RISK 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.

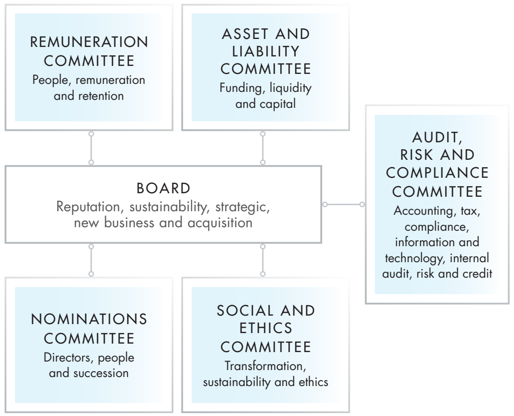
Risk tolerances on key performance and strategic metrics are determined by each of the group's divisions and approved and monitored by the ARC committee.

RISK FRAMEWORK AND THE GOVERNANCE OF RISK

The board is ultimately responsible for the governance of risk. The board delegates the responsibility for managing risk 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. 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



Risk management 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 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. The profile also incorporates information pertaining to the level of controls in place and the 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

ESTABLISH OBJECTIVE
- Link to strategy
- Set financial and non-financial targets and timelines

IDENTIFY RISK
- Stakeholder engagement
- Risk workshops
- Understand key revenue/loss points
- Relevant data

QUANTIFY RISK
- Event description
- Likelihood assessment (per approved risk quantification framework)
- Impact assessment (per approved risk quantification framework)

MITIGATE RISK
- Existing controls
- Required improvements, including responsibilities and timelines
- Monitoring of the above
- Opportunity maximisation

DETERMINE 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

Funding and capital risk, relating to:

- A challenging debt and capital raising environment due to market events (such as the potential for further sovereign ratings downgrades and generally challenging market conditions).
- Inappropriate deployment of capital.

Stakeholder concerns

- Maintaining appropriate access to funding in an environment where funding may be difficult to obtain.
- Increased costs of funding impacting net interest margin earned.
- Inappropriate allocation of capital resulting from sub-optimal capital management.

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, liquidity 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 its annual debt requirements for the 2018 financial year, and Transaction Capital Risk Services (TCRS) raising adequate funding facilities to fund its book buying aspirations.

Over R500 million of capital was deployed in accretive acquisitions during the year, generating diversified revenue streams by product and geography.

R419 million was raised in an oversubscribed accelerated bookbuild, providing the capacity and flexibility for further acquisitions.

Rigorous investment criteria are adhered to (see risk 2 and 3 that follow), with active treasury management of excess funds.

65 SEE THE Q&A WITH MARK HERSKOVITS, EXECUTIVE DIRECTOR: CAPITAL MANAGEMENT, FOR FURTHER DETAIL

RISK 02

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

Stakeholder concerns

- Inappropriate identification of targets and the ineffective subsequent integration thereof adversely affecting the returns and value proposition of the group.

Mitigation

Acquisitions are assessed against Transaction Capital's acquisition strategy and stringent investment criteria.

18 SEE STRATEGIC OBJECTIVE 4 FOR TRANSACTION CAPITAL'S ACQUISITION STRATEGY AND INVESTMENT CRITERIA

The board applies its collective mind to the funding of acquisitions to ensure an appropriate combination of debt and equity funding to maintain appropriate risk-adjusted returns.

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 completed.

RISK 03

Risk of reduced ROE following recent acquisitions.

Stakeholder concerns

- Transaction Capital's inability to generate returns on invested capital to meet shareholder requirements.

Mitigation

In line with the strict acquisition criteria discussed under risk 2, the group's recent acquisitions have been ROE accretive.

In addition, recent acquisitions have diversified the revenue and earnings streams of the group, both from a geographic and product perspective.

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

RISK 04

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 profitability of the business.

Mitigation

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

Compliance functions are embedded within the divisions that have high levels of regulatory compliance requirements, to 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 05

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

Stakeholder concerns

- Inappropriate 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 and efficient collections performance.
- Obtaining appropriate group and divisional executive approval for potential purchases.
- Initiating and concluding exclusive negotiations with several of its larger clients, ensuring high-quality purchases and enabling bespoke purchase agreements.

63 SEE THE FINANCIAL DIRECTOR'S REPORT FOR PERFORMANCE IN ACQUIRING NPL PORTFOLIOS

RISK 06

The impact of difficult economic conditions and stringent regulatory requirements on revenue (applicable to TCRS).

Stakeholder concerns

- Lower growth in revenue.

Mitigation

- TCRS' 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.
- Revenue streams continue to be developed by innovative, bespoke product offerings and solutions.
- Recent acquisitions have provided the group with the ability to further diversify its product offering and geographic footprint.

18 SEE STRATEGIC OBJECTIVE 4 FOR MORE DETAIL ON ACQUISITIONS DURING THE YEAR

RISK 07

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 (applicable to 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 08

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

Stakeholder concerns

- Constraints to long-term sustainable growth.

Mitigation

SA Taxi is strategically positioned to deepen its vertical integration into its current market segment while leveraging its existing competencies. This includes expanding its direct sales retail channel, enhancing its telematics services and expanding its insurance offering.

34 SEE SA TAXI'S DIVISIONAL REVIEW, WHICH INCLUDES THE Q&A WITH TERRY KIER, FOR MORE INFORMATION 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 (applicable to SA Taxi).

Stakeholder concerns

- Protest action from within the South African taxi industry.
- Credit quality of the book and of new business may be negatively impacted.
- Muted collections performance and/or origination activity due to affordability.

Mitigation

- Credit policies are adjusted appropriately and adhered to stringently, with credit vintages being consistently monitored.
- The ability to grant credit to creditworthy customers not being serviced by traditional credit providers to secure an under-served market segment.
- The efficiency of SA Taxi's ability to repossess, refurbish and resell vehicles assists in maintaining low levels of ultimate credit loss.
- Intensive and continuous engagement and collaboration with key industry stakeholders and associations to ensure the sustainability of the taxi operator and industry as a whole.
- The effectiveness of SA Taxi's ability to manage this risk is reflected in continued improvements in its credit performance.

88 FOR FURTHER DETAILS ON SA TAXI'S CREDIT PERFORMANCE

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 as follows:

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, and 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.

IFRS 9 was early adopted in the 2015 financial year, resulting in a higher quality of earnings due to 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.

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 NPL 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.

Loan portfolios are divided into performing loans and NPLs. 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.

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 (of which membership includes group executives), 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.

While SA Taxi exclusively services the minibus taxi industry, it 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.

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.

SA TAXI

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

	2017	2016
Interest income % – average gross loans and advances	**22.7**	22.2
Interest expense % – average gross loans and advances	**(11.3)**	(11.1)
Net interest income % – average gross loans and advances (net interest margin)	**11.4**	11.1
Impairment expense % – average gross loans and advances (cost of credit)	**(3.2)**	(3.1)
Risk-adjusted net interest income % – average gross loans and advances	**8.2**	8.0

The net interest income margin increased to 11.4% due to slightly lower gearing and an improved NPL ratio, despite an increase in the cost of borrowing. The recent downgrades of South Africa's credit rating and the industry protest action have not had a meaningful impact on SA Taxi's net interest margin or other credit metrics. The risk-adjusted net interest margin improved to 8.2% from 8.0% in the prior year.

SA Taxi's provisions and NPLs are set out below.

		2017	2016
NPL ratio	%	**17.1**	17.4
Provision coverage	%	**5.2**	6.7
Credit loss ratio	%	**3.2**	3.1

The credit loss ratio of 3.2% remained at the bottom end of the division's risk tolerance of 3% to 4%, and the NPL ratio improved to 17.1% from 17.4%. A combination of strong collection performance, high credit quality of loans originated in the retail dealership, conservative credit granting criteria and the ability to refurbish and re-sell high quality vehicles supported this improvement.

Enhancing the value of vehicles through refurbishment enables SA Taxi to recover more than 73% of loan value on the sale of repossessed vehicles. The division operates the largest minibus taxi repair facility in Africa, and the average cost to repair repossessed vehicles was reduced further in the year. This was due to efficiencies achieved in the combined auto body repair and mechanical refurbishment centre. Due to fewer NPLs, the reduced average cost to repair repossessed vehicles and higher recoveries on the re-sale of these vehicles, provision coverage reduced to 5.2%. At this level, SA Taxi's after tax credit loss remains conservatively covered at 2.3 times.

The business continues to rely on Toyota minibus taxis for new vehicle originations, thus potential shortages of these vehicles presents a risk. The dominance of Toyota supports a stable market value for the sale of repossessed refurbished vehicles, which underpins SA Taxi's credit model. While SA Taxi's market share of Toyota minibus originations is steadily increasing, SA Taxi is implementing various initiatives in increasing its quota of new vehicle sales.

SA Taxi is also continually diversifying its product lines to counter the reliance on Toyota minibus taxis, including working with Nissan and Mercedes, with the Mercedes Sprinter mainly used for long-distance routes, to ensure their minibus taxi vehicle market is sustainable, and increasing the supply of repossessed refinanced (i.e. pre-owned) Toyota minibus vehicles to meet supply shortfalls.

TCRS

In TCR, purchased NPL portfolios have inherent credit risk, which 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 NPL portfolio involves the divisional executives and group executive directors, depending on whether its value falls above a certain threshold.

The current economic climate and TCRS' data, scale and capital position favour the acquisition of NPL portfolios in South Africa from risk averse clients who prefer an immediate recovery against their NPLs.

TCRS acquired 29 portfolios with a face value of R5.2 billion for R356 million during the year. TCRS now owns 195 principal portfolios with a face value of R12.2 billion, valued at R891 million at 30 September 2017.

		2017	2016
Asset turnover ratio	%	**52.1**	71.7
Estimated remaining collections	Rm	**1 673**	1 313

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 where it 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 capital management report on page 66 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.

65 SEE THE Q&A WITH MARK HERSKOVITS, EXECUTIVE DIRECTOR: CAPITAL MANAGEMENT, 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.

During the year under review, Transaction Capital deployed in excess of R500 million to three acquisitions. In February 2017, the group raised R419 million in an accelerated bookbuild process. The group's balance sheet remains well capitalised, liquid and ungeared (on a net basis). With excess capital of around R650 million, the group has the flexibility for immediate cash settlement of any future acquisitions.

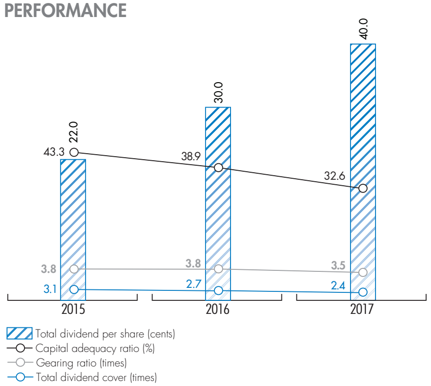
In addition, the dividend policy has been amended to an improved cover ratio of 2 to 2.5 times (previously 2.5 to 3 times).

72 SEE THE CHAIRMAN'S REPORT FOR MORE INFORMATION ON THE REVISED DIVIDEND POLICY AND THE DIVIDEND DECLARATION

The cost of borrowing increased in the year under review due to a meaningful proportion of funding being raised from international investors (in line with the group's strategy to diversify its funding sources), offset to an extent by a decrease in the repo rate. 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.

No forward cover has been taken on foreign exchange movements arising from Recoveries Corporation's earnings.

PERFORMANCE



Interest rate risk

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

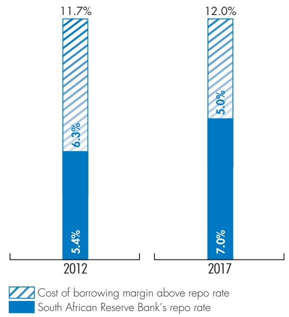
The group's general interest rate risk management strategy is to match the re-pricing characteristics of assets to liabilities; thus, if a division originates floating-rate assets, it should issue floating-rate debt or hedge accordingly.

However, each division can 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.

Furthermore, 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.

COST OF BORROWING SINCE LISTING



Information technology risk

The group manages and maintains a significant volume of confidential personal information in its daily operations. Through the consideration of relevant ISO standards and best practice, the group has executed appropriate measures to protect this information against loss, damage, destruction, and unlawful access. In addition to physical security, key interventions that have been implemented include state-of-the-art firewalls enabled for deep packet inspection, encryption technology, rigorous scanning processes to detect viruses and malware, and ongoing external vulnerability testing. The group has adopted a paperless policy, and employee training programmes geared towards information technology security and awareness are regularly conducted.

The group invests heavily in information technology to ensure that its businesses are efficient and to reduce the risk of disruption.

42 & 52 SEE THE Q&As WITH TERRY KIER AND DAVID MCALPIN FOR FURTHER DETAILS IN THIS REGARD

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 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.

92 SEE THE REMUNERATION REPORT FOR MORE INFORMATION ON THE GROUP'S REMUNERATION POLICY AND IMPLEMENTATION

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.

	B-BBEE level
SA TAXI	4
TCR	3
PRINCIPA	4
TCBS	5
ROAD COVER	4
THE BEANCOUNTER	4
GROUP EXECUTIVE OFFICE	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, regulation 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.

80 SEE 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.