

## CREDIT RATING ANNOUNCEMENT

### GCR accords an initial rating of A<sub>-(ZA)</sub> to Transaction Capital Limited; Outlook Stable.

Johannesburg, 21 November 2016 -- Global Credit Ratings has assigned national scale ratings to Transaction Capital Limited of A<sub>-(ZA)</sub> and A1<sub>-(ZA)</sub> in the long and short term respectively; with the outlook accorded as Stable. Furthermore, Global Credit Ratings has assigned an international scale local currency rating of BB to Transaction Capital Limited; with the outlook accorded as Stable.

### SUMMARY RATING RATIONALE

The ratings of Transaction Capital Limited ("TC", "the group") reflect its strong, flexible financial profile (featuring solid capitalisation and substantial but diversified debt funding), ample liquidity, and acceptable returns. Availability of resources for acquisitions, moderated by weak economic and consumer fundamentals and regulatory changes, were also considered. TC's business structure and risk profile have changed significantly following subsidiary sales in FY14, the subsequent restructure of remaining operations into asset-backed lending ("SA Taxi") and Transaction Capital Risk Services ("TCRS") divisions, and an accounting policy change (IFRS 9 adoption) which resulted in FY15 opening balance restatements. Thus, GCR's analysis focused on divisional performance/features, resource management/utilisation, and continuing business prospects. FY15/1H FY16 metrics have been given more weight than FY14 metrics, based on their long term relevance.

SA Taxi is a provider of vehicles, developmental credit, insurance and allied services to small and medium-sized entities ("SMEs") operating mainly in the fixed route minibus taxi industry. SA Taxi also applies these competencies to fund bakkies and point-to-point metered taxis as income-producing assets for SMEs. At FY15 SA Taxi had gross loans of R6.2bn (to 21,300 clients), contributing 53% of group headline earnings. TCRS' credit/collection services and capital solutions offered to large consumer credit providers, contributed 34% of FY15 group income.

Adequate capitalisation at divisional and group levels is evident. The non-risk weighted capital/assets ratio was 37.6% at FY15 (FY14: 42.5%), impacted by an IFRS 9 related equity reduction, rising to 38.2% at 1H FY16. Subordinated debt of R1.2bn at FY15/1H FY16 supports equity of R2.6bn (R2.7bn at 1H FY16).

TC's interest-bearing funding, which grew 7.5% to R6.6bn (including Tier 2 capital) at FY15 (1H FY16: R6.7bn), comprises debt raised through domestic capital markets (securitisation of SA Taxi loans, unrated and unlisted debt from institutions, on balance sheet debt from institutions and banks), and development finance institutions ("DFIs"). As 77% (1H FY16) of SA Taxi debt is amortising, TC depends on regular wholesale funding to support business growth, and maintenance of a manageable repayment profile and diversified funding base are key supportive rating factors. In FY15, the group raised R2.9bn in debt (1H FY16: R1.9bn), and strives to keep committed funding coverage at 12 months' operating requirements. The establishment of a R2bn unsecured Note Programme to be listed on the JSE in 2H FY16 is planned. As part of its refinancing and liquidity risk management, the group runs a positive cumulative liquidity position, funding debt repayments from operating cashflows. Cash and liquid funds comprised 9.8% of total assets at 1H FY16 (FY15: 11.8%). These levels are considered large and may not be sustained once suitable investment opportunities are identified.

TC's credit metrics improved in FY15 and 1H FY16, driven by strong collections, strict credit criteria and improved recoveries on refurbished vehicles. The non-performing loan ("NPL") ratio declined to 17.0% at 1H FY16 and FY15 (FY14: 25.7%), while the credit loss ratio fell to 3.2% at 1H FY16 (FY14: 5.2%), illustrating the strength of pre write-off collection and recovery processes. Since FY15, pre-collateral NPL coverage has exceeded 40%.

Earnings performance was resilient in FY15 and 1H FY16. Funded income was driven by modest loan growth/margin compression, while non-interest income (debt servicing, collections on purchased books by TCRS, and growth in SA Taxi's diversified revenue streams) expanded. Moderate cost growth, and lower impairment costs yielded FY15 pre-tax profit growth of 22% to R499m (FY14: R409m). In FY15, TC delivered ROaA of 4.4% and ROaE of 16.7% (1H FY16: 4.2% and 15.9% respectively). The business' defensive nature diminishes return volatility. Cost efficiencies and improved credit metrics are starting to bear fruit.

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

### NATIONAL SCALE RATINGS HISTORY

Initial/last rating: New rating

Outlook: New rating

### INTERNATIONAL SCALE RATINGS HISTORY

Initial/last rating: New rating

Outlook: New rating

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### APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2016

Global Criteria for Rating Finance and Leasing Companies, updated March 2016

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### SALIENT FEATURES OF ACCORDED RATINGS

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

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

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

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

- Audited financial results of the group to 30 September 2015 (plus four years of comparative numbers);
- Interim financial results of the group to 31 March 2016;
- Budgets for Transaction Capital Limited for FY16;
- Latest internal and/or external audit reports to management;
- A breakdown of facilities available and related counterparties;
- Corporate governance and enterprise risk framework; and
- Information specific to the rated entity or industry.

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

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

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.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Collateral	Asset provided to a creditor as security for a loan.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Equity	Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
IFRS / International Financial Reporting Standards	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
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 Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
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.
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.
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.
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.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

For a detailed glossary of terms utilised in this announcement please click [here](#)

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