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.

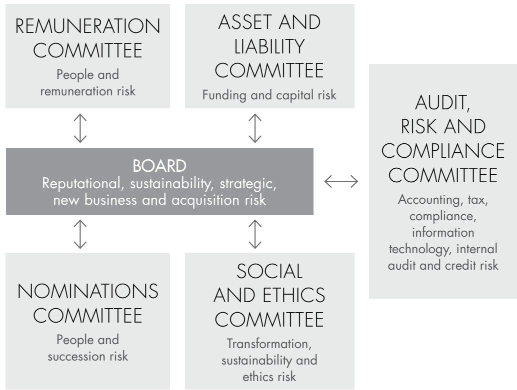
Risk tolerances are determined by each of the group's divisions and approved and monitored by the audit, risk and compliance (ARC) committee.

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

RISK REPORT *continued*

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.

RISK REPORT *continued*

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.

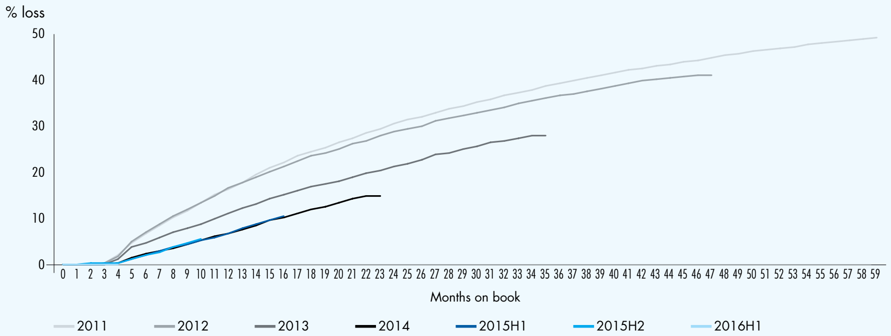
The business continues to rely on Toyota minibus taxis for new vehicle originations, thus potential shortages of these vehicles presents a risk. This risk manifested in the 2015 financial year when Toyota's plant underwent a refurbishment process, which impacted the level of new vehicle originations. 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)



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.

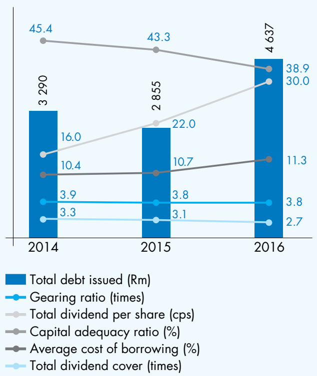
INTEREST RATE RISK

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

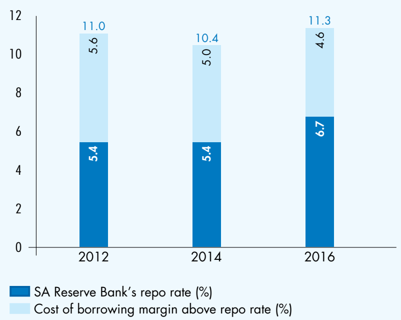
The group's general interest rate risk management strategy is to match the re-pricing characteristics of assets to liabilities, thus if a division originates floating-rate assets it should issue floating-rate debt or hedge accordingly.

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



COST OF BORROWING SINCE LISTING



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.