Transaction Capital

# Interim results to 31 March 2013

2013

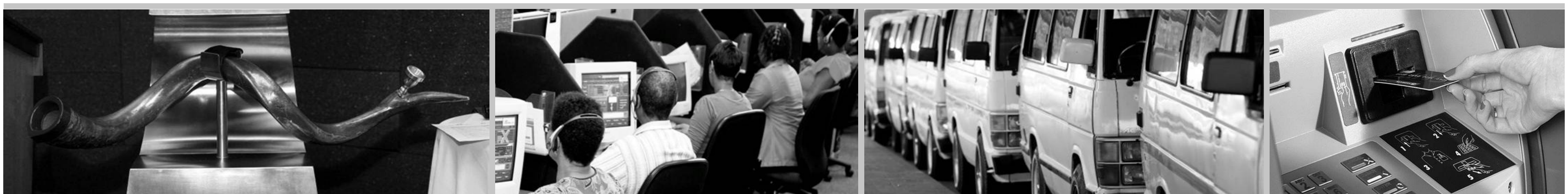
07 May 2013

# Agenda

- Group financial highlights
- Environment
- Strategy
- Divisional review
- Group review
- Financial review
- Conclusion

- Addendum 1 – Data sheet

# Group financial highlights



# Group financial highlights

Results reflect the impact of R870m of new equity issued during February 2012 and on the June 2012 JSE listing

- Total income ▲22% from R2.1 billion to R2.5 billion
- Non-interest revenue ▲16% from R1.0 billion to R1.2 billion
- Gross loans & advances ▲27% from R8.5 billion to R10.8 billion
- Headline earnings ▲36% from R171 million to R233 million
- Weighted average number of shares ▲23% from 473 million to 584 million
- HEPS ▲11% from 36.1 cps to 39.9 cps
- Capital adequacy ▲15% from 30.0% to 34.4%
- NAV per share ▲30% from 405.5 cps to 527.6 cps
- ROE ▼ from 19.6% to 15.6%
- Maiden interim dividend as a public company of 9 cps
- Earnings traditionally weighted towards H2

# Environment




# Environment

- Q4 2012: labour unrest in mining & agriculture; reduced 4th quarter employment; GDP growth 2.2% (2.5% for 2012)
- Q1 2013: downgrade by Fitch; unemployment & higher food, fuel & administered prices softening consumer economy; slower retail & vehicle sales growth; R/$ weakness; business & consumer confidence weak; PCE & GDE growth 2.6% (GDP forecast 2.9% for 2013)
- Debt & debt service cost to household income ratios high but declining slowly
- Informal economy understated
- Cash usage high
- Financial services competitive in pursuit of market share, technological edge, & non-interest & transactional revenues
- Uncertain regulatory environment
    - NCR: active engagement with lenders; questioning EAO's; recognition of NDMA, DCASA & Credit Ombud withdrawn in amended Code of Conduct 1st May
    - FSB: credit life regulation review imminent
    - Reserve Bank: interchange review

# Strategy




# Strategy

- Transaction Capital is a **Group** of separate businesses. The rationale for them being in the same group is that they:
  - transact in similar markets
  - with similar counterparties
  - utilising similar specialised financial, credit risk & payments expertise
- Transaction Capital therefore has **two major strategic objectives**:
  - the competitive positioning of each business unit within its chosen market segment (i.e. the definition of a unique value proposition to stakeholders): **Divisional Review**

  and

  - the creation of additional value arising from the composition & capabilities of the group in excess of the tangible & intangible costs thereof: **Group Review**
    - directive leadership from Group Executive Office
    - collaboration
    - sharing activities

    and

    - intra-group transactions

# Divisional review




# Divisional review – Structure

| Transaction Capital Limited – six months to 31 March 2013<br>Employees: 5,102 Headline earnings : R233m | | | |
|---|---|---|---|
| **Lending**<br>Total income: R1,842m Headline earnings: R157m | | **Services**<br>Total income: R661m Headline earnings : R71m | |
| **Asset-backed lending**<br>Income: R657m<br>Headline earnings: R68m<br>Gross loans & advances: R5,342m | **Unsecured lending**<br>Income: R1,185m<br>Headline earnings: R89m<br>Gross loans & advances: R5,383m | **Credit services**<br>Income: R398m<br>Headline earnings : R43m<br>Services EBITDA: R62m | **Payment services**<br>Income: R263m<br>Headline earnings : R28m<br>Services EBITDA: R77m |
| SA Taxi *driving our nation forward*<br>Financier of independent SME minibus taxi operators<br>Rand Trust *business, on your terms*<br>Provider of working capital through invoice discounting & commercial debtors management | Bayport *loans for you*<br>Provider of unsecured personal loans to emerging middle income clients | MBD Credit Solutions *asset intelligence*<br>Collector of distressed accounts receivables (agency & principal)<br>Principa *profitable decisions*<br>Credit risk consultancy services & software resellers (FICO) | Paycorp Holdings *payment services*<br>ATM Solutions: owner & operator of off-bank premises ATMs & EFT terminals<br>Drawcard: early stage developer & issuer of pre-paid card products |

# Divisional review – Asset-backed lending: SA Taxi

- **Sector outlook**
  - Minibus taxi SMEs: dominant public transport in RSA; estimated c.200,000 vehicles; c 60,000 financed; 23,320 by SA Taxi as development financier; market opportunity in renewal of aging fleet
- **Operations**
  - Gross loans & advances ▲ 17% to R5.1b; earnings ▲ 17% to R68m
  - Credit quality improved due to stringent credit scoring & premium vehicle biased origination strategy
  - Comprehensive refurbishment resulted in repossessed vehicles being on book for longer, causing the NPL ratio to increase
  - Stable demand for used refurbished vehicles
  - Heavy investment in Taximart to curb loss rates on repossessed vehicle sales
  - Legal clarity on insurance cession rights obtained in favour of SA Taxi
  - SA Taxi's head office & Taximart facility relocated to a single site
- **Strategy**
  - Broaden value proposition to client base
  - Improve Taximart productivity & refurbished vehicle quality to mitigate risk

# Divisional review – Unsecured lending: Bayport

- **Sector outlook**
  - “High growth rate slowing as market penetration deepens & credit providers signal caution: no bubble but cautious origination essential regarding: new/existing clients; affordability; risk bands”
  - Unsecured book YOY growth (value): Q1 – 49%, Q2 – 49%, Q3 – 38%
  - 2012 Q4
    - YOY value – 39% to R156.6b (11% gross book); YOY number – 14% to 8.5m (21% gross book)
    - credit granted YOY growth: value 23%; number 8%
    - > 90 days: value 16%; accounts 24%
  - 2013 Q1
    - widespread reporting of tightening credit extension
    - unsecured loan growth & debt consolidation slowing
  - Responsible market conduct by major lenders: growth, provision coverage
  - Strong demand for unsecured finance (94% consumers no home loan)

# Divisional review – Unsecured lending: Bayport

- **Operations**
  - Gross loans & advances ▲ 40% to R5.4bn; earnings ▲ 29% to R89m
  - Origination levels determined by: capital rationing; risk appetite; affordability; limiting exposure to new or high risk clients
  - Credit criteria tightened & disbursement levels decreased through H1 2013 (O – R287m, N – R235m, D – R193m, J – R197m, F – R134m, M – R124m)
  - Implementation of system improvements resulted in an initial slowdown in late stage collections
  - Substantial investment in people & infrastructure
- **Strategy**
  - Enhancing value proposition to: engender brand loyalty; reward appropriate behaviour; improve financial literacy; enhance lifetime value of client: increase non-interest revenue
  - Highly conservative in targeting client and employer segments, while actively monitoring credit quality, loan size and term to achieve R10bn book by 2016
  - As a minor participant in the sector (3.3% share) Bayport can avoid negative industry trends

# Divisional review – Credit services: MBD CS

- **Sector outlook**
  - Fragmented industry: 2,000 registered debt collection agencies & 14,500 registered debt collectors
  - Major credit providers continue to outsource collections & sell charged off receivables portfolios for improved cash, earnings, credit stats & costs
- **Operations**
  - Earnings ▲10% to R43m from modest revenue growth & sound cost control
  - Principal collections approaching 50% of revenue
  - Book debt acquisitions of R99m (7 books >R1bn face value) necessitated an increase in & optimisation of call centre capacity
  - Benefits of investment in purchased book debts expected during H2
  - Current face value of books under management R24bn
- **Strategy**
  - Aggressive investment in book debt acquisitions
  - Invest in people & proprietary technology for productivity, accreditation & compliance

# Divisional review – Payment services: Paycorp

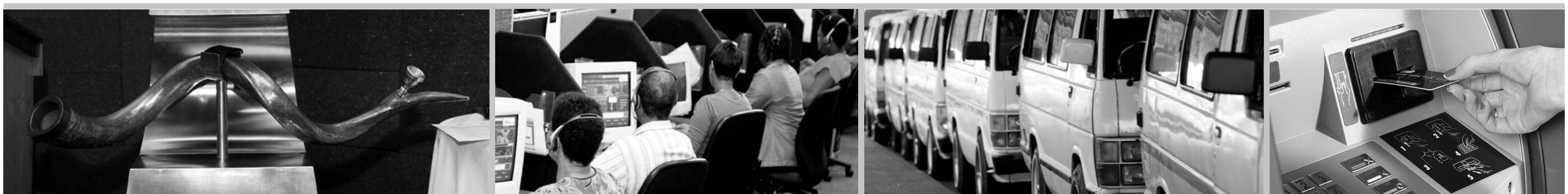
- **Sector outlook**
  - Volume & values continue to grow
  - Growth stimulated by issuing SASSA payment cards to social beneficiaries
- **Operations**
  - Earnings ▲17% to R28m
  - Innovation in ATM security curtailed vandalism & facilitated deployment to higher risk areas
  - 8% growth in active fleet to 4,522 ATMs (c.16% of the SA ATM market) with c.50% in rural or peri-urban areas
  - Continued high network uptime levels & relocation of underperforming ATMs to better sites resulted in ATM disbursements ▲ 23% to R17bn; payment based income ▲ 14%
- **Strategy**
  - Extend ATM footprint regionally & explore opportunities in associated payments businesses
  - Explore wider African payment industry opportunities

# Group review

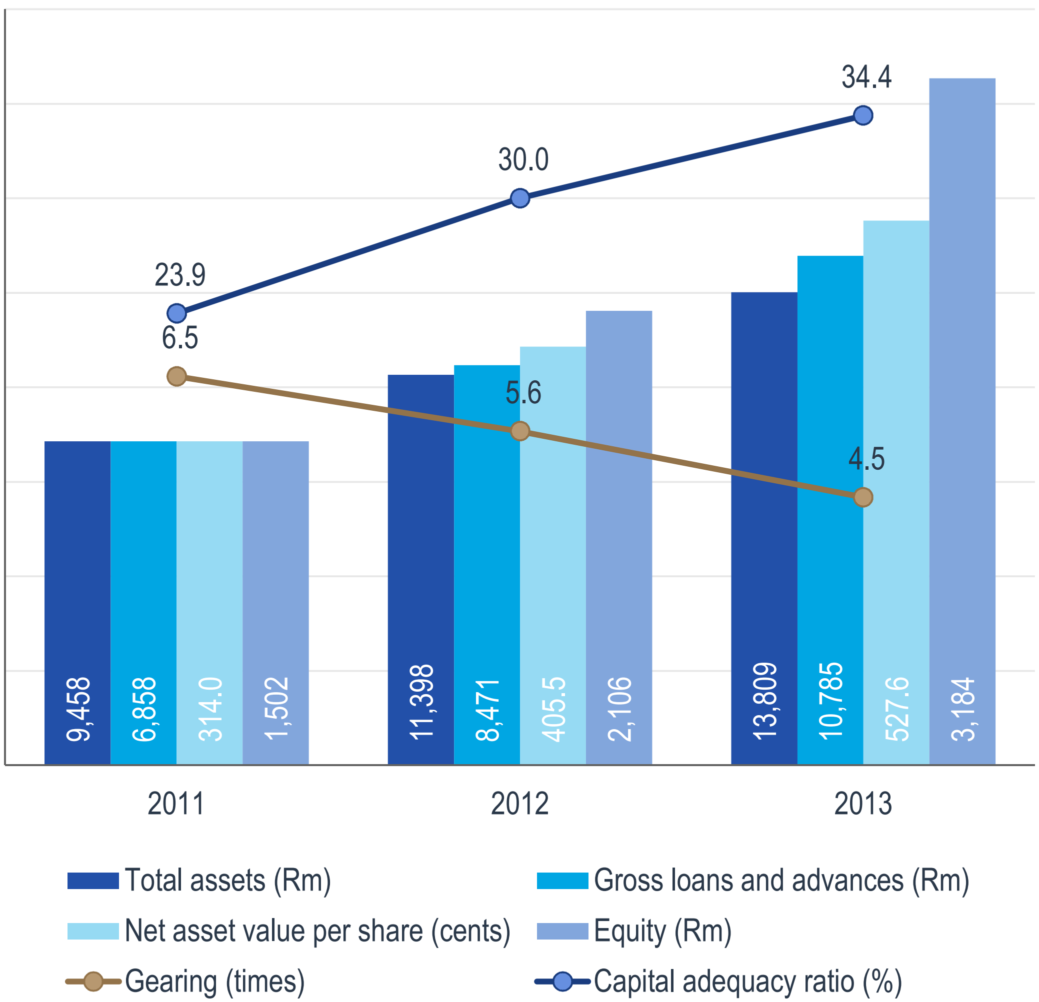
# Group Review

- Continuous direction of & intervention in subsidiaries: strategy; structure; executive calibre & development; credit & risk policies and practices; monitoring & corrective action on operational performance; encouraging collaboration
- Produced first annual integrated report
- Successful debt capital market issuances, further diversifying investor base
- Introducing SAR scheme for key employees
- Institutionalised sound governance, regulatory & risk management practices

# Financial review

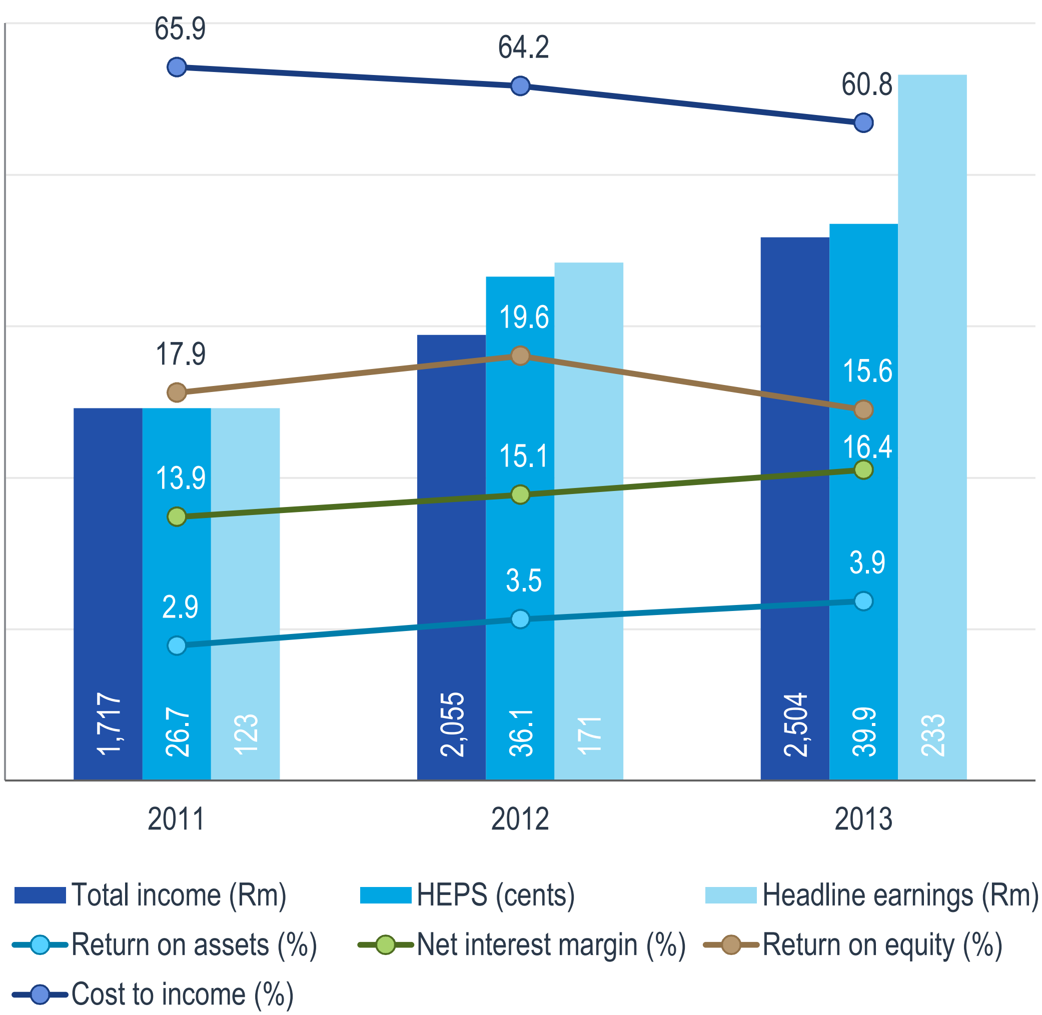


# Financial position




- Strong growth of gross loans & advances from R8.5bn to R10.8bn (▲27%)
  - Asset-backed R5.3bn (▲17%)
  - Unsecured R5.4bn (▲40%)
  - Balanced asset portfolio
  - slowing rate of growth in unsecured lending
- Equity R3.2bn (▲51%)
- NAV per share 527.6 cps (▲30%)
- Capital adequacy levels ▲15% to 34.4% (19.4% equity & 15.0% subordinated debt)

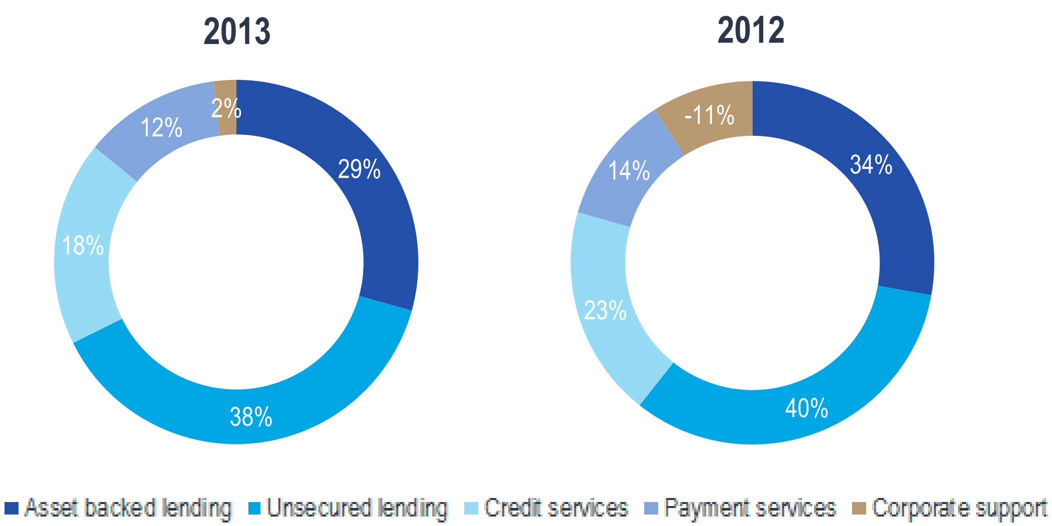
# Financial performance




- Headline earnings ▲36% from R171m to R233m
  - increased gross loans & advances
  - improved net interest margin
  - 9% ▲ in EBITDA from services
- HEPS ▲11% from 36.1 cps to 39.9 cps on increased number of shares
- Net interest margin ▲ from 15.1% to 16.4%
- Cost to income ▼ from 64.2% to 60.8%
  - portfolio mix tending to lending
  - efficiency improvements
- Return on assets ▲ from 3.5% to 3.9%
  - reduced gearing
  - assets shifting to higher yielding unsecured lending
- Return on equity ▼ from 19.6% to 15.6%
  - equity raised but not fully deployed throughout the period; positioned for growth

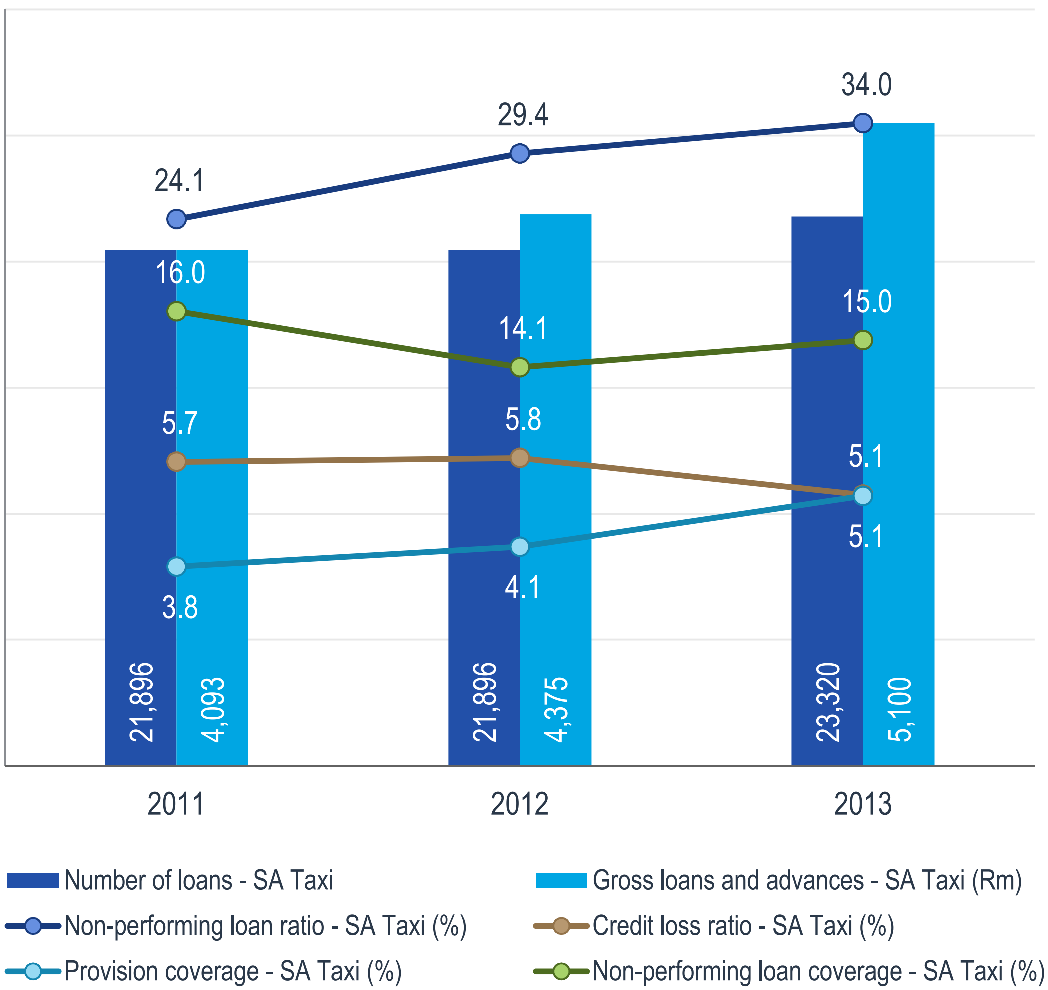
# Portfolio mix

| *Headline earnings* | Rm 2013 | Rm 2012 | Rm 2011 | Growth 2013 | Growth 2012 | Contribution 2013 | Contribution 2012 | Contribution 2011 |
|---|---|---|---|---|---|---|---|---|
| Asset-backed lending | 68 | 58 | 52 | 17% | 12% | 29% | 34% | 42% |
| Unsecured lending | 89 | 69 | 54 | 29% | 28% | 38% | 40% | 44% |
| Credit services | 43 | 39 | 28 | 10% | 39% | 18% | 23% | 23% |
| Payment services | 28 | 24 | 19 | 17% | 26% | 12% | 14% | 15% |
| Corporate support | 5 | -19 | -30 | >100% | >100% | 2% | -11% | -24% |
| **Group** | **233** | **171** | **123** | **36%** | **39%** | **100%** | **100%** | **100%** |



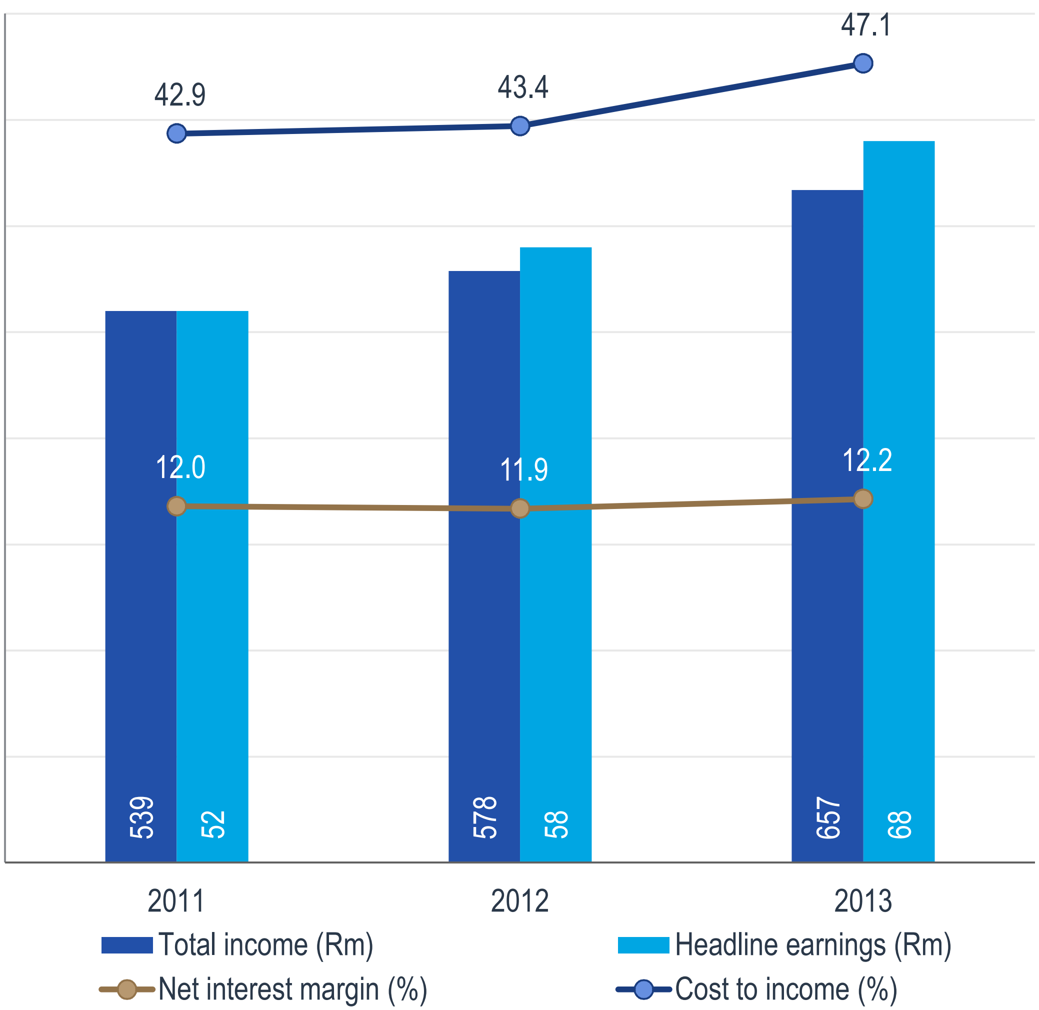

- Maintained segmental mix of headline earnings
  - Asset backed lending contribution ▼ from 34% to 29%
  - Unsecured lending contribution at 38%
  - Stable performance from credit services on strong 2012 results
  - Stable cash generation from services divisions, EBITDA ▲9% from R128m to R139m
- Corporate support profitable on management of excess capital

# Asset-backed lending – SA Taxi



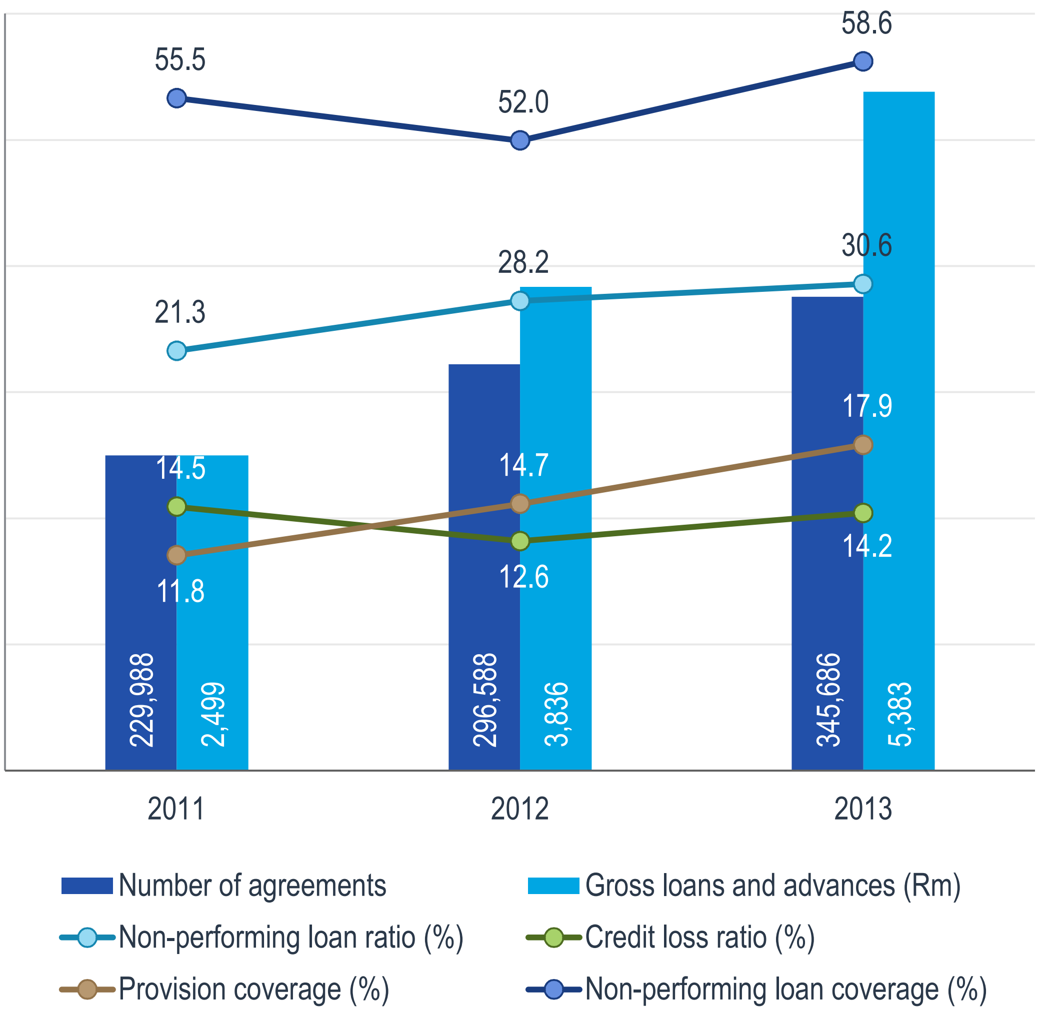

- Gross loans & advances ▲17% from R4.4bn to R5.1bn
  - number of accounts ▲7%
  - new origination bias 96% to premium vehicles (primarily Toyota; ▲ loan size; ▲ credit quality)
  - ▲ write off period of repo vehicles to improve quality & curb credit loss
- Non-performing loan ratio ▲ from 29.4% to 34.0%
  - ▲ NPL matched by ▲ provision
  - provision coverage ▲ from 4.1% to 5.1%
  - NPL coverage ▲ from 14.1% to 15.0%
- Credit loss ratio ▼ from 5.8% to 5.1%
  - origination bias to premium vehicles
  - credit quality improved by more stringent credit scoring, resulting in marginally lower disbursements
  - Taximart refurbishment curbs credit losses on repo vehicles

# Asset-backed lending – SA Taxi; Rand Trust



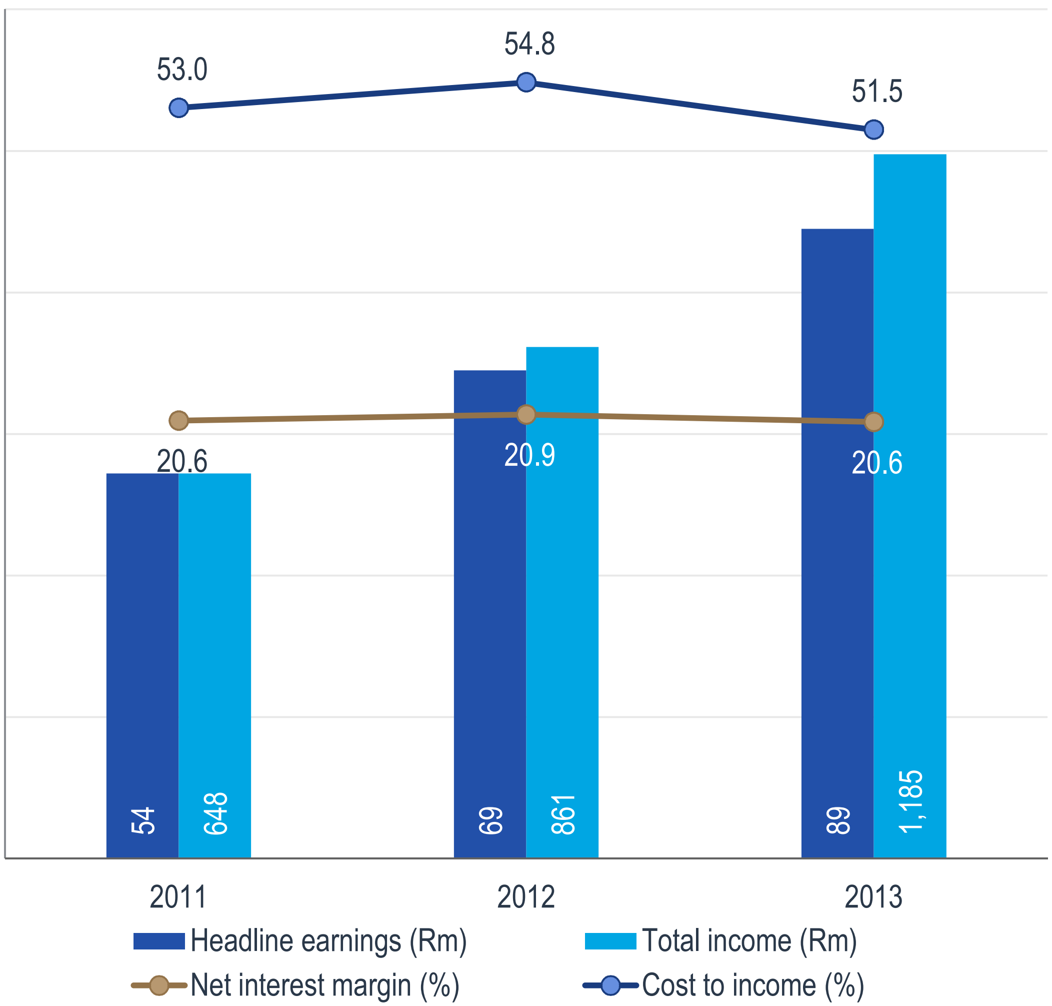

- Headline earnings ▲17% from R58m to R68m
  - total income up 14%
  - improved net interest margin to 12.2%
  - SA Taxi: lower credit loss ratio of 5.1%
  - Low cost to income ratio of 47.1%
- Continued investment in Taximart
  - refurbishment facilitates sale of repo vehicles & curbs credit losses

# Unsecured lending – Bayport



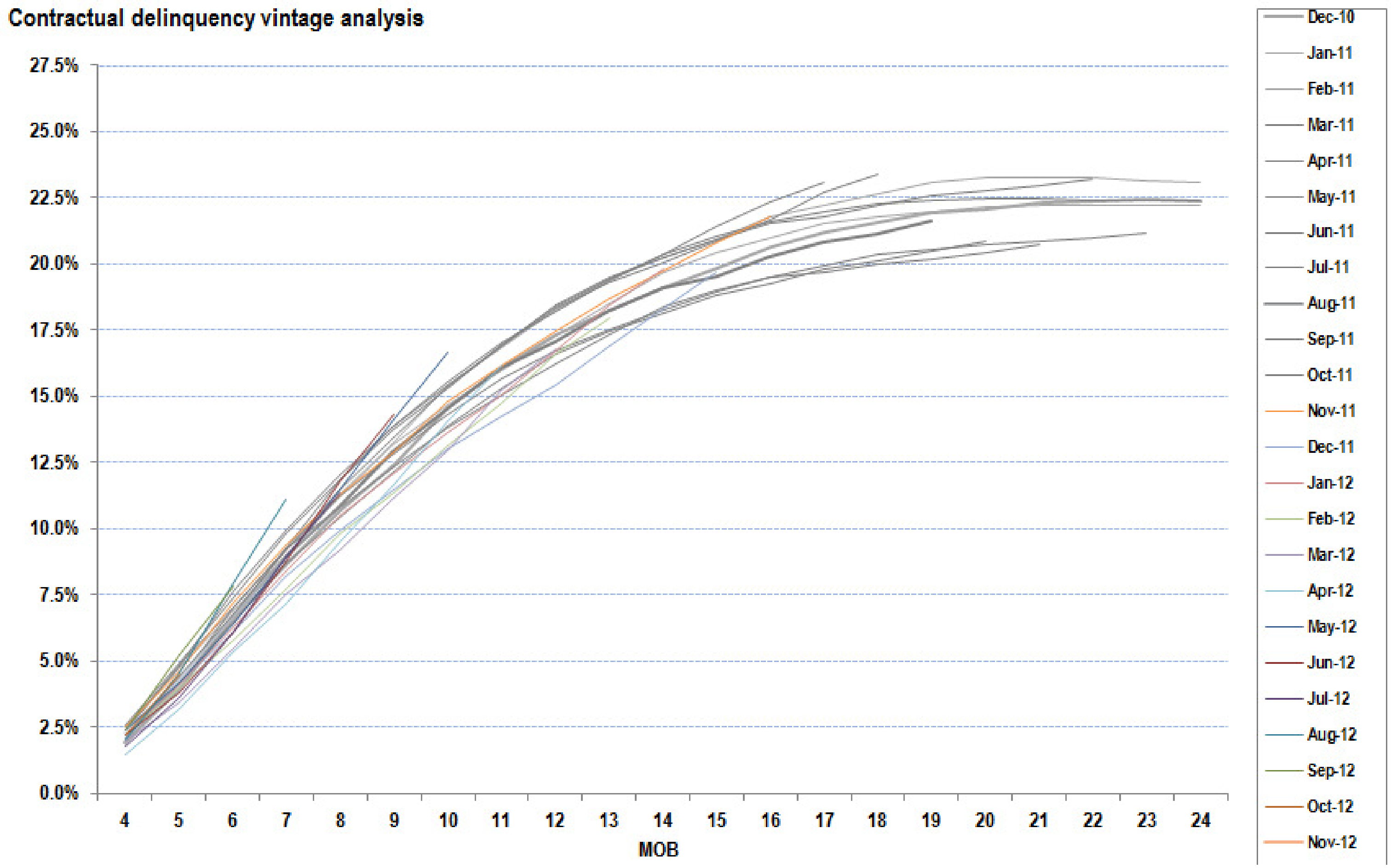

- Gross loans & advances ▲40% from R3.8bn to R5.4bn
  - slowing and cautious rate of growth
  - biased origination to existing clients (66% of value originated)
  - average disbursement R14,866 (NCR average R18,000)
  - average term at origination 47 months (NCR average 45 months)
- Number of active agreements ▲17% from 296,588 to 345,686
- NPL ratio ▲ from 28.2% to 30.6%
  - lower recent disbursement levels due to a tightening of credit criteria
  - seasoning of the portfolio
  - slowdown in late stage collections
  - credit metrics likely to decline as advances slow
  - difficult external environment
- Continued prudence
  - NPL coverage ▲ from 52.0% to 58.6%
  - provision coverage ▲ from 14.7% to 17.9%

# Unsecured lending – Bayport



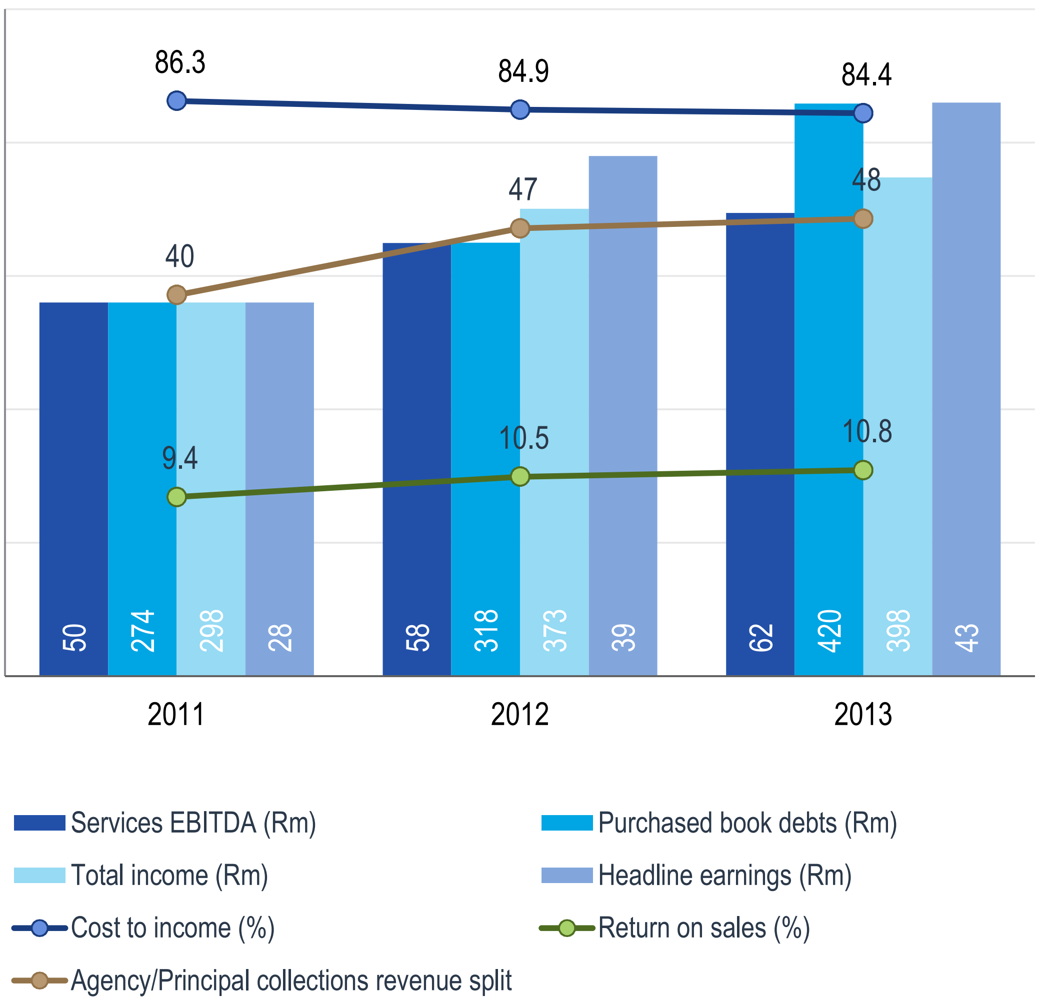

- Headline earnings ▲29% from R69m to R89m
  - total income ▲ 38%
  - stable net interest margin at 20.6%
  - increased credit loss ratio of 14.2% on increased provisions
  - lower cost to income ratio of 51.5%
- Substantial investment
  - executive leadership
  - human capital in key areas
  - ICT systems & processes
- Increase in credit loss ratio to 14.2%
  - prudent ▲ in NPL coverage and provision coverage due to ▲ in NPLs
  - higher write off rate

# Unsecured lending – Bayport



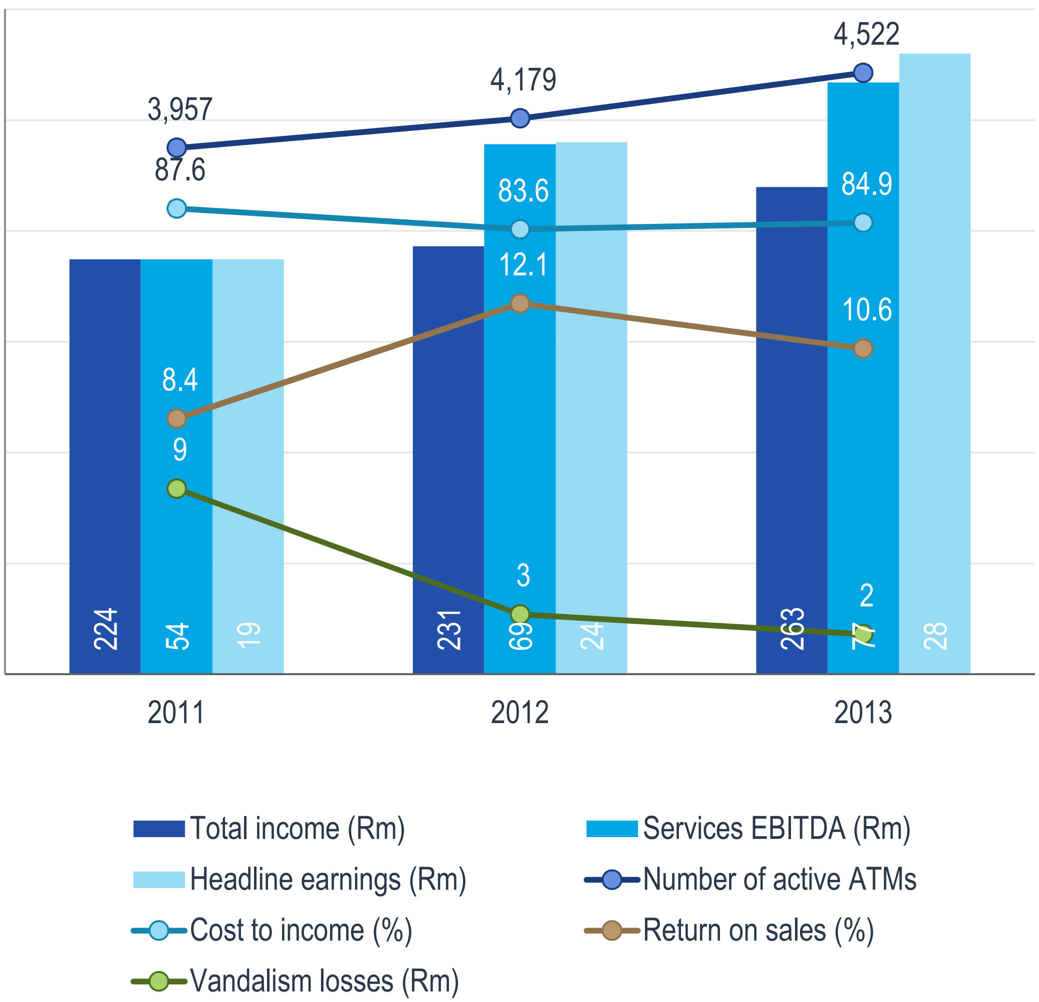

- Recent vintages stacking above historical vintages, but still at profitable levels
- Reflective of higher levels of default identified in Q2
- Addressed via more conservative provisioning and a tightening of credit criteria

# Credit services – MBD Credit Solutions; Principa Decisions



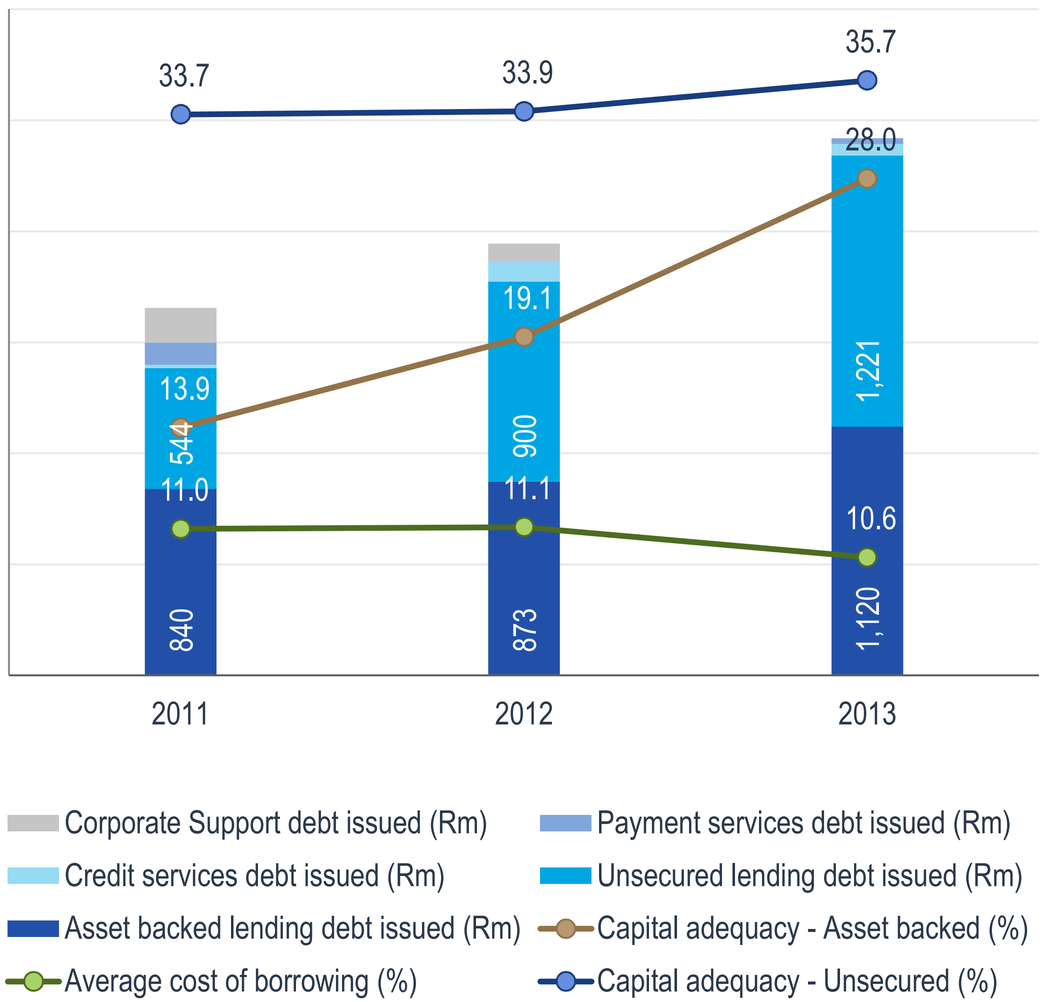

- Headline earnings ▲10% from R39m to R43m
  - earnings growth lagging large purchases of book debts
  - total income up 7%
  - improved cost to income ratio of 84.4%
  - lower effective tax rate
  - challenging collections environment
- Purchased book debts ▲32% from R318m to R420m
  - stable revenue bias of 48% to predictable principal collections
  - books acquired in advantageous buying environment
  - necessitated investment into expanded call centre capacity
- Cost to income ▼ from 84.9% to 84.4%
- Return on sales ▲ from 10.5% to 10.8%
  - revenue growth
  - cost efficiency & containment

# Payment services – Paycorp




- Headline earnings ▲17% from R24m to R28m
  - strong performance from core ATM business
- Active ATM fleet ▲8% from 4,179 to 4,522
  - continued high network uptime levels
  - active relocation to better performing sites
  - 23% increase in ATM disbursements
  - estimated 16% market share of total ATMs in South Africa
- Continued containment of vandalism
  - losses reduce a further ▼33% off a low base
- Marginal ▲ in cost to income ratio from 83.6% to 84.9%
- Return on sales ▼ from 12.1% to 10.6%

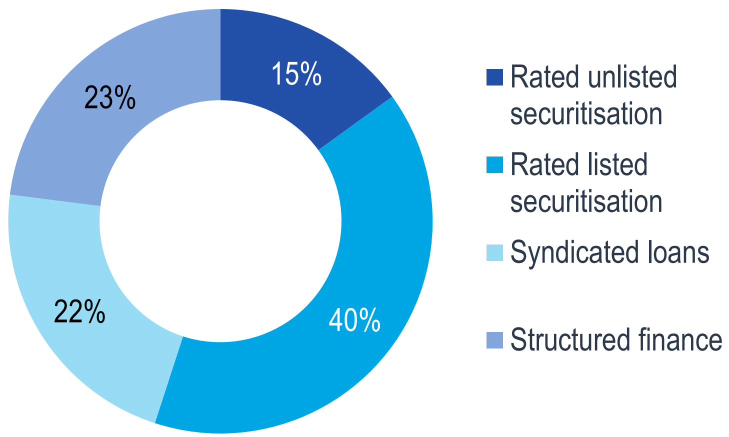
# Funding



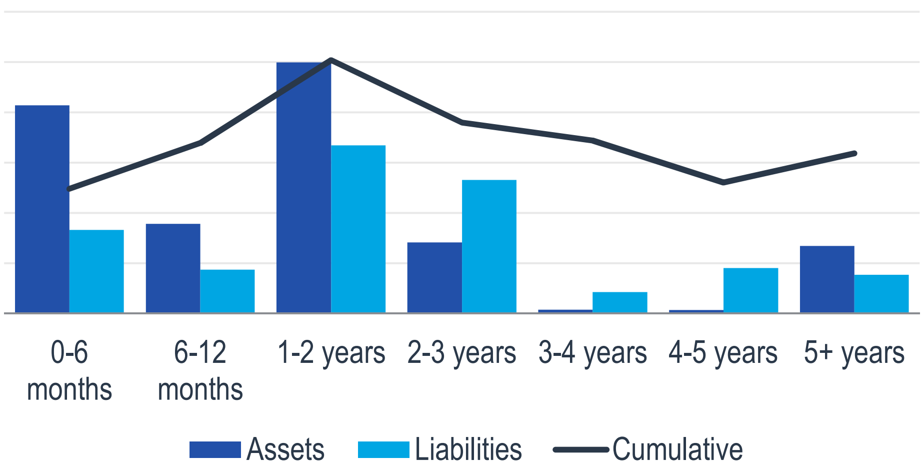

- Continued support from debt capital markets – R2.4bn of debt issued
  - Unsecured lending: R1.2bn
  - Asset-backed lending: R1.1bn
- New debt investors:
  - 3 new to group
  - 3 new to asset classes
- Cost of borrowing ▼ from 11.1% to 10.6%
- Limited exposure to net floating rate debt at R1.3bn
- Capital adequacy ratios
  - Asset-backed lending 28.0%
  - Unsecured lending 35.7%

# Funding philosophy

## Diversification by funding structure

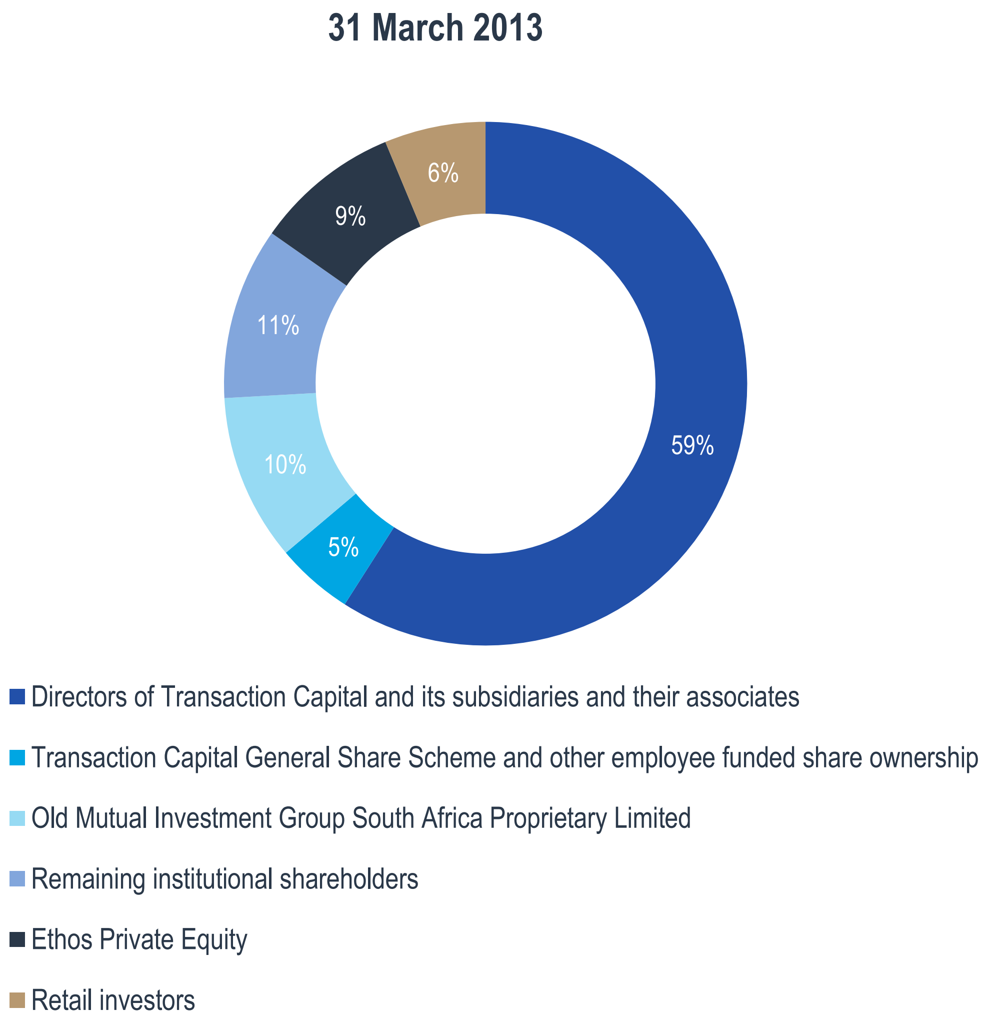



## Positive liquidity mismatch




- ○ Proven wholesale funding model
  - "positive liquidity mismatch" between asset & liability cash flows
  - direct relationships with debt capital markets
  - diversification by debt investor, funding structure & credit rating
  - ring-fenced funding structures per individual asset class
  - targeted capital adequacy levels per asset class
  - no exposure to overnight debt instruments & limited exposure to 12-month instruments

# Shareholding




- The number and percentage held by institutional investors ▲ from 10% to 11%
- Current share scheme to be replaced by Share Appreciation Rights scheme (seek shareholder approval in next few months)

# Conclusion

# The Transaction Capital scorecard

| | |
|---|---|
| Macro-economic backdrop for growth | ○ Positioned to service growing middle class<br>○ Counter-cyclical opportunities such as collections management, book buying |
| Specialised financial services portfolio | ○ Complementary & collaborative portfolio of strategically aligned niche financial services businesses with strong market positions<br>○ Increasing opportunities for a non-deposit taking group as banks exit asset classes with onerous operational or capital requirements (Basel III) |
| Focus on asset quality & risk management | ○ Prudent origination strategy targeting lower credit risks<br>○ Major investment in skills & IT for productivity, asset management & risk mitigation |
| Prudent capital management | ○ Equity levels well positioned for growth & improved ROE<br>○ Proven ability to raise capital from diversified debt investors |
| Delivering strong financial returns | ○ Continued growth in productivity, earnings & assets |
| Under the leadership of experienced management | ○ Experienced leadership with proven entrepreneurial, M&A, technical, financial & risk management skills<br>○ Continual group wide investment in executive education, expertise , experience & retention |
| Operating within a robust governance framework | ○ Experienced, diverse independent directors<br>○ Institutionalised governance, regulatory & risk management practices |

# Risks

- Soft consumer economy: unemployment; inflation; lower borrowing capacity; lower real wage increases; rates
- Labour unrest
- Uncertain regulatory environment
- Regulatory non-compliance by some industry participants & lack of enforcement by authorities
- Absence of standards on affordability

# Outlook

- Challenging socio-economic & regulatory environment
- Major industry participants will behave responsibly (low probability of banking or financial instability)
- Transaction Capital will:
  - provide innovative solutions to clients' needs
  - exercise discipline in the control of costs & assets
  - will not compromise credit quality in pursuit of book growth (credit metrics are likely to decline as advances slow)
  - be cautious in evaluating the strategic & financial merits of M&A activity
- In the absence of a deterioration of the economic environment our previously communicated profit expectations remain intact (less of a discrepancy between earnings growth & per share earnings growth than in H1)

# Addenda




# Presenter's details

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