



CREDIT RATING ANNOUNCEMENT

GCR affirms Transaction Capital Limited's national scale credit rating at A-(ZA), Stable Outlook

Johannesburg, 26 June 2017 – Global Credit Ratings has affirmed the national scale ratings of A-(ZA) and A1-(ZA) accorded to Transaction Capital Limited in the long term and short term respectively; with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale local currency (LC) rating of Transaction Capital Limited at BB-; with the outlook accorded as Negative.

RATING RATIONALE

The ratings of Transaction Capital Limited ("TC", "the group") reflect its strong, flexible financial profile (featuring solid capitalisation and substantial diversified debt funding), ample liquidity and stable, acceptable returns. Consistent strategy implementation, recent acquisition activity, and the challenging operating environment, were also considered.

TC comprises two independently risk-managed operating divisions. SA Taxi provides developmental credit, insurance and allied services to SMEs operating primarily in the minibus taxi industry. At FY16, SA Taxi had gross loans of R7.2bn (to 21,766 clients) contributing 54% (FY15: 53%) of group headline earnings. Transaction Capital Risk Services ("TCRS") is a technology-led, data-driven provider of customer management services through a scalable, bespoke platform, enabling its clients to mitigate risk through their customer engagement lifecycle. TCRS contributed 37% (FY15: 34%) of FY16 group headline earnings, and this contribution is expected to rise in FY17, following the conclusion of three complementary risk services acquisitions in 1H FY17.

Capitalisation is adequate at divisional and group levels. The non-risk weighted capital/assets ratio was 34.1% (FY15: 37.6%), reflecting a slight reduction in excess cash levels. The capital/asset ratio of 32.4% at 1H FY17 reflects a R419m capital raising offset by acquisitions of R507m. At FY16, subordinated debt of R965m (FY15: R1.2bn) supported equity of R2.9bn (FY15: R2.6bn).

Interest-bearing debt rose 12.6% to R7.5bn in FY16, and comprised secured and unsecured debt capital market issuances, bilateral facilities from local institutions/banks, and foreign currency loans from development finance institutions ("DFIs"). As 70-80% of SA Taxi's debt is amortising, funding replenishment supports business growth. Maintenance of a manageable repayment profile and diversified funding base are key supportive rating factors. In FY16, the group raised R4.6bn in debt (1H FY17: R4bn, including R2bn in DFI facilities), and opportunistic pre-funding initiatives have increased committed funding coverage to 19 months of loan originations (target: 12 months' operating requirements).

A positive cumulative liquidity structure (in line with TC's debt principles) was supported by staggered funding needs, regular access to debt from diversified sources, and proactive funding planning, which largely mitigate liquidity timing risks. Before considering internal group treasury management processes, cash and liquid funds comprised 5.4% of total assets at 1H FY17 (FY16: 10.1%), and were replenished through the capital raising to support future acquisition activity.

Credit metrics improved in FY16, with the non-performing loan ("NPL") ratio declining to 16.3% (FY15: 17.0%), while the credit loss ratio fell to 2.9% (FY15: 3.6%). Asset quality trends illustrated the strength of credit underwriting and collections, as well as enhanced recovery processes (due to cost efficient refurbishment through Taximart and rising vehicle prices). Pre-collateral NPL coverage remains adequate in light of higher recovery rates.

Earnings performance was resilient in FY16 and 1H FY17. Net interest income was driven by strong loan growth in SA Taxi, and margin compression linked to higher funding costs. Non-interest revenue ("NIR") expanded, with lower growth in contingency and fee-for-service income bolstered by collections on purchased book debts, and SA Taxi's insurance and dealership income. Slowing cost growth and lower impairment charges boosted pre-tax profitability by 20.4% to R601m (FY15: R499m). However, higher effective tax rates in FY16 tempered headline earnings growth to 16.5%. ROaA and ROaE remained fairly flat at 4.4% and 16.9% (FY15: 4.4% and 16.7%) respectively. FY17 earnings are expected to be impacted by acquisitive growth, continued growth in NIR, higher funding costs, and ongoing cost containment efforts.

Evidence of healthy and stable financial/credit metrics through the economic cycle, together with an improvement in the operating environment, could bolster the ratings. Negative rating action could follow a material deterioration in profitability, asset quality, liquidity and capital ratios. Furthermore, the international scale rating will be sensitive to changes in the sovereign rating of the country.

NATIONAL SCALE RATINGS HISTORY

Initial/last rating (November 2016)
Long-term: A⁻(ZA), Short-term: A1⁻(ZA)
Rating outlook: Stable

INTERNATIONAL SCALE RATINGS HISTORY

Initial rating (November 2016)
International (LC): BB
Rating outlook: Stable

Last rating (April 2017)
International (LC): BB-
Rating outlook: Negative

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Global Criteria for Rating Finance and Leasing Companies, updated March 2017
TC rating report (2016)

RATING LIMITATIONS AND DISCLAIMERS

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SALIENT FEATURES OF ACCORDED RATINGS

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

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

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

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

- Audited financial results of the group to 30 September 2016 (plus four years of comparative numbers);
- Interim financial results of the group to 31 March 2017;
- Latest internal and/or external audit reports to management;
- A breakdown of facilities available and related counterparties;
- Corporate governance and enterprise risk framework; and
- Information specific to the rated entity or industry.

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

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

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| Asset | A resource with economic value that a company owns or controls with the expectation that it will provide future benefit. |
| Asset Quality | Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform. |
| Capital | The sum of money that is invested to generate proceeds. |
| Cash | Funds that can be readily spent or used to meet current obligations. |
| Collateral | Asset provided to a creditor as security for a loan. |
| Credit Rating | An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories. |
| Debt | An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period. |
| Equity | Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit. |
| Impairment | Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments. |
| Interest | Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan. |
| International Scale Rating LC | International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions. |
| Liquidity | The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price. |
| Long-Term | Not current; ordinarily more than one year. |
| Long-Term Rating | Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations. |
| Margin | The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread. |
| National Scale Rating | Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state. |
| Performing Loan | A loan is said to be performing if the borrower is paying the interest on it on a timely basis. |
| Risk | The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives. |
| Short-Term | Current; ordinarily less than one year. |
| Short-Term Rating | An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions. |
| Subordinated Debt | Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt. |

For a detailed glossary of terms please click [here](#)

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