CHAIRMAN'S REPORT

CHRISTOPHER SEABROOKE
CHAIRMAN

INTRODUCTION

THE 2016 AND 2017 FINANCIAL YEARS WERE CHARACTERISED BY HEIGHTENED CONCERNS REGARDING SOUTH AFRICA'S ECONOMIC POTENTIAL AND SOCIO-POLITICAL STABILITY, WITH THE CONCOMITANT RISK OF SOUTH AFRICA'S LOCAL CURRENCY RATING DOWNGRADE EXPECTED TO REMAIN AS A CENTRAL THEME IN THE IMMEDIATE FUTURE.

Consumers and the small- and medium-sized enterprise (SME) sector in South Africa remain vulnerable, with low real wage growth, high unemployment levels (currently estimated at 27.7%), the persistently high cost of household essentials despite slightly lower levels of inflation, only slightly reduced levels of household debt to income (72.6% for the second quarter of 2017) and muted gross domestic product (GDP) growth continuing to impact business confidence.

The combined effect of these factors is seen in the results of Transaction Capital's Consumer Credit Rehabilitation Index (CCRI), which samples over five million consumers from Transaction Capital Risk Services' proprietary database. It showed that the national rehabilitation prospects of South African consumers already in a default position deteriorated by 1.1% in the second quarter of 2017 (compared to the corresponding quarter in 2016), followed by a further deterioration of 0.9% in the third quarter of 2017 (compared to the third quarter in 2016).

While household debt to income has reduced, this is mainly due to debt growing at a slower pace than income, rather than an absolute decline in household debt. The 25 basis points rate cut in July 2017 and lower inflation (5.1% at 30 September 2017) may improve the debt servicing ability of households, albeit moderately. No meaningful improvement in the consumer environment is expected, and tighter retail credit extension will support this gradual decrease in the debt burden of consumers.

Stable medium-term GDP growth is expected in Australia, which will serve to further diversify Transaction Capital's earnings over time.

HIGHLY DEFENSIVE BUSINESSES DELIVERING STRONG GROWTH

Despite persistent challenges in the South African market, Transaction Capital has continued to deliver high-quality organic earnings growth with high cash conversion rates since it listed on the JSE Limited five years ago. Headline earnings per share for the five years to 30 September 2017 grew at a compound annual growth rate (CAGR) of 21%, with dividends per share growth at a CAGR of 36% since 30 September 2014.

GOVERNANCE CHANGES

The board welcomed two new non-executive directors in the year. Olufunke Ighodaro, appointed to the board on 1 April 2017 as an independent non-executive director, brings a wealth of business experience and chairs the group's audit, risk and compliance committee. Olufunke has served as chief financial officer of Tiger Brands Limited and Primedia Limited. Paul Miller, a qualified corporate lawyer who built his career at the international law firm Berwin Leighton Paisner LLP, was appointed to the board on 1 July 2017. Paul has executed numerous equity capital market transactions and merger and acquisition deals during his 25-year legal career, and is also the chief executive officer of Everglen Capital Proprietary Limited. We welcome Olufunke and Paul to the board, and look forward to their contribution to Transaction Capital's growth.

We also welcome Theresa Palos, who was appointed as company secretary with effect from 2 March 2017. Theresa replaces Statucor (Pty) Ltd.

David Woollam and Dumisani Tabata resigned as independent non-executive directors with effect from 2 March 2017, and Moses Kgosana resigned as an independent non-executive director with effect from 8 September 2017. The board thanks these directors for their years of service to the group, and wishes them well in their future endeavours.

The annual performance evaluation of the board, conducted in November 2017, reaffirmed the effectiveness of the board in its direction of the group.

The King IV Report on Corporate Governance (King IV), 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 conforms to the principles contained in King IV.

SHAREHOLDING

In February 2017, Transaction Capital returned to the equity market for the first time since listing. In an accelerated bookbuild, the group issued 28.4 million shares, raising R419 million to create the capacity for further acquisition opportunities. The issuance was oversubscribed and predominantly taken up by institutional investors.

As management was not permitted to participate in the bookbuild, the shareholding of directors decreased from 46% to 44%. Thus, the group's free float percentage is now at 56% (2016: 54%), with its institutional shareholding and foreign ownership increasing to 31% (2016: 28%) and 6% (2016: 3%) respectively.

The implementation of the Transaction Capital Limited Conditional Share Plan (CSP) was approved by shareholders 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. The remuneration report starting on page 92 provides further detail on the CSP.

DIVIDEND POLICY AND DIVIDEND DECLARATION

The dividend policy has been amended to a reduced cover ratio of 2 to 2.5 times (previously 2.5 to 3 times). This change has been implemented due to the improved quality of earnings as evidenced by high cash conversion rates and lower balance sheet risk, the stable capital requirements of the group and the ungeared net position of the holding company. All of these factors allow for a higher sustainable dividend pay out going forward.

Following the interim dividend of 15 cents per share (2016 interim: 12 cents per share), and in line with the new dividend policy, the board has declared a final gross cash dividend of 25 cents per share (2016: 18 cents per share) for the six months ended 30 September 2017.

CONCLUSION

Transaction Capital owns businesses that operate in highly specialised and under-served segments of the South African and Australian financial services market. Its market-leading divisions, SA Taxi and Transaction Capital Risk Services, led by entrepreneurial and experienced management teams, represent a diversified and scalable financial services platform, underpinned by a mature governance framework. The divisions leverage their proprietary data and technology to create value for their customers. Positioned deliberately in relation to demographic and socio-economic realities, they deliver both commercial returns and social benefits.

Despite persistent challenges in the economic environment, these defensive businesses continue to deliver strong performance and high-quality earnings.

I extend my appreciation to the group's leadership for providing strategic clarity and direction, and for the dedication and commitment of its more than 4 000 employees. My thanks also extend to the board for ongoing guidance and insight, and the group's bankers, funders and advisers for their continued support.