)**	(3.9)
Risk-adjusted net interest income % average gross loans and advances	**8.0**	7.4

Provisions and non-performing loans

			2016	2015
SA Taxi	Non-performing loan ratio	%	**17.4**	18.2
	Provision coverage	%	**6.7**	8.6
	Non-performing loan coverage	%	**38.3**	47.0
	Credit loss ratio	%	**3.1**	3.9
	Net repossession stock value	Rm	**335**	227

SA Taxi

The NPL ratio continued to improve to 17.4% from 18.2% in the prior year, due to a combination of continued strong collection performance, loans of superior credit quality being originated via its retail dealership and conservative credit granting criteria, which are continuously enhanced via the analytics applied to SA Taxi's telematics data.

SA Taxi's credit loss ratio continued to improve to 3.1% for the year, compared to 3.9% for 2015. SA Taxi is able to recover on average 72% of loan value when re-selling repossessed vehicles, as the security value of a taxi vehicle is enhanced through SA Taxi's mechanical refurbishment centre. The average cost to repair repossessed stock has continued to reduce due to SA Taxi's investment in its combined auto body repair and mechanical refurbishment centre, offset slightly by more expensive spare part procurement as a result of the weaker rand. Further, a positive second-order effect of Toyota increasing new vehicle prices is that pre-owned minibus taxi vehicle prices follow a similar trend, increasing by 10.4% this year in SA Taxi's retail dealership.

A more conservative provisioning methodology against loans and advances was assumed during the 2015 financial year with the early adoption of IFRS 9. This accounting statement requires SA Taxi's loans and advances portfolio to be segregated based on expected credit risk/loss. A greater component of the portfolio is currently categorised as lower risk when compared to the prior year (70.5% currently in the lowest risk stage (being Stage 1), versus 68.6% at 30 September 2015). This is driven by SA Taxi's record collection levels, lower non-performing loans and lower credit losses. Thus provision coverage has reduced but remains adequate as evidenced by the better quality loans and advances portfolio. With provision coverage levels at 6.7%, SA Taxi's after tax credit loss is conservatively covered 2.7 times.

SA Taxi's financial and operational risk exposure to entry-level vehicles has reduced significantly, resulting in improving credit quality for the portfolio. Entry-level vehicles now account for less than 1.0% of the value of SA Taxi's loan portfolio.

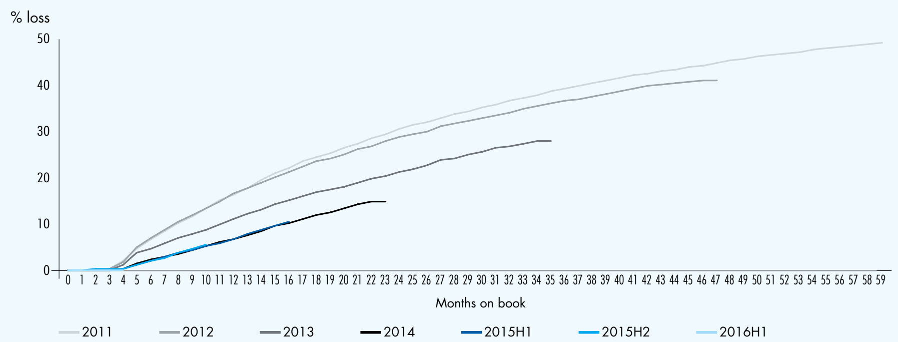
The business continues to rely on Toyota minibus taxis for new vehicle originations, thus potential shortages of these vehicles presents a risk. This risk manifested in the 2015 financial year when Toyota's plant underwent a refurbishment process, which impacted the level of new vehicle originations. The dominance of Toyota supports a stable market value for the sale of repossessed refurbished vehicles, which underpins SA Taxi's credit model. SA Taxi is continually diversifying its product lines to counter the reliance on Toyota minibus taxis, including working with Nissan to ensure their minibus taxi vehicle market is sustainable, increasing the supply of repossessed refinanced Toyota minibus vehicles to meet supply shortfalls, and entering into the metered taxi market.

NON-PERFORMING LOANS

Loan portfolios are divided into performing loans and non-performing loans. As the group's assets are developmental in nature, in terms of the traditionally under-served market segments it lends to, a higher than average level of arrears is expected, which may not necessarily result in credit loss. The group's impairment provision models take into account both contractual default and recent payment history. Provisions are held against financial assets to cover expected losses in terms of IFRS 9.

NPLs are further monitored through vintage analysis:

SA TAXI VINTAGE ANALYSIS (TOTAL BOOK)



RISK REPORT *continued*

LIQUIDITY RISK

Liquidity risk arises when a borrowing entity within the group does not possess adequate cash resources to meet its payment obligations as they fall due, or can only access liquidity on materially disadvantageous terms.

Liquidity risk in the group is primarily controlled through cash-flow matching. This is achieved through setting the duration and repayment terms of debt facilities at the time of issue to suit the projected cash inflows from assets, and through careful monitoring and management of the maturity of debt that has a lump-sum payment due at maturity, where these exist.

The positive liquidity mismatch graph included in the financial director's report on page 70 illustrates a liquidity mismatch favourable to debt investors, where asset receipts occur in advance of debt payments, resulting in reduced liquidity risk.

The group's funding strategy is directed by the funding requirements established in the divisional budgets and forecasts and approved by the divisional and group boards. The capital markets team is mandated to raise sufficient capital, taking into account business needs, the specific demands and the state of the debt markets and the requirements of debt investor mandates. This results in a well-diversified funding base. See the financial director's report on page 70 for more detail on diversification by both funding category and funding structure.

CAPITAL RISK

Capital risk is the risk that the group will have insufficient capital to absorb its losses and fund its growth.

The divisions of the group are not subject to regulatory capital adequacy requirements. Capital is managed using internally generated capital adequacy models, taking into account targeted growth rates, ROE, contractual financial covenants, stress testing and targeted credit ratings.

Equity capital is raised at group level where necessary, and then allocated to the divisions based on the capital requirements for each funding structure. Goodwill is not included in assets and is deducted from capital in line with market practices when calculating the capital adequacy ratio.

Subsequent to the financial year-end, Transaction Capital deployed in excess of R500 million to three acquisitions. After these acquisitions, the group remains appropriately capitalised with approximately R300 million liquid cash on its balance sheet to fund organic and acquisitive growth.

The cost of borrowing increased in the year under review as a result of increases in the repo rate and due to a meaningful proportion of funding being raised from international investors, in line with the strategy to diversify the funding base. Loans denominated in foreign currency are all fully hedged as Transaction Capital does not take exchange rate risk. The associated hedge costs have contributed to the increase in the cost of borrowing.

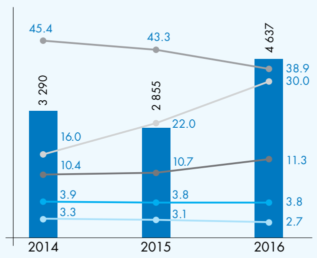
INTEREST RATE RISK

Interest rate risk is the risk that arises from fluctuating interest rates.

The group's general interest rate risk management strategy is to match the re-pricing characteristics of assets to liabilities, thus if a division originates floating-rate assets it should issue floating-rate debt or hedge accordingly.

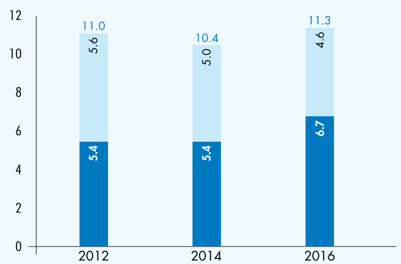
Each division can, however, deviate from this policy, subject to ALCO approval. In this instance, ALCO reviews the decisions of management and can exercise its discretion to change these decisions if it considers the risk to be out of line with the group's risk tolerance and interest rate forecast. Strategies, including hedging, are used to limit losses arising from interest rate basis risk or to take advantage of structurally low rates. Hedge accounting is applied to remove unnecessary volatility from the income statement.

CAPITAL PERFORMANCE



Total debt issued (Rm)
Gearing ratio (times)
Total dividend per share (cps)
Capital adequacy ratio (%)
Average cost of borrowing (%)
Total dividend cover (times)

COST OF BORROWING SINCE LISTING



SA Reserve Bank's repo rate (%)
Cost of borrowing margin above repo rate (%)

Further, the group typically manages interest rate risk through risk-adjusted excess spread, where asset yields are sufficient to absorb movements in interest rates as well as interest rate risk strategies.

The group prepares an interest rate forecast quarterly that is approved by ALCO and is used for budgets, forecasts and interest rate decision-making purposes. ALCO monitors the sensitivity of the group's net interest income in response to a parallel yield curve shift. Hedges are considered where undue volatility in earnings can materialise.

OPERATIONAL RISK INCLUDING PEOPLE RISK

To manage operational risk, the group adopts specific operational risk practices that assist management to understand the risks and reduce the risk profile, in line with the group's risk appetite. The objective in managing operational risk is to increase the efficiency and effectiveness of the group's resources, minimise operational losses and exploit opportunities.

People risk relates to the risk of inadequate management of human capital practices, policies and processes, resulting in the inability to attract, manage, develop and retain competent resources. People risk management includes inadequate recruitment procedures for screening employees, training and change management programmes and human resource and succession planning policies.

The group's human capital statistics and policies are reviewed by the social and ethics committee. Succession planning is performed by each division, with the nominations committee (and ultimately the board) reviewing succession plans at least annually.

TRANSFORMATION RISK

As a responsible corporate citizen the group supports transformation objectives in South Africa that seek to address historical imbalances. In addition, many of the group's businesses are required to maintain minimum broad-based black economic empowerment (B-BBEE) scores to retain clients. During the 2015 financial year two B-BBEE transactions were finalised, with a B-BBEE trust taking an ownership stake in TCR and Principa respectively.

	SA Taxi	TCR	Principa	TCBS	GEO
B-BBEE level	4	3	4	5	5

Transformation risk is monitored by the social and ethics committee as well as the divisional and group boards.

COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, financial loss or damage to reputation that the group may suffer as a result of failure to comply with laws, regulations and similar standards and/or internal group policies, authority levels, prescribed practices and ethical standards applicable to its subsidiaries.

Compliance risk is monitored by the ARC committee. Each division with high levels of regulatory compliance requirements has a suitably experienced compliance officer, who has identified the relevant regulations and similar standards applicable to that specific division.

See page 81 in the governance report for applicable legislation.

The group retains central legal advisory resources while compliance governance levels at each business remain appropriate. Ongoing engagement with regulators and appropriate representation on industry bodies is maintained to gain early understanding of proposed legislation and to appropriately position the group for change.

See page 7 for regulatory developments considered during the year.

REMUNERATION REPORT

TRANSACTION CAPITAL CONSIDERS COMPENSATION A CRITICAL DETERMINANT OF ORGANISATIONAL PERFORMANCE AND SUSTAINABILITY. THIS VIEW IS FOUNDED FIRSTLY IN THE BELIEF THAT ALL FACTORS THAT UNDERPIN ENHANCED PERFORMANCE REQUIRE THE HIGHEST CALIBRE OF LEADERSHIP AND SPECIALIST TECHNICAL EXPERTISE, AND SECONDLY THAT STAKEHOLDERS' INTERESTS ARE BEST SERVED BY ALIGNING STRATEGY, BUSINESS MODEL, STRUCTURE, STAFFING AND COMPENSATION. WITHOUT ATTRACTING, MOTIVATING AND RETAINING THE BEST AVAILABLE TALENT, EVEN THE BEST STRATEGIES, BUSINESS MODELS AND STRUCTURES WILL FAIL.

These principles are reflected in Transaction Capital's fifth strategic objective (page 26), which emphasises the group's commitment to investing in human and intellectual capital. This investment is informed firstly by the view that in every field of endeavour there is a normal distribution of talent, and secondly that the performance and sustainability of Transaction Capital will correlate highly with where its employees rank within that distribution. Put simply, the better Transaction Capital's people, the better the company.

Attracting and retaining high-calibre talent depends on providing both intrinsic and extrinsic rewards. While this remuneration report deals with the latter, intrinsic rewards are reflected in the Transaction Capital employee value proposition, which strives to provide talented individuals with good leadership, personal development and support, and meaningful work in an intellectually stimulating environment. To complement this, compensation policies are directed at sustaining a performance-driven culture such that the most talented people at all levels consider Transaction Capital and its divisions an employer of choice.

GOVERNANCE OF COMPENSATION

The success of Transaction Capital and its divisions relies on a wide range of leadership, managerial, functional and technical skills. Many of these skills are unique to specific subsidiaries, departments or organisational levels. The features of the group's approach to compensation are as follows:

> Compensation is defined on a cost to company basis with all benefits included and fully taxed.

> Any change to the compensation of any individual at every level of the group must be approved by the supervisor of the individual's supervisor, with the remuneration committee recommending the compensation of the chief executive officer (CEO), his direct reports and certain functional specialists.

> As part of the annual budgeting process, the group executive office provides guidelines on the percentage increase of fixed compensation to be applied throughout the group. These percentages generally take into account increases in consumer price inflation (CPI), individual performance and level in the organisational hierarchy, with percentages decreasing at higher levels.

> Formal and informal research and benchmarking are performed to determine market norms for similar positions.

> Remuneration is aligned to individual outputs measured through performance management systems that focus on goals achieved and exceeded.

> Incentives and bonuses at executive level are aligned to profit growth and relevant returns in addition to personal performance.

> Performance incentives are used to drive specific behaviours supportive of group, business or departmental performance. In certain instances, a portion of these incentives may be deferred to support retention.

> Transaction Capital attempts to eliminate differential compensation related to gender, race and location.

> The remuneration policies of the divisions are approved by the remuneration committee and the board. In those instances where an executive's decisions are likely to have a material impact on shareholder value, an element of their compensation may be aligned with the medium- to longer-term value of Transaction Capital or each respective division, specifically through defined long-term incentive schemes (LTIs) (see compensation principles below).

> No employees or directors have employment terms that exceed six months' notice.

COMPENSATION PRINCIPLES

GENERAL STAFF

Throughout Transaction Capital, fixed and variable compensation policies and practices are structured to attract, motivate and retain the specific talent and skills required at each level for the progress of the group and its divisions. For the most part, these policies are determined by, and according to, divisional or departmental requirements within the governance guidelines described previously.

LEADERSHIP

Transaction Capital regards the individual and collective intellectual acuity, education, experience and industry knowledge of its most senior leaders and talent pool as a core capability and a source of competitive advantage. As such, the compensation, recruitment, performance, development and succession of the group's top executives is monitored directly by the CEO together with his direct reports, and indirectly by the remuneration and nominations committees.

Executive compensation strives to attract, reward and retain the highest calibre of individuals in terms of education, expertise and experience, using three forms of compensation:

> Total guaranteed pay (TGP) around the 60th percentile of the market. The TGP provides executives with a competitive stable income.

> Variable short-term incentives (STIs) for individual quantitative and qualitative performance aligned to corporate and individual objectives, paid annually with a deferred portion where appropriate. STIs are bespoke in nature, and are specifically designed with individualised qualitative objectives to promote performance and/or achieve pre-defined performance requirements. In addition, quantitative STIs may be awarded to reward superior performance. The annual STI requirements are approved by the remuneration committee. STIs reward specific behaviour and promote retention.

> LTI plans relate to the valuation of the company or its divisions, realisable over the medium to long term. The LTI plans create alignment with shareholders and are the major retention mechanism:

– **Share appreciation rights (SAR) plan**

The SAR plan allows executives and senior managers to participate in the appreciation of Transaction Capital's share price over time. Subject to specific performance criteria, which is the achievement of continuous growth in group headline earnings per share of over CPI +5%, the SARs vest in full after four years of award date and are exercisable for a 12-month period. SAR awards granted until May 2014 were awarded with a three-year vesting period. The share price growth over the SAR period will be settled in Transaction Capital ordinary shares, with the gain subject to income tax. To the extent that the SAR grant price exceeds Transaction Capital's share price at the time of exercise, no gain or cost is realised by participants.

The first tranche of the SAR plan vested on 12 July 2016. During the 2016 financial year a total of 7 344 576 SARs were exercised by participants resulting in 4 902 334 Transaction Capital shares being issued in settlement of the SAR obligation.

While the SAR plan has been a very successful retention mechanism since listing, the conditional share plan discussed below is favoured as a more appropriate retention and alignment tool for the purposes of incentivising employees. As such, it is anticipated that no new SAR awards will be granted in the forthcoming period. The remuneration committee will assess future use of SARs on a periodic basis as required. Those SAR awards already in issue will continue to vest as per the SAR plan.

- **Conditional share plan (CSP)**

  The CSP was approved by shareholders at a general meeting held on 20 October 2016. It is anticipated that annual CSP awards will occur in November/December each year, with May awards catering for new joiners and special circumstances. The first issue of CSPs was awarded in November 2016. All awards are subject to remuneration committee approval.

  It is believed that the CSP is a superior long-term incentive for Transaction Capital's objectives. The CSP offers participants certainty in that it comprises a fixed number of conditional shares. While its ultimate value will depend on performance, CSP awards will always have a value, unlike the SAR awards.

  The CSP will operate as a specific and direct LTI scheme that links to the performance of each division. It will cater for divisional executives who are believed to be in a position to directly impact and shape the performance of a division, while delivering on the division's strategy. Transaction Capital group executives will be incentivised based on the performance of the group as a whole.

  The remuneration committee has approved a policy that the number of Transaction Capital shares issued in terms of the CSP awards will not exceed more than 5% of the issued ordinary shares of Transaction Capital at the time of approval of the CSP by shareholders.

  The CSP mechanism, which is overseen and approved by the remuneration committee, will operate as follows:

  - A valuation of each division will be performed by an independent expert on the date of CSP award (to obtain a valuation per notional share of each division). Transaction Capital executives will be awarded CSPs at the prevailing share price of Transaction Capital on date of award.
  - Key executives will be awarded notional CSPs in each division (or Transaction Capital) for zero cost, based on retention and/or performance criteria set by the remuneration committee. The CSPs awarded to executives will be based on a notional share held in each division, giving executives direct exposure to the performance of that division (or based on Transaction Capital's share price for its executives).
  - An updated valuation of each division will be performed by an independent expert on the date of vesting of the CSP.
  - The remuneration committee approved the following criteria for the first tranche of the CSPs awarded. The following requirements will be assessed by the remuneration committee on an annual basis, and may be adjusted as necessary:
    - Vesting period:
      - » Retention element (30% of award): to vest in full after three years, subject to continued employment.
      - » Performance element (70% of award): to vest in equal proportions in years two, three and four, and linked to performance requirements.
    - Performance criteria: the following performance criteria have been set (per division for divisional executives, and on a consolidated basis for group executives):

Continuing headline earnings growth over vesting period*	% of CSP award to be vested
CPI	20%
CPI +5%	100%

** Growth levels in between bands will be vested on a proportional basis.*

    - Employees are required to remain in the employ of the group to be eligible for CSP vestings (subject to standard "good leaver" rules).
    - Employees who resign or are dismissed will forfeit any CSP awards that have not vested.

  > Once the vesting period has passed and/or performance criteria are met (where relevant), the participant will receive shares in Transaction Capital to the value of the notional CSP on date of vesting.

  The CSP achieves the following objectives:

  > It will motivate and reward participants for creating long-term value through the opportunity to earn significant reward for superior performance.

  > It will create a direct line of sight between the performance of each division and the incentive earned.

  > Participants receive a right to receive a full share as opposed to the increase in value of a share.

  > The CSP directly aligns the interests of the participants with those of shareholders.

- **General share purchase scheme**

  The general share purchase scheme facilitated voluntary investment whereby executives were able to receive loan funding to purchase shares at market value. The scheme was largely wound down in the 2014 financial year. No further allocations will be made in terms of this scheme, which is expected to terminate in December 2018.

- **Direct investment**

  In appropriate circumstances, senior executives of a business may be afforded the opportunity to subscribe for direct equity in that business, thereby incentivising and aligning their long-term interests with those of the business, Transaction Capital and its shareholders.

2016 REMUNERATION COMPONENTS

REMUNERATION COMPONENT	REMUNERATION POLICY	STRATEGIC INTENT AND DRIVERS
Basic salary	Guaranteed package measured against the 60th percentile of the market.	Competitive with market. Provides a standard of living consistent with the demands of a specific position.
Benefits	Group life; medical cover; provident fund; disability cover.	Competitive with market. Provides financial structures for death, retirement, health and wellness.
Short-term incentive	Annual incentive based on the achievement of bespoke and individualised qualitative objectives, with a quantitative portion of the bonus awarded subject to the remuneration committee's discretion, and a portion retained where appropriate. Financial objectives include profit growth and relevant returns (for example return on invested capital in SA Taxi or return on sales in Transaction Capital Risk Services' businesses).	Competitive with market. Provides means to enjoy a higher quality of life through superior performance.
Long-term incentive	SAR plan and CSP.	Market-related long-term reward and retention for executives and key talent provides risk-free opportunity to accumulate wealth based on share price, performance and tenure.
Total reward	Providing a competitive and attractive total compensation with a portion paid over the medium term.	To attract, motivate, align and retain scarce talent and to discourage dysfunctional short-term behaviour.

2016 EXECUTIVE COMPENSATION

TOTAL GUARANTEED PACKAGE

Executive TGP was determined based on the findings of an outsourced benchmarking engagement, utilising the Paterson Classic system as an indicator of grades for the executive team. Formal and informal research coupled with market norms and industry practice also influenced the policies and practices in place.

SHORT-TERM INCENTIVE

The 2016 STI was based on the following:

> Growth of group earnings per share above CPI or growth of individual business profit after tax above CPI, with exponentially higher STIs awarded for higher levels of growth.

> Return on invested capital in SA Taxi and return on sales for Transaction Capital Risk Services' businesses.

> Where appropriate, STIs were awarded for individualised targets being met.

> Where appropriate, and as determined by the remuneration committee, certain executives were awarded qualitative STI payments based on superior individual performance.

LONG-TERM INCENTIVE

Executives were awarded SARs based on executive performance, potential, tenure, job grade, current fixed compensation and short-term incentive relative to market benchmarks; the recommendation of the CEO; and the reasonably expected growth in Transaction Capital's share price. Awards were granted in November 2015 and May 2016 (to new joiners and in certain special circumstances); have a vesting period of four years; and are subject to predefined performance criteria. All SAR awards were approved by the remuneration committee.

While outside of the 2016 financial year, the first issuance of the CSP took place in November 2016, based on the criteria described on page 94.

EXECUTIVE DIRECTORS' REMUNERATION

The following table shows a breakdown of the annual remuneration (excluding SAR awards) of directors for the year ended 30 September:

Executive director	Salary 2016 R	Benefits 2016 R	Annual incentive bonus 2016 R	Total 2016 R	Salary 2015 R	Benefits 2015 R	Annual incentive bonus 2015 R	Total 2015 R
David Hurwitz	**2 848 492**	**685 376**	**2 598 750**	**6 132 618**	2 526 801	828 309	2 200 000	5 555 110
Mark Herskovits	**2 104 560**	**407 540**	**1 228 500**	**3 740 600**	2 010 156	368 922	1 170 000	3 549 078
Jonathan Jawno	**1 057 200**	**162 840**	**4 800 000**	**6 020 040**	1 069 308	150 732	2 000 000	3 220 040
Michael Mendelowitz	**1 057 200**	**162 840**	**4 800 000**	**6 020 040**	1 069 155	150 885	2 000 000	3 220 040
Ronen Goldstein[1]	**265 417**	**31 121**	**1 166 667**	**1 463 205**	–	–	–	–
Total	**7 332 869**	**1 449 717**	**14 593 917**	**23 376 502**	6 675 420	1 498 848	7 370 000	15 544 268

1 Appointed as an executive director effective 1 August 2016.

SHARE APPRECIATION RIGHTS

The following table shows the position as at 30 September 2016:

Executive director	Present value of SAR R	Number of SARs	Vesting period (years)	Number of SARs vested during the year and not exercised	Number of SARs exercised during the year	Gains on SARs exercised R
David Hurwitz						
– Granted on 11 July 2013	3 200 000	2 004 494	3	2 004 494	–	–
– Granted on 18 November 2013	2 092 570	979 049	3	–	–	–
– Granted on 25 November 2014	1 029 000	300 000	4	–	–	–
– Granted on 24 November 2015	830 000	250 000	4	–	–	–
Mark Herskovits						
– Granted on 11 July 2013	2 700 000	1 691 292	3	939 607	751 685	5 417 021
– Granted on 18 November 2013	2 675 060	1 251 578	3	–	–	–
– Granted on 25 November 2014	857 000	250 000	4	–	–	–
– Granted on 24 November 2015	498 000	150 000	4	–	–	–
Ronen Goldstein						
– Granted on 11 July 2013	100 000	62 640	3	–	62 640	451 418
– Granted on 18 November 2013	150 000	70 180	3	–	–	–
– Granted on 25 November 2014	343 000	100 000	4	–	–	–
– Granted on 24 November 2015	498 000	150 000	4	–	–	–

Refer to note 25 in the annual financial statements for more detail on the SAR plan.

CONDITIONAL SHARE PLAN

While outside the 2016 financial year, the following CSP's were awarded on 22 November 2016:

Executive director	Present value of CSP award R
David Hurwitz	
– Granted on 22 November 2016	1 684 672
Mark Herskovits	
– Granted on 22 November 2016	1 249 900
Ronen Goldstein	
– Granted on 22 November 2016	1 273 374

Note: vesting criteria are shown on page 94.

TRANSACTION CAPITAL GENERAL SHARE SCHEME

Executive director	Number of shares 2016	Value of shares 2016 R	Value of funding 2016 R	Number of shares 2015	Value of shares 2015 R	Value of funding 2015 R
David Hurwitz	**424 175**	**5 408 231**	**2 839 733**	679 740	6 797 400	4 032 649
Mark Herskovits	**–**	**–**	**–**	592 444	5 924 440	2 391 695

The rationale and context for the remuneration of these executive directors is as follows:

CHIEF EXECUTIVE OFFICER – DAVID HURWITZ

Mr Hurwitz' incentive bonus of R2 598 750 for 2016 comprised:

> a quantitative bonus for the growth of the group's earnings per share; and

> a qualitative bonus for the overall improvement in the state of the group during 2016, and progress in achieving the group's strategic objectives including the conclusion of acquisitions and stringent capital management in a challenging trading environment.

FINANCIAL DIRECTOR – RONEN GOLDSTEIN

Mr Goldstein's incentive bonus of R1 166 667 for 2016 comprised:

> a quantitative bonus for the growth of the group's earnings per share; and

> a qualitative bonus for the overall continued improvement in the state of the financial and risk structures and reporting of the group during 2016, and implementation of key group projects.

EXECUTIVE DIRECTOR – JONATHAN JAWNO

Mr Jawno's incentive bonus of R4 800 000 for 2016 comprised:

> a quantitative bonus for the growth of the group's earnings per share; and

> a qualitative bonus for his specific role in the management of risk and capital.

Mr Jawno does not participate in the SAR plan or CSP.

EXECUTIVE DIRECTOR: CAPITAL MANAGEMENT – MARK HERSKOVITS

Mr Herskovits' incentive bonus of R1 228 500 for 2016 comprised:

> a quantitative bonus for the growth of the group's earnings per share; and

> a qualitative bonus for meeting the group's capital management requirements well into the 2017 financial year.

EXECUTIVE DIRECTOR – MICHAEL MENDELOWITZ

Mr Mendelowitz' incentive bonus of R4 800 000 for 2016 comprised:

> a quantitative bonus for the growth of the group's earnings per share; and

> a qualitative bonus for his specific contribution toward capital deployment as well as strategic and acquisitive opportunities.

Mr Mendelowitz does not participate in the SAR plan or CSP.

Mr Jonathan Jawno and Mr Michael Mendelowitz are executive directors of the group, while Mr Roberto Rossi is a non-executive director with a consulting and project contract, and therefore not independent by definition (collectively, "founder directors").

The founder directors continue to be actively involved in various aspects of the group's businesses in support of executive line management. This involvement may include strategy, operations, acquisitions, disposals, capital raising, regulatory matters and participation in group and divisional management where appropriate. The board believes that the founder directors' participation in this manner adds considerable value for shareholders on an ongoing basis.

Following the JMR restructure (detailed on page 75), JMR Holdings Proprietary Limited (in which the respective family trusts of the founder directors hold equal shareholdings) continues to be the largest shareholder of reference of the group.

Due to the circumstances and history, the remuneration and fee arrangements of the founder directors are not conventionally structured. None of the founding directors participate in any of the group's employee share schemes or other long-term incentive plans. The base packages of the executive founder directors are well below market-related fees for directors of their calibre, where the non-executive director fees and consulting services of the non-executive founder director are also below market. At the end of each financial year, the independent non-executive members of the remuneration committee meet with the founder directors and consider their inputs and successes during the year. The remuneration committee then awards incentive bonuses and contract adjustments relative to quantitative and qualitative performance with reference to market benchmarks for listed companies comparable in size and industry.

REMUNERATION REPORT *continued*

PRESCRIBED OFFICERS' REMUNERATION

The following table shows a breakdown of the annual remuneration of prescribed officers for the year ended 30 September:

Prescribed officer	**Salary 2016 R**	**Benefits 2016 R**	**Annual incentive bonus 2016 R**	**Total 2016 R**	Salary 2015 R	Benefits 2015 R	Annual incentive bonus 2015 R	Total 2015 R
Prescribed Officer A	**2 664 522**	**275 478**	**2 327 500**	**5 267 500**	2 546 430	262 443	1 633 333	4 442 206
Prescribed Officer B	**2 728 524**	**1 909 962**	**2 887 500**	**7 525 986**	2 607 356	1 853 090	1 375 000	5 835 446
Total	**5 393 046**	**2 185 440**	**5 215 000**	**12 793 486**	5 153 786	2 115 533	3 008 333	10 277 652

NON-EXECUTIVE DIRECTORS' FEES FOR 2016

The following table illustrates fees paid to non-executive directors for membership of committees. Fees are paid to non-executive directors quarterly in arrears with no additional meeting attendance fees. This is due to board members providing input to the company on an ongoing basis, not limited to the attendance of meetings.

The fees paid to non-executive directors have been determined on a market-related basis, as recommended by the remuneration committee and the board, and approved by shareholders at the annual general meeting.

Board members	C Seabrooke[1] R	D Woollam R	P Langeni[2] R	D Tabata R	R Rossi[3] R	M Kgosana[4] R	K Pillay[5] R	**Total R**
Chairperson (including committee attendance)	1 200 000	–	–	–	–	–	–	**1 200 000**
Director	–	250 000	250 000	250 000	250 000	135 417	41 667	**1 177 083**
Audit, risk and compliance committee (chairperson)	–	160 417	–	–	–	189 583	–	**350 000**
Audit, risk and compliance committee (member)	–	81 250	150 000	–	–	–	–	**231 250**
Asset and liability committee (chairperson)	–	62 500	–	–	–	–	–	**62 500**
Remuneration committee (chairperson)	–	–	–	125 000	–	–	–	**125 000**
Remuneration committee (member)	–	–	–	–	–	–	10 000	**10 000**
Nominations committee (member)	–	–	–	60 000	60 000	–	–	**120 000**
Social and ethics committee (chairperson)	–	–	125 000	–	–	–	–	**125 000**
Total annual fees	1 200 000	554 167	525 000	435 000	310 000	325 000	51 667	**3 400 833**

1 Mr Seabrooke is also the chairman of the nominations committee and a member of the remuneration committee, audit risk and compliance committee and the asset and liability committee.

2 In addition to the fees received above, Ms Langeni received directors' fees of R200 000 for acting as an independent non-executive director of SA Taxi Finance Holdings (Pty) Ltd and Transaction Capital Risk Services (Pty) Ltd.

3 Mr Rossi received R890 000 for consulting services, in addition to the fees above.

4 Appointed as a non-executive director effective 15 March 2016.

5 Appointed as a non-executive director effective 1 August 2016.

NON-EXECUTIVE DIRECTORS' FEES FOR 2015

Board members	C Seabrooke R	D Woollam R	P Langeni[1] R	D Tabata R	S Zagnoev[2] R	R Rossi[3] R	**Total R**
Chairperson (including committee attendance)	1 200 000	–	–	–	–	–	**1 200 000**
Director	–	250 000	250 000	250 000	250 000	250 000	**1 250 000**
Audit, risk and compliance committee (chairperson)	–	350 000	–	–	–	–	**350 000**
Audit, risk and compliance committee (member)	–	–	150 000	–	–	–	**150 000**
Remuneration committee (chairperson)	–	–	–	125 000	–	–	**125 000**
Nominations committee (member)	–	–	–	60 000	–	60 000	**120 000**
Social and ethics committee (chairperson)	–	–	125 000	–	–	–	**125 000**
Total annual fees	1 200 000	600 000	525 000	435 000	250 000	310 000	**3 320 000**

1 In addition to the fees received above, Ms Langeni received directors' fees of R200 000 for acting as an independent non-executive director of SA Taxi Finance Holdings (Pty) Ltd and MBD Credit Solutions Holdings (Pty) Ltd.

2 Resigned effective 8 December 2015.

3 Mr Rossi received R890 000 for consulting services, in addition to the fees above.

CONCLUSION

Transaction Capital is mindful of the sensitivities surrounding executive compensation and will therefore:

> Adhere to King Codes of Governance Principles with regard to remuneration (King III and the recently released King IV) or any other industry-specific guidelines in the payment and disclosure of executive compensation.

> Disclose the principles and practices used to determine executive compensation.

> Offer full explanation and disclosure in those instances where executive compensation is not aligned to short-term performance.

> Exercise caution in making awards to departing executives.