Transaction Capital Limited

South Africa Financial Institution Analysis **June 2017**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long-term	National	A-(ZA)	Stable	June 2018
Short-term	National	A1-(ZA)		
Long-term	International LC	BB-	Negative	June 2018

Financial data:

(USDm comparative)

	30/09/15	30/09/16
R/USD (avg.)	11.26	14.70
R/USD (close)	14.03	13.86
Total assets	677.5	785.8
Total capital‡	255.0	267.6
Borrowings‡	388.2	469.8
Net advances	439.1	518.8
Liquid assets	79.6	79.6
Operating income	179.0	146.8
Profit after tax	36.0	31.5
Market cap.*	ZAR8.9bn/USD687m	
Market share	n.a.	

‡ Subordinated debt is included as Tier 2 capital.
* Valuation on 9 June 2017 (ZAR/USD 12.95).

Rating history:

Initial rating (November 2016)
Long-term: A-(ZA)
Short-term: A1-(ZA)
Rating outlook: Stable
Long-term (International LC): BB
Rating outlook: Stable

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

Related methodologies/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)

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Summary 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 ("NII") 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.

Factors that could trigger a rating action may include

Positive change: Evidence of healthy and stable financial/credit metrics through the economic cycle, together with an improvement in the operating environment.

Negative change: 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.

Organisational profile

Business overview

TC was formed in 2007 by a merger of several South Africa-based specialist financial services businesses, and listed on the JSE in 2012. The group targets leading positions in selected market segments, utilising an entrepreneurial culture, human capital and technological capabilities, and vertical integration to cement competitive advantages. Operations focus on financial services opportunities which are defensive (ie, continue to generate solid returns under a range of economic conditions), and have scope for organic and/or acquisitive growth.

In 2014, following sales of selected businesses and a corporate restructure, TC separated its remaining businesses into its two operating segments (SA Taxi and TCRS), key components of which are set out in Table 1. In 1H FY17, TC finalised purchases of controlling stakes in three risk services businesses, in line with its acquisition strategy, and to enhance earnings growth and diversification.

Table 1: Business division description
SA Taxi Finance Holdings (Pty) Ltd and its subsidiaries
A vertically integrated taxi platform incorporating vehicle procurement, retail, finance, insurance, repossession, spare part procurement and refurbishment capabilities, combined with SA Taxi's proprietary data to deploy developmental credit, distribute bespoke taxi insurance, sell focused vehicle models and other allied services to taxi operators, thus ensuring the sustainability of a fundamental mode of transport. Operational capabilities include vehicle/spare parts procurement, and vehicle refurbishment (Taximart); direct vehicle retail (SA Taxi Direct); insurance (SA Taxi Protect); and telematics. SA Taxi applies these capabilities to finance fixed route minibus taxis and point-to-point metered taxis as income-producing assets for SMEs.
Transaction Capital Risk Services (Pty) Ltd and its subsidiaries
Transaction Capital Recoveries (Pty) Ltd, and its subsidiaries/affiliates
Provider of customer management services, capital solutions and value added services to some of the largest Southern African credit providers. • Customer management services: early and late stage collections, legal collections, and structural outsourcing. • Capital solutions: distressed debt purchases and bespoke and structural capital solutions.
Transaction Capital Business Solutions (Pty) Ltd
Provider of working capital and commercial receivables management solutions to SMEs.
Transaction Capital Payment Solutions (Pty) Ltd
Provider of payment processing services (to corporate clients), via EFT and related products.
Principa Decisions (Pty) Ltd
Provider of customer management solutions (focusing on the consumer credit lifecycle) leveraging consulting, data analytical, software development and technology capabilities.
Recoveries Corporation Group Ltd*
Provider of customer management solutions to sectorally diverse clients in Australia. Services include debt recovery solutions, insurance claims recoveries, customer services and litigation management.
RC Value Added Services (Pty) Ltd ("**Roadcover**")*
Proprietary value added services.
The Beancounter Financial services (Pty) Ltd*
Outsources accounting, payroll and tax services.

* Acquired during 1H FY17 for a total cash consideration of R507m.
Source: TC.

SA Taxi contributed 54% (FY15: 53%) of group headline earnings and 80% (FY15: 78%) of assets (per TC data sheets which include goodwill), while TCRS contributed 37% and 15% of FY16 headline earnings and assets respectively. SA Taxi and TCRS are complemented by a group executive office ("GEO") which performs oversight, support and treasury functions.

Strategy

TC's strategy includes: generation of organic and acquisitive growth; credit risk and capital management; data and technology; and people. As regards the growth strategies, TC aims to develop businesses which are defensive and have scope for growth (organically or by acquisition of compatible businesses). Organic growth is primarily driven by vertical integration within existing businesses, and development of complementary businesses. Revenue is supported by data and technology enhancements, and staff training, development and incentivisation processes, which together drive operational and cost efficiencies. The group's risk management structures, treasury function and debt finance teams balance asset growth objectives with financing constraints within group capital and risk management processes.

SA Taxi is entrenched in the fixed route minibus taxi finance and insurance business, and its strategy includes extending the range of services offered within this line to control additional value streams, while enhancing recoveries. The contribution of Taximart (which refurbishes repossessed minibus taxis for sale in the secondary market), and SA Taxi Direct (which sells new and pre-owned premium taxis, forming part of a strategic distribution channel for the group) illustrate the entrenchment of the vertical integration strategy. Furthermore, SA Taxi Protect (short-term taxi vehicle insurance) as well as the successful leveraging of existing competencies in adjacent market segments including the metred point-to-point taxi industry, further illustrate active implementation of group strategy within SA Taxi. The investment in telematics technology has improved collections and recoveries as data is built on taxi movements, and benefits are expected to extend to gains from innovation in loan origination and credit underwriting.

TCRS is focussed on expanding industry solutions to entrench and grow its leading market position in South Africa; targeting strategic acquisitions to leverage/enhance its local capabilities and expand internationally; pioneering innovative/bespoke capital solutions to deliver superior risk-adjusted returns; leverage technology, data and analytics in the scalable and sizeable platform to drive profitable growth; and to develop, engage and reward staff and engender a high performance culture. Achievement of solid growth in FY16 and 1H FY17, together with branch rationalisation and operational enhancements within Transaction Capital Recoveries, and the

acquisition of Recoveries Corporation, Roadcover and The Beancounter, reflect developments in line with strategic goals.

Organisational structure

Ownership structure

Table 2 sets out TC's 31 March 2017 shareholding.

Table 2: Effective shareholding	%
Directors	44
Allan Gray	10
Old Mutual	10
Other institutional shareholders	31
Other private shareholders	5

Source: TC 1H F17 Interim Results.

During FY15, as part of the group's Broad Based-Black Economic Empowerment strategy, Transaction Capital Recoveries and Principa entered into an ownership transaction in respect of which the iThemba Trust acquired 17% of the equity of these companies. Management (which has a significant equity stake in the group) is not aware of planned material changes to the shareholding structure.

Governance structure[1]

Table 3 summarises the composition of the board of directors ("board") and group adherence to selected aspects of good corporate governance. The board has indicated that TC materially complies with King III principles/recommended practices, where applicable, as well as JSE listing requirements, the Companies Act, and other relevant regulatory provisions. The group's financial services operations as a non-deposit taking financial institution ("NBFI") are regulated by the National Credit Regulator ("NCR") and Financial Services Board ("FSB"), amongst others.

Table 3: Corporate governance summary at 31 March 2017	
Number of directors	11
- Independent NEDs*	5
- Non-independent NED*	1
- Executives	5
Separation of chairman	Yes
Board meeting frequency	Quarterly. 5 meetings held in FY16.
Board committees	Audit, Risk and Compliance ("ARC"), Social and Ethics, Nominations, Remuneration, and Asset and Liability ("ALCO"). ARC comprises independent NEDs; independent NEDs chair all committees.
External auditors, rotation policy	Deloitte & Touche. Annual ARC confirmation, 5-year partner rotation.
Internal control and compliance	Yes, reports to ARC.

*NED – Non-executive director.

Source: TC 1H FY17 Interim results.

The annual self-review of the effectiveness of the board and its committees undertaken in November 2016 did not highlight required changes.

Control structure

The ultimate management, oversight and governance structures of the group are robust and led by the TC board, which sets strategy, risk parameters and ethics/ governance direction, approves financial results and budgets, and monitors the performance of the boards and managers of the operational divisions relative to their delegated responsibilities, and the strategic framework. Each division has its own board (including NEDs, some of whom are TC board members and therefore non-independent).

Management is delegated to CEO-led executives at divisional and subsidiary levels. SA Taxi and TCRS have divisional executive committees ("Excos"), into which subsidiary Excos report, with oversight from divisional and TC boards exercised through approved authority matrices. Common structures for control/ governance prevail throughout group operating entities, supported by an integrated strategic/tactical outlook, a strong, stable executive, and appropriate compliance and operational policies. Operations are subject to internal/external reporting oversight, while subsidiary, divisional and consolidated annual budgeting/monthly performance reporting are supplemented by internal and external audits.

Risk management and compliance structures

The board delegates its risk management oversight responsibility to its ARC and ALCO committees. ARC monitors risks associated with financial reporting, accounting policies, internal control system and IT governance, while ALCO monitors risks associated with liquidity and funding, interest rate and currency risks, and capital adequacy. An ARC-developed and approved risk management framework guides the related policies, plans and monitoring processes. ALCO and ARC set group risk tolerances at least annually. Risk management is devolved through the organisation's executives. TC's financial director oversees group risk, while subsidiary and divisional executives integrate risk management into daily operations. Regular workshops reinforce the risk management culture. Risk monitoring, reporting and resolution is consolidated through the divisions and at group level, with ARC and the board providing ultimate oversight. The risk management framework requires objectives to be linked to business imperatives; risk identification, quantification and mitigation; and quantification of implications on capitalisation.

As TC's operations are complex, highly regulated and subject to rapidly changing legislation, the group compliance and legal team is supported by business level compliance departments. The group compliance department collates relevant matters for escalation to Excos and ARC. Risk management, internal audit and compliance structures are supported by a strong compliance reporting framework and active ALCO.

[1] Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test compliance.

Human resources and staffing
Experience, tenure, competence and the retention of institutional memory are prioritised at senior management level. TC's management has remained stable, given the significant ownership stakes of key executives and a practice of promoting talent from within. Management continuity is critical given the complex and highly regulated environments in which TC's businesses typically operate. At FY16, the staff complement totalled 3,260 (FY15: 3,913) split between SA Taxi (840), TCRS (2,395), and the GEO. While the SA Taxi staff complement grew by 34% in FY16, staff reductions were driven by Transaction Capital Recoveries branch rationalisation which, together with the enhancement of its predictive dialler, significantly increased call centre efficiency. Staffing is considered adequate to support TC's current operational scale and development goals. By 1H FY17, the TCRS employee count had grown by almost 755 employees following acquisitions.

Reporting structure and access to information
TC's financial accounts are prepared in accordance with IFRS. The annual and interim financial reports are detailed, transparent and timely. Deloitte & Touche, the group's external auditor, issued unqualified audit opinions on the group's financial statements spanning the review period. Investor communications are timely and disseminated by the company as appropriate.

Operating environment

TC's businesses are indirectly exposed to lower-income customers and/or entities, primarily through the customers of income-producing assets SA Taxi finances, and the consumer credit providers serviced by Transaction Capital Recoveries. Consequently consumer confidence, employment rates, indebtedness levels, consumer lending trends and related considerations, may impact business vitality.

Economic overview
While South Africa narrowly avoided a recession in 2016, the economy remains fragile, with weak growth exposing widening structural fissures and further polarising the socio-political discourse. At just 0.3%, growth in GDP fell below significantly revised expectations of 0.5% (2015: 1.3%). The year 2016 was the weakest since the last recession, following two years of low growth. Specific shocks, like the platinum belt strike and acute electricity shortages, sharp contraction in oil prices and the ripple effects of a faltering global economy are just a few among other constraints that have seen economic gains experienced since recovery from the 2007/08 global financial crisis dissipate.

Despite the decline in commodity prices, the Rand volatility and food pricing pressures pushed headline CPI beyond the SARB's upper target band to 6.4% in 2016, from just 4.6% previously. The South African Reserve Bank ("SARB") effected a 75bps repo rate increase in 2016, following the cumulative 125 bps hike in the previous two years.

The Rand regained some of the ground lost against major currencies in the prior year, closing 2016 at R13.74/USD, from R15.54/USD at YE 2015. That said, emerging market currencies remain susceptible to a shift in capital flows towards US markets, which could be driven by the upward trajectory in US interest rates.

Outlook
South Africa's sovereign rating was recently down-graded to non-investment grade. This action is expected to result in an increase in the cost of debt financing (local and international) and the country's debt service burden, as well as currency depreciation. National Treasury forecasts GDP growth of 1.3% for 2017 and 2% for 2018, while the IMF's projection remains at 0.8%, with a moderate improvement to 1.6% in 2018. Notably, these forecasts were made before the sovereign rating downgrade. However, firmer developed market GDP growth expectations and fundamentals which are supportive of higher commodity prices may provide impetus to the domestic market, but cautious business confidence, together with negative sentiment linked to persistent political and social imbalances, continue to weigh on South Africa's economic growth prospects.

Industry overview
The 2007 promulgation of the National Credit Act ("NCA") began a process of structural change in the consumer lending industry's composition, while also providing statistics from non-bank credit providers, which have increased their share of consumer loan issuance from 16% (2007) to 25% (2016), per NCR statistics. Developmental credit (the category within which SA Taxi's lending falls) comprised 3-4% of consumer loan issuance in 2015 and 2016.

Regulatory developments
In recent years, consumer finance (NCR) regulation has been aimed at balancing control of consumer over-indebtedness with promoting financial inclusion. In this regard, 2015-16 saw several regulatory and legislative changes. The National Credit Amendment Act (2015), introduced credit affordability assessment guidelines (impacting consumer credit providers), and debt collection activities were affected by revised rules on debt prescription. Other legislative changes included the introduction of caps on fees/interest rates which may be charged on consumer loans (The Prescribed Rate of Interest Act); data use and protection (The Protection of Personal Information Act – POPI); the use of Emolument Attachment Orders ("EAOs"); and the release of draft credit insurance regulation.

The abovementioned regulatory changes affect most registered credit providers lending to consumers or small/micro businesses, and also impact the

collections environment in direct and indirect ways. While it is noted that the affordability assessment and interest rate limit legislation discussed below have not impacted SA Taxi's operations, both TCRS and SA Taxi are exposed to potential impacts of changes to regulations on debt repayment mechanisms. Furthermore, TCRS (mainly through Transaction Capital Recoveries), is operating in a challenging collections environment, as decelerating economic growth, and higher consumer stress, indebtedness, interest rates and costs of living, continue to place upward pressure on collection costs, while driving the trend towards collections outsourcing (specifically through the quantum and pricing of non-performing debt books available for purchase). Additional detail on selected developments of direct/indirect relevance to TC's businesses follow.

Affordability assessment regulation (a key revision to the National Credit Regulations implemented in September 2015), aimed at tightening affordability assessment criteria by requiring credit providers to calculate discretionary income more strictly (ie, including existing debt and maintenance obligations).

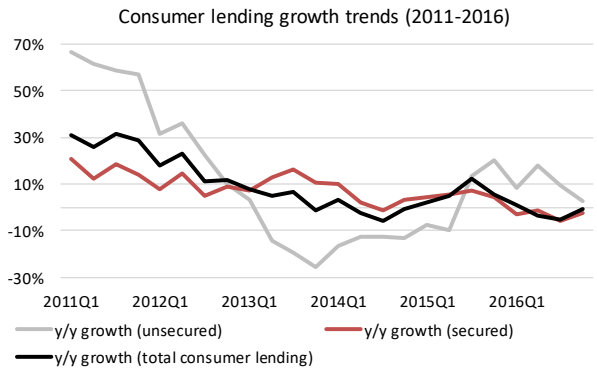
The Department of Trade and Industry ("DTI") published regulations for interest rate limits and fees for credit agreements (effective May 2016). Profitability for lenders and pricing for borrowers has been most impacted in the unsecured (especially short -term) credit segment, where lending is often priced close to regulatory upper limits. These regulations changed calculation formulas for maximum prescribed interest rates, and initiation and servicing fees which may be charged on various types of consumer credit agreements. Contrary to stricter maximum interest rate limits on most credit categories, rate limits for DC were raised.

The Payments Association of South Africa ("PASA"), under the auspices of SARB, is in the process of replacing the current non-authenticated early debit order system ("NAEDO") utilised by most mass market financial product providers with a mechanism that requires more direct customer authentication of the payment mechanism (ie, Authenticated Collections). SARB has approved an extended trial and implementation period with the final implementation date, if successful, set for 2019.

While regulations are intended to enhance financial stability, and support consumer protection, credit affordability, and consumer lending asset quality, they are also likely to suppress household credit supply.

Consumer lending trends

Consumer lending trends impact clients of Transaction Capital Recoveries. Challenging macro-economic conditions and an evolving regulatory landscape have largely shaped trends in consumer credit supply/demand in recent years. Lending to individuals is still subdued relative to 2011-13 levels. Higher delinquency on loans issued during this period has constrained credit supply, while a deterioration in consumer confidence, labour market instability, and stagnant disposable income levels have had negative credit supply and demand implications. In the past three years, credit issuance growth has been broadly flat, with moderate recovery in the issuance of unsecured loans from mid-2015, after a sustained period of negative growth.



Source: NCR statistics

Intensifying economic pressure has reduced vehicle and housing loan demand, while tighter regulations constricted supply. NCR data indicates that credit extension to consumers contracted by 1% in 2016, with the most pronounced change seen in lending from banks (-22% YoY) and other credit providers. Retail credit provision, in contrast, is showing a recovery. Banks continue to dominate lending, accounting for over 76% of credit granted.

Credit application rejection rates have remained relatively flat, while the absolute number of credit applications continues to decline (7% YoY in 2016). While some banks still actively market unsecured loans to clients with sound credit profiles to make up for the decline in volumes resulting from more restrictive lending criteria, GCR continues to view the outlook for consumer lending growth as neutral to negative, given the prevailing economic and regulatory environment. That said, the desired positive impact of lower credit supply on asset quality is beginning to show up in the NCR statistics, with NPL formation broadly tracking or lagging credit origination rates.

While these broad trends highlight the direct and/or indirect challenges market participants face, their specific areas of focus and lending practices are typically key determinants of each credit provider's actual experience. Consequently, while the industry overview provides historical and aggregate context, performances reflect companies' strategic choices and risk appetites. While TC primarily operates in defensive segments of the financing and collections markets, GCR notes its operational complexity, volume-driven nature, and exposure to regulatory changes.

Specialist industry segment – developmental credit
SA Taxi is registered with the NCR, a regulator under the auspices of the DTI, as a Developmental Credit ("DC") Provider. There are three types of DC (ie, loans for educational purposes, loans to build, expand or improve low-cost housing, and loans to set up SMEs). DC as a category has been separately reported in NCR statistics since 4Q 2012, at which time it comprised 1.6% (2.8% 4Q 2016) of consumer loan issuance.

DC quarterly issuance levels have been volatile over time, with no seasonal bias. However, 2016 DC issuance exceeded the 2015 level by 77%, and the trend has been broadly positive for the last six quarters. QoQ volatility is partly due to the fact that such credit is aimed at higher risk/more marginalised customers, and may become unavailable in times of perceived consumer stress. It also reflects institutions' requirements to specifically register as DC providers in order for loans to be reported in this category. While the period over which trends can be assessed is short, DC asset quality appears to be improving, with balances 90+ days in arrears averaging 3.8% in 2016, vs. 5.3% in 2015 and a 7.2% average in the preceding two years.

The outlook for DC issuance is broadly positive, and has begun to exhibit a more predictable positive trend during 2016, in line with GCR's expectations. The 12-month outlook remains positive, premised on a number of factors:

- Maximum DC interest rates were raised in recent interest rate cap legislation (implying government encouragement of DC loan issuance);
- The positive developmental/financial inclusion outcomes of DC is attracting funding from DFIs, and selected private sector funds with developmental impact mandates; and
- SME finance is gaining traction across Africa as a driver of broad-based economic growth/margin expansion for financial institutions.

Provided that systems and processes adequately price for and manage the attendant risks, lenders focussing on DC have strong prospects for growth, and a potential funding advantage, given the political and developmental popularity of DC.

Competitive position
The main sources of TC's competitive advantage and earnings are SA Taxi and Transaction Capital Recoveries, which both have significant positions in their respective markets.

SA Taxi's gross loan book (R7.2bn) and issuance (R2.4bn) represented 16.2% of gross DC credit outstanding and 19.4% of DC issuance in FY16, per NCR data, illustrating its significant share of the total DC asset class. Management estimates SA Taxi's market share at approximately 38% of the financed minibus taxi market, while there is no other significant player specialising in financing minibus taxis. Competitors include traditional vehicle asset finance providers (although none specialise in the lower end of the taxi market). That said, SA Taxi's data-based bespoke credit risk assessment models, together with vertical integration down the vehicle value chain (increasing control over costs, risks, and revenue streams) has significantly increased the barriers to entry in the minibus taxi finance segment, resulting in a relatively low threat of new entrants.

TCRS' market position is more difficult to quantify given its diversified offering and recent acquisitions. Nonetheless, TC disclosed that at 1H FY17 it has over 9.2m individual creditors listed in its master data universe, enabling effective collection from 94% of non-performing South African credit consumers. Key competitors for contingency and fee-for-service, and delinquent book purchases, include (smaller) servicers, many of which are captive or specialised. Transaction Capital Recoveries' broadening cross-sector specialisation, independence, compliance orientation, ability to structure bespoke capital solutions, and its proven collections performance, are competitive advantages. Recent acquisition activity is intended to increase complementary business lines, and promote intellectual property sharing.

Financial profile

As a NBFI, TC is funded by shareholders' equity (bolstered by earnings retention), and secured and unsecured wholesale debt.

Likelihood of support
The group is supported by its shareholders through a dividend policy/reinvestment ethos which is sensitive to capital requirements. Additional capital may be raised from time to time. R419m was raised in 1H FY17 through an accelerated book-build.

Capital structure
In FY14 the capital balance was reduced by business sales, and in FY15, -10.6% growth in capital and reserves resulted primarily from the early adoption of IFRS 9[2] (which reduced FY15 opening retained earnings by R672m). Capital growth from FY15 to FY16 was on a like-for-like basis, but in 1H FY17, a share issue together with subsidiary acquisitions again altered the tangible capital trajectory. As such, GCR's analysis focuses on relative capitalisation measures, in order to neutralise the impact of capital adjustments, and the evolving business mix.

Total capital and reserves rose 3.7% in FY16, with strong earnings retention partly offset by lower Tier 2 capital (subordinated debt). Stable nominal capital levels between FY16 and 1H FY17 masks myriad movements. Earnings retained after dividend

[2] IFRS 9 early adoption removed uncertainty related to the impact of this accounting policy change, increased provisioning conservatism, and aligned the group's accounting policies with operational strategy.

payments for 1H FY17 of R124m and a share issue of R536m were offset by net share based payment reserve movements for the period of R61m, and an increase of R496m in goodwill deducted from capital in GCR's analysis. Following relatively stable levels of tangible capital and strong balance sheet growth, TC's capital/total assets ratio continued to moderate, (1H FY17: 32.4%, FY16: 34.1%, FY15: 37.6%)[3], but remained adequate.

Table 4: Capitalisation	FY15 Rm	FY16 Rm	1H FY17 Rm
Total reported capital	**2,581**	**2,944**	**3,543**
Paid up ordinary shares	*468*	*510*	*1,046*
Eligible reserves	*2,113*	*2,434*	*2,497*
Less: Goodwill	(197)	(200)	(696)
Total primary capital	**2,384**	**2,744**	**2,847**
Add: Eligible subordinated debt	1,194	965	936
Total available capital	**3,578**	**3,709**	**3,783**
Total balance sheet assets†	**9,506**	**10,891**	**11,664**
Selected ratios (%):			
Total capital/Total assets†	37.6	34.1	32.4
Dividend payout ratio*	32.3	37.2	34.5
Total borrowings/Total capital	152	176	184
Net borrowings/Total capital	128	152	167

† Assets include cash balances, and exclude goodwill.
* Dividend per share/Earnings per share.
Source: TC FY16 Annual Report and 1H FY17 Interim Results.

The drive to upscale TCRS businesses (which have lower capital intensity), as illustrated by recent acquisitions, partly justified the decline in leverage and capital adequacy during FY16 and 1H FY17. As a NBFI, the group is not constrained by the capital reserving rules and minima applied to deposit taking institutions. Nonetheless, adequate capital relative to tangible assets is considered to be a key financial stability measure. Declines in TC's capital/assets ratio between FY15 and 1H FY17 were driven by SA Taxi's need to balance an efficient capital structure with the imperative for adequate capital to support its lending capacity, as well as recent, significant investment into non-funded revenue streams. GCR assesses TC's capitalisation to be ample given the business' risk profile.

The group allocates capital to each business in order to meet or exceed absolute and relative capital targets set for each entity. Dividend cover is managed in order to balance shareholder return requirements with maintenance of a strong capital profile which is supportive of corporate strategy, business flexibility, and investor, creditor and market confidence. At FY16 and 1H FY17, capital targets were exceeded. GCR considers group and entity capital and leverage targets to be adequate relative to business risks.

[3] GCR measures capital adequacy of NBFIs using the ratio of capital/total assets (excluding goodwill), which yields a lower result than TC's disclosed capital adequacy ratios ("CARs") (1H FY17: 35.2%, FY16: 38.9%), in which cash and goodwill are excluded from assets (akin to a risk-weighted measure).

Funding structure

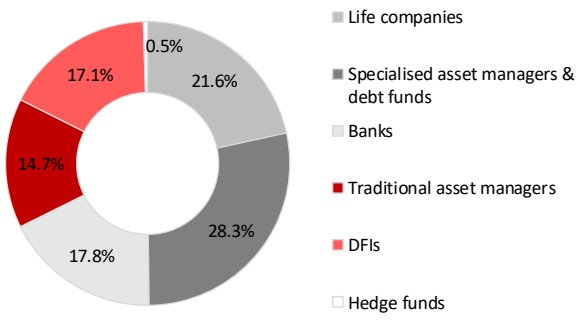
TC's FY16 balance sheet was 68.7% (FY15: 69.9%) wholesale debt-funded. Reliance on wholesale debt, together with demand and pricing volatility in debt markets (given macro-economic and sovereign rating uncertainties) requires a conservative approach to debt management. The group strictly adheres to debt principles developed to foster conservative management of refinancing, liquidity, and concentration risk, as well as interest rate, foreign currency and other price risks. Maintenance of a positive liquidity profile (asset collections are used to repay debt, while new issuance funds growth), limits refinancing risk, although the preference for amortising instruments raises refinancing frequency. Short-term/rolling instruments are utilised on a limited and carefully managed basis. Table 5 sets out TC's debt composition.

Table 5: Debt funding profile	FY15 Rm	FY15 %	FY16 Rm	FY16 %
Securitisation notes, loans and debentures (ZAR)	**3,295**	**49.6**	**4,154**	**55.6**
Senior notes	*2,956*	*44.5*	*3,651*	*48.8*
Junior/sub/mezzanine	*339*	*5.1*	*503*	*6.7*
Loans (ZAR, USD and EUR)	**3,345**	**50.4**	**3,323**	**44.4**
ZAR senior loans	*1,863*	*28.1*	*2,263*	*30.3*
*ZAR sub/mezzanine loans**	*977*	*14.7*	*677*	*9.0*
EUR and USD senior loans†	*505*	*7.6*	*383*	*5.1*
Total	**6,640**	**100.0**	**7,477**	**100.0**
% ZAR funding		92.4		94.9
% senior funding		80.2		84.2
% bullet funding		30.7		22.0
% fixed rate funding		11.7		5.7

* R474m (FY16), R775m (FY15) are structurally subordinated.
† Hedged at inception (refer to 'Risk management' section).
Source: TC AFS.

Issuance of a broad range of debt instruments results in diversification by funding structure, credit rating and investor (Figure 1).

Figure 1: Diversification by funder category (1H FY17)



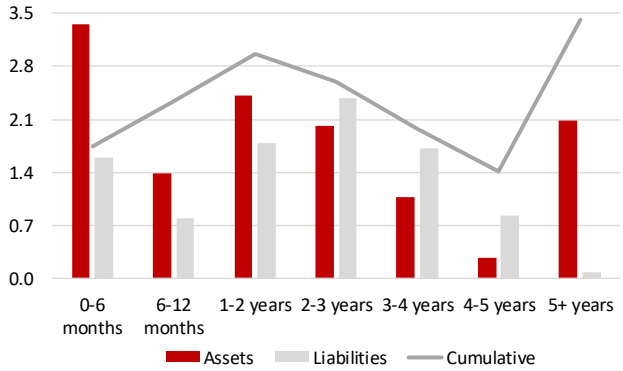
Debt funding (including subordinated debt reflected as Tier 2 capital), increased 12.6% in FY16 (FY15: 7.5%), supported by R4.6bn (FY15: R3.3bn) in new debt issuance. In 1H FY17, debt rose by 5.6% from FY16 to almost R7.9bn following issuance of R2bn by SA Taxi, while R2bn in facilities were secured from international DFIs. Regular issuance is required to maintain business growth (particularly of the SA Taxi loan book, given that 75% of group and 81% of SA Taxi external funding at 1H FY17 is amortising).

Proactive and regular engagement with existing and new funding partners ensures a strong funding pipeline. The group has long-term liability mix targets (in terms of investor type, tenor and currency). In the 12 months to 1H FY17, the funding base reflected higher levels of diversification, with DFI and bank funding increasing (relative to decreases in funding from life companies and asset managers). Given the challenging capital market environment in FY16 and 1H FY17, the group pre-funded opportunistically, resulting in the group's committed 'funding runway' extending to 19 months at the report date (exceeding the 12 month target).

Liquidity

A positive cumulative liquidity structure (Figure 2) is in line with TC's debt principles, and is supported by staggered funding needs, regular access to debt from diversified sources, and proactive funding planning, all of which largely mitigate liquidity timing risks.

Figure 2: 1H FY17 liquidity structure (Rbn)



Leverage

Debt (to fund lending operations) has risen in line with strong growth in SA Taxi's loan portfolio, as well as opportunistic debt raising initiatives. Consequently, the level of total borrowings/total capital (gross leverage) rose to 176% at FY16 and 184% at 1H FY17 (FY15: 152%). Nonetheless, TC's capitalisation/net leverage metrics remain relatively conservative, and well within group targets. In FY16, the group and its subsidiaries complied with relevant statutory requirements and covenants.

Outlook

TC's tactical approach to debt structure optimisation, funding growth, capital/cash management, and maintenance of market access, are regularly enhanced. GCR anticipates that, over time, capital adequacy will moderate and leverage rise, within acceptable (group target) levels. SA Taxi targets a total CAR of 26-28%, while TCRS targets a CAR of 30%. Overall, a group CAR target in the region of 30% (20% Tier 1) is seen as appropriate given current business risk and mix.

Other considerations

Funding cost – higher domestic interest rates, tight funding conditions, sovereign rating downgrades and ZAR weakness placed upward pressure on TC's weighted average funding costs (which rose by 60bps in FY16, and a further 70bps in 1H FY17). A higher foreign currency component in recently-negotiated facilities is likely to exacerbate this trend. Net interest margin ("NIM") compression from 12.8% in FY15 to 12.2% in FY16 and further compression in 1H FY17 illustrates the financial impact of funding cost expansion.

Covenants – Many of the group's loans, facilities and structured transactions are subject to covenants which are monitored monthly on group, division and entity bases to ensure ongoing compliance. Consolidated capital management reporting (including a covenant coverage analysis) is submitted to ALCO/the board.

Encumbrances – At FY16, 52.9% of group assets are encumbered. However, TCRS cashflows, income on TC's subordinated notes in lending subsidiaries (12% of SA Taxi cashflow), and earnings from non-lending SA Taxi operations are available to settle group unsecured obligations.

Operational profile

Operationally, the SA Taxi value chain encompasses capital allocation/management; loan origination and vehicle sales; risk management and collections; as well as asset repossession, refurbishment and resale. TCRS' value chain involves origination, management and collection of loans/receivables.

Risk management

Risk management framework and oversight structures emphasise financial risks impacting group operations most significantly, namely: credit, liquidity, capital, and interest rate risks. Operational, transformation, and compliance risk are also prioritised.

TC's balance sheet structure was relatively stable in FY16, with net advances totalling 66% of total assets.

Table 6: Asset mix	FY15		FY16	
	Rm	%	Rm	%
Liquid assets†	**1,169**	**12.3**	**1,276**	**11.7**
Cash at bank	*869*	*9.1*	*868*	*8.0*
Ceded cash in SPVs	*300*	*3.2*	*408*	*3.7*
Loans and advances	6,160	64.8	7,190	66.0
Purchased book debts	561	5.9	728	6.7
Other loans receivable	257	2.7	35	0.3
Investments	481	5.1	477	4.4
Property, equipment and intangibles	92	1.0	197	1.8
Other assets	786	8.2	988	9.1
Total BS assets*	**9,506**	**100.0**	**10,891**	**100.0**

† Liquid assets utilised elsewhere in this report of R1,103 (FY16) and R1,117m (FY15) are net of bank overdrafts.
* Including intangible assets, net of goodwill.
Source: TC AFS.

Liquid assets (before netting overdrafts) were high at 11-12% of total assets at FY15/16, declining to 6.7%. at 1H FY17, when excess liquidity held in the GEO was partly utilised to finance TCRS acquisitions and pay dividends.

Credit risk

Credit exposure sources include finance leases and instalment sales to taxi operators (SA Taxi), invoice discounting (Transaction Capital Business Solutions), and purchased book debts (Transaction Capital Recoveries). From FY14 to FY16, credit exposure ranged from 78-81% of group assets (Table 7).

Table 7: Credit risk exposure	FY15		FY16	
	Rm	%	Rm	%
Loans and advances	**6,160**	**64.8**	**7,190**	**66.0**
Finance leases†	*5,685*	*59.8*	*6,654*	*61.1*
Mortgage/other loans	*35*	*0.4*	*67*	*0.6*
Discounted invoices	*440*	*4.6*	*469*	*4.3*
Other loans/receivables	**1,385**	**14.6**	**1,275**	**11.7**
Leased assets	*-*	*-*	*40*	*0.4*
Purchased book debts	*561*	*5.9*	*728*	*6.7*
Other loans receivable	*257*	*2.7*	*35*	*0.3*
Trade/other receivables	*567*	*6.0*	*472*	*4.3*
Total credit exposure	**7,545**	**79.4**	**8,486**	**77.7**
Total BS assets*	**9,506**	**100.0**	**10,891**	**100.0**

† Net of impairment provision at FY16 of R497m (FY15: R553m).
* Net of goodwill.
Source: TC AFS.

Transaction Capital Business Solutions

Limited growth in the discounted invoices portfolio in FY16 reflected the impact of a muted economic outlook on SMEs. Invoice discounting, incorporating strict client and invoice eligibility criteria, exhibited conservative LTV and term characteristics.

Transaction Capital Recoveries

At FY16, purchased book debts represented a higher 6.7% (FY15: 5.9%) of credit exposure. Asset growth reflected improved book pricing, which resulted in the purchase of 13 books for R184m in FY16 (on which expected remaining recoveries are above historical averages at 2.5x (FY15: 3.4x).

SA Taxi

The SA Taxi portfolio is granular, and comprised 26,352 loans at FY16 (FY15: 25,033), exhibiting some geographical concentration to South Africa's more economically vibrant provinces. The weighted average remaining term of loans was 44 months at FY16. Premium-vehicle loan origination was R2.4bn in FY16 (at origination, average loan term of 67 months, weighted average interest rate of 25.2%).

The credit quality of the SA Taxi loan portfolio poses the group's single largest financial risk. Collections are by debit order or cash payment (with 84% of collections settled in cash). Probability of 'technical' delinquency is high, and management considers accounts more than 30 days in arrears to reflect an increase in the loan's risk profile. SA Taxi has an in-house call centre, with scripts tailored to relevant circumstances. Advanced telematics support selected collection strategies. NPLs are defined as loans that are 3.5 instalments in contractual arrears if no qualifying payment (ie, more than 50% of the cumulative instalment raised over the three-month reference period) has been received, including repossessed vehicles. Loans are written off after the sale of repossessed vehicles. In-house refurbishment and dealership operations are boosting recovery rates.

Asset quality

Table 8 sets out a consolidated view of the group's asset (loan) quality. Asset quality (largely reflective of SA Taxi metrics) improved in FY16, due to further declines in the entry level vehicle portfolio, strict underwriting, increased volumes of origination through the in-house dealership, and enhanced recovery rates.

Table 8: Asset quality	FY15	FY16	1H FY17
	Rm	Rm	Rm
Gross advances	**6,713**	**7,687**	**8,258**
Performing	3,841	4,441	6,919
Past due but not impaired*	1,734	1,996	n.a.
*<90 days overdue**	*1,140*	*1,518*	*n.a.*
*90+ days overdue**	*594*	*478*	*n.a.*
Impaired (NPLs)	1,138	1,250	1,339
Less: Impairment provisions	**553**	**497**	**473**
*Specific impairments**	*410*	*400*	*n.a.*
*Portfolio impairment**	*143*	*97*	*n.a.*
Net advances	**6,160**	**7,190**	**7,785**
Collateral (impaired assets)*	632.0	850.0	n.a.
Key selected ratios (%):			
Gross NPL ratio	17.0	16.3	16.2
Net NPL ratio	9.5	11.8	n.a.
Net NPLs/Total capital	16.4	20.3	22.9
Credit loss ratio	3.6	2.9	3.1
NPL coverage ratio (total)	48.6	39.8	35.3

* n.a. denotes detail not provided in 1H F17 Interim Results.
Source: TC FY16 Annual Report and AFS.

Gross loans rose 14.5% in FY16 (15% in SA Taxi), while the gross NPL ratio fell from 17.0% (FY15) to 16.3% (FY16). NPLs not covered by provisions are collateral covered (as the SA Taxi and invoice factoring portfolios represent secured lending). The group's credit loss ratio improved from 3.6% (FY15) to 2.9% (FY16), driven by conservative underwriting, strong collections performance and improved recoveries efficiency. Disclosed SA Taxi 1H FY17 figures highlighted a continuation of this trend, with HoH declines in gross NPL and credit loss metrics. The difference between gross NPL and credit loss metrics reflects recoveries. Upscaling of the Taximart facility, together with higher proportions of financed taxis being insured through SA Taxi Protect, has enhanced recovery rates and assists in getting taxis back on the road faster. Management expects credit performance improvements to continue, and targets a NPL ratio of 15% in the medium term. The credit loss ratio is within the medium-term target of 3-4%.

Other risks

Interest rate risk

TC is exposed to interest rate risk through its funded lending operations. At FY16, 5.7% (FY15: 11.7%) of the loan portfolio was at fixed rates, reflecting the groups commitment to match-fund (naturally hedge) its financial asset/liabilities. The expected impact of

interest rate risk is illustrated by the change in pre-tax profit quantum of a 1% change in interest rates. This was calculated at R22m in FY16 (FY15: R24m), around 3.7% (FY15: 4.8%) of pre-tax profit.

Currency risk
Historically, TC has been exposed to potential currency risk through foreign currency denominated funding, and has fully hedged each loan at inception. Higher foreign currency funding levels are likely in FY17 based on higher levels of DFI funding which, together with higher USD/ZAR volatility, may place upward pressure on funding (hedging) costs. The purchase of Recoveries Corporation, which is based in Australia and reports in AUD is not expected to result in significant currency related volatility in TC's income and equity.

Operational segment focus

Key segment/divisional metrics for SA Taxi, TCRS, and GEO including treasury are shown in Table 9.

Table 9: FY16 divisional performance*	Group	SA Taxi	TCRS	GEO
Selected BS indicators (Rm)				
Total assets	11,091	8,877	1,679	535
Net loans and advances	7,190	6,675	515	-
Cash and equivalents	1,276	761	72	443
Capital†	3,943	2,546	836	87
Debt†	6,512	5,991	558	437
Selected IS indicators (Rm)				
Total operating income	2,158	1,059	1,029	70
Net profit after tax#	463	254	168	41
Divisional contributions (%)				
Net interest income	100%	85%	7%	8%
Non-interest revenue	100%	25%	75%	-
Profit before tax#	100%	52%	38%	10%
Selected ratios (%)				
Capital adequacy ratio	38.9	30.8	49.6	n.a.
NIM	12.2	11.1	n.a.	2.6
Gross NPL ratio	16.3	17.4	n.a.	n.a.
NPL coverage ratio	39.8	38.3	n.a.	n.a.
Credit loss ratio	2.9	3.1	n.a.	n.a.
Cost/income ratio	62.5	51.1	77.4	n.a.
ROaA	4.4	3.1	11.3	1.5
ROaE	16.9	25.5	31.5	n.a.

* Data from TC's Annual Report (segmental reporting and data sheets). Assets and capital balances include goodwill.
† Divisional figures grossed up for intergroup funding.
# Pre minorities.
Source: TC FY16 Annual Report, GCR estimates.

SA Taxi
As the group's primary lending entity, SA Taxi raises and utilises the majority of TC's funding and capital resources, generating 85% of group NII and 25% of NIR in FY16. Group asset quality, provision coverage and credit loss ratios are also largely determined by SA Taxi's performance. At FY16, SA Taxi's CAR of 30.8% (FY15: 33.2%) vs. the group CAR of 38.9%, is adequate for a high yielding lending business. The FY16 SA Taxi ROaA expanded slightly to 3.1% (FY15: 3.0%) vs. a group figure of 4.4%. ROaE moderated from 28.4% in FY15 to 25.5% in FY16, largely as a result of NIM compression. SA Taxi's cost/income ratio of 51.1% in FY16 (FY15: 48.7%) vs. group (62.5%) largely reflects increased levels of staffing, and investment in technology and vertical integration.

TCRS
In FY16, TCRS generated 7% of group NII (through the invoice discounting operations of Transaction Capital Business Solutions) and 75% of NIR (mainly collections-related revenue in Transaction Capital Recoveries). In addition to invoice discounting receivables, TCRS' assets comprise purchased debtor portfolios (R728m at FY16). TCRS' CAR at FY16 was 49.6%, which is comfortable considering it is a 'capital light' services business. In FY16, TCRS generated strong and rising return ratios. FY16 ROaA of 11.3% (FY15: 9.9%) and ROaE of 31.5% (FY15: 27.8%) were boosted by a moderating cost/income ratio of 77.4% (FY15: 82.5%) following branch rationalisation in Transaction Capital Recoveries.

GEO
GEO includes group executive, treasury, compliance/ legal, and centralised reporting functions. Group treasury allocates funds between operating entities to optimise entity balance sheets and meet investment and operational needs, and also manages the group's excess capital and cash. The quantum of cash on the GEO balance sheet, and the low yields at which it was invested in FY15/16 partly justify the group's modest ROaE (FY16: 16.9%, FY15: 16.7%), relative to ROaE's recorded in the operating divisions.

Financial performance

A five year financial synopsis is shown on page 12 of this report, supplemented by the commentary below.

Despite challenging economic and operating environments, TC reported strong earnings performances in FY16 and 1H FY17. Based on continuing operations, operating income (before impairment charges) rose 7.0% in FY16 (FY15: 3.5%). NII growth, which was constrained by stable advances and a declining NIM in FY15, grew 7.1% in FY16 driven by 14.5% growth in gross advances, moderated by further NIM compression from 12.8% (FY15) to 12.2% (FY16) due to rising funding costs and low yields on excess cash. Non-interest income, (representing 59.3% of pre-impairment operating income in both FY15 and FY16), grew by 7.0% in FY16, and reflected softening fee and commission income on debt servicing collections in TCRS, offset by a 20.4% increase in other operating income from collections on purchased book debts, and non-funded revenue streams within SA Taxi (including insurance and dealership revenue).

Decelerating cost growth of 4.1% (FY15: 6.1%), and lower impairment charges in FY16 increased profitability at the pre-tax level by 20.4% to R601m (FY15: 22.0% to R499m). However, a 420bp expansion in the effective tax rate (to 23.0% in FY16

– a level considered by management to be sustainable in the medium term) resulted in after tax profit growth of 14.3% to R463m (FY15: 22.7% to R405m). On a consolidated basis, TC's FY16 ROaA remained stable at 4.4%, while ROaE expanded slightly from 16.7% (FY15) to 16.9% (FY16), primarily as a result of slight moderation in capital and cash levels.

In 1H FY17, operating income (before impairments) rose 25.7% HoH. A higher cost base (mainly due to acquisition costs in TCRS and the upscaling of selected SA Taxi businesses) yielded HoH growth of 13.9% at the pre-tax level. It is noted that around half of the 33% growth in TCRS' headline earnings is attributed to new acquisitions. At 1H FY17, the group disclosed core ROaA and ROaE of 4.3% and 16.1% (1H FY16: 4.2% and 15.9%, respectively), primarily representing acquisitive earnings and lower costs of impairment.

Prospects

TC's defensive business mix and risk averse structure have enabled the group to deliver strong returns with low volatility despite persistent economic/operating environment challenges. Further cost efficiency improvements in TCRS were partly offset by a higher cost base at SA Taxi, while NPL and credit loss ratios continued to respond positively to increased control over end-to-end financing, collections and recoveries. Group profitability is expected to exhibit a stable or improving trend, partly driven by acquisitive growth.

The group's significant financial flexibility and high liquidity enhance comfort levels for debt investors in uncertain times. The financial profile and funding strategy support the group's regular refinancing requirements, and debt service continues to be covered by asset and operational performance. Furthermore, the business has capital and liquid resources to make additional acquisitions, should suitable opportunities arise.

Transaction Capital Limited

(South African Rands in millions except as noted)

Year end: 30 September	2012	2013*	2014	2015#	2016#
Income Statement Analysis					
Interest income	2,222	1,225	1,413	1,504	1,688
Interest expense	(874)	(539)	(599)	(683)	(809)
Net interest income	**1,348**	**686**	**814**	**821**	**879**
Fee and commision income	727	559	601	632	601
Other operating income	933	464	532	563	678
Total operating income	**3,008**	**1,709**	**1,947**	**2,016**	**2,158**
Impairment charge	(740)	(283)	(322)	(233)	(209)
Operating expenditure	(1,784)	(1,071)	(1,220)	(1,295)	(1,348)
Non-operating income (incl. equity accounted income)	-	4	4	11	-
Net profit before tax	**484**	**359**	**409**	**499**	**601**
Tax	(96)	(76)	(79)	(94)	(138)
Net profit after tax	**388**	**283**	**330**	**405**	**463**
Minority interests	(60)	(49)	-	(4)	(5)
Other after tax income	195	425	559	14	24
Total comprehensive income	**523**	**659**	**889**	**415**	**482**
Balance Sheet Analysis					
Ordinary share capital	1,792	1,779	483	468	510
Reserves (incl. net income for the year)	1,380	1,936	2,480	2,113	2,434
Hybrid capital instruments (incl. subordinated debt)	1,477	2,131	1,267	1,194	965
Minority/Non-controlling interest	132	180	-	30	34
Less: Goodwill	(927)	(594)	(192)	(197)	(200)
Total capital and reserves	**3,854**	**5,432**	**4,038**	**3,608**	**3,743**
Bank overdrafts	158	71	101	52	173
Borrowings (incl. loans and securities issued)	2,611	2,216	1,368	1,806	2,013
Short-term funding (< 1 year)	**2,769**	**2,287**	**1,469**	**1,858**	**2,186**
Borrowings (incl. loans and securities issued)	4,265	5,254	3,543	3,640	4,499
Long-term funding (> 1 year)	**4,265**	**5,254**	**3,543**	**3,640**	**4,499**
Payables/deferred liabilities	999	764	448	400	463
Other liabilities	**999**	**764**	**448**	**400**	**463**
Total capital and liabilities	**11,887**	**13,737**	**9,498**	**9,506**	**10,891**
Other loans receivable (incl. purchased book debts)	575	700	845	818	763
Equity and financial investments	316	485	238	481	477
Property, plant and equipment (incl. software)	344	117	70	92	197
Receivables/deferred assets	1,372	1,948	770	1,086	1,396
Non-earnings assets	**2,607**	**3,250**	**1,923**	**2,477**	**2,833**
Bank placements (incl. call deposits)	500	255	1,189	869	868
Loans and advances (net of provisions)	8,780	10,232	6,386	6,160	7,190
Total earning assets	**9,280**	**10,487**	**7,575**	**7,029**	**8,058**
Total assets (excl. goodwill)	**11,887**	**13,737**	**9,498**	**9,506**	**10,891**
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	16.5	17.7	30.0	16.1	16.4
Total capital / Total assets	31.3	38.2	42.5	37.6	34.1
Liquidity					
Net advances / Total funding (excl. equity portion)	128.1	139.4	133.3	116.7	108.1
Liquid and trading assets / Total assets	8.2	4.4	13.1	11.8	10.1
Liquid and trading assets / Total short-term funding	35.2	26.3	84.7	60.1	50.5
Liquid and trading assets / Total funding (excl. equity portion)	13.8	8.0	24.8	20.3	16.5
Asset quality					
Impaired loans / Gross advances	13.0	16.2	25.7	17.0	16.3
Total loan loss reserves / Gross advances	10.4	3.1	5.7	8.2	6.5
Bad debt charge (income statement) / Gross advances (avg.)	8.7	5.1	5.2	3.6	2.9
Bad debt charge (income statement) / Total operating income	24.6	16.6	16.5	11.6	9.7
Growth in loan loss reserves	79.4	(67.8)	16.4	44.4	(10.1)
Profitability					
Total comprehensive income / Total equity (avg.)	24.2	35.9	29.3	17.1	17.7
Total comprehensive income / Total assets (avg.)	4.6	8.7	9.4	4.5	4.6
Net interest margin†	16.0	12.5	13.1	12.8	12.2
Non-interest income / Total operating income	55.2	59.9	58.2	59.3	59.3
Cost ratio	59.3	62.7	62.7	64.2	62.5
Effective tax rate	19.8	21.2	19.3	18.8	23.0
ROaE	15.2	12.8	10.9	16.7	16.9
ROaA	2.9	3.1	3.5	4.4	4.4
Nominal growth indicators					
Total assets	28.5	15.6	(30.9)	0.1	14.6
Net advances	30.7	16.5	(37.6)	(3.5)	16.7
Shareholders funds	77.7	17.1	(20.2)	(12.9)	14.1
Total capital and reserves	51.3	40.9	(25.7)	(10.6)	3.7
Total funding (excl. equity portion)	16.3	7.2	(33.5)	9.7	21.6
Profit after tax (pre-adjustment for comprehensive income)	12.1	(27.1)	16.6	22.7	14.3

Includes effects of IFRS 9 early adoption.

* Restated to reflect earnings from subsidiaries sold in F14 as 'discontinued operations'.

† Calculated as net interest income divided by average gross loans and advances.

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

Annual Report	A status report on the current financial condition of a company. It usually includes the chairman's report, the auditor's report and detailed financial statements. It is issued once a year for shareholders to examine before the annual general meeting (AGM). In many markets, comprehensive Integrated Reports covering a wide spectrum of information have replaced traditional annual reports.
Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
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.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Basis Point	1/100th of a percentage point.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Cash	Funds that can be readily spent or used to meet current obligations.
Collateral	Asset provided to a creditor as security for a loan.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
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.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
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.
Debt Financing	Raising capital by selling debt instruments such as bonds, bills or notes.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
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.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Facility	The grant of availability of money at some future date in return for a fee.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Forecast	A calculation or estimate of future financial events.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Hedge	A risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, future, option or swap. Hedging may prove to be ineffective in reducing the possibility of loss as a result of, inter alia, breakdowns in observed correlations between instruments, or markets or currencies and other market rates.
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.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest Rate Risk	Interest rate risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are repricing/mismatch, basis and yield curve risk.
Internal Control System	Methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets and transmit management policies throughout the organisation.
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.
Investment Grade	Credit ratings equal to or higher than 'BBB-'.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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.

Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
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 Credit Act	The National Credit Act 34 of 2005 (South Africa).
Net Interest Margin	Net interest income divided by average interest earning assets. Measures a bank's margin after paying funding sources and how successful a bank's interest-related operations are.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
Overdraft	When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Primary Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other regulatory deductions.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Refinancing	The issue of new debt/loan to replace maturing debt/loan. New debt may be provided by existing or new lenders, with a new set of terms in place.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Secondary Market	Where securities are bought and sold once they have been issued in the primary markets. The secondary market gives a continuing opportunity for buying and selling and price discovery, and provides the liquidity that allows the primary market to function.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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.
Tenor	The time from the value date until the expiry date of a financial instrument.
Tier 2 Capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.
Working Capital	Refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

For a detailed glossary of terms please click here

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.