GCR GLOBAL CREDIT RATING CO.
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Transaction Capital Limited

South Africa Financial Institution Analysis | June 2018

Rating class	Rating scale	Rating	Rating outlook	Review date
Long-term	National	A-(ZA)	Stable	June 2019
Short-term	National	A1-(ZA)		
Long-term	International LC	BB-	Stable	June 2019

Financial data:

(USDm comparative)

	30/09/16	30/09/17
R/USD (avg.)	14.70	13.40
R/USD (close)	13.86	13.50
Total assets	785.8	882.1
Total capital‡	267.6	264.4
Borrowings‡	469.8	535.4
Net advances	518.8	626.4
Liquid assets	79.6	36.9
Operating income	146.8	219.7
Profit after tax	31.5	44.0
Market cap.*	ZAR10.4bn/USD788m	
Market share	n.a.	

‡ Subordinated debt is included as Tier 2 capital.
* Valuation on 8 June 2018 (ZAR/USD 13.20).

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 (June 2017)
Long-term: A-(ZA)
Short-term: A1-(ZA)
Rating outlook: Stable

Last rating (June 2018)
Long-term (International LC): BB-
Rating outlook: Stable

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 (2016-17)

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Summary rating rationale

- The ratings of Transaction Capital Limited ("TC", "the group") reflects strong levels of capitalisation, which benefit from good internal capital generation. The ratings also reflect a niche, but well controlled, business model focused on top tier financial services which is innovative and defendable. GCR views the diversified funding structure to be broadly positive. However, this is mitigated by the large amount of asset encumbrance resulting from structured funds on balance sheet. Credit losses compare less favourably to top tier banks in South Africa, however they have been stable over time and loan reserve coverage is considered to be modest.
- The outlook is stable reflecting our opinion that the group continues its success in executing its strategy, comprising business acquisitions, purchase of book debts with longevity in yield, and risk-controlled growth in lending operations.
- The group's well capitalised balance sheet (with excess liquidity of more than R650m at 1H FY18) retains capacity for further leverage to accommodate growth initiatives. Demonstrated shareholder capital injections coupled with significant profit retention has supported a healthy capital build over the review period, with reported capital (Tier 1) registering at R3.7bn for FY17, up 26.3% from FY16. The group's risk-adjusted capital adequacy ratio ("CAR") trended within strong ranges (FY17: 32.8%, FY16: 38.9%) albeit softening. The metric has been softening largely due to redeployment of excess liquidity realised following the sale of subsidiaries in FY14. Overall, capitalisation remains adequate at divisional and group levels.
- TC's capital flexibility enables access to debt capital markets. Interest-bearing debt rose 9.5% to R8.2bn in FY17, and comprised secured and unsecured debt capital market issuances, bilateral facilities from local institutions /banks, and foreign currency loans from development finance institutions ("DFIs"). In 1H FY18, the group secured R1.8bn ensuring SA Taxi (which utilises the majority of funding) is fully funded for in excess of the next 12 months. Oversubscriptions (3 times) in its listed and rated debt issuances underscores the strong relationships SA Taxi enjoys with funders.
- TC maintains a moderately low risk liquidity structure, running a positive asset/liability maturity profile. This is supported by the excess liquidity at group level and funding structures (securitisations) that self-liquidate in the event that originations stop. The group's liquidity is largely supported by revolving liquidity facilities held with major banks refinanced via securitisation and other funding structures.
- The comparatively favourable risk profile of the SA Taxi loan book cemented heathy credit metrics in FY17, supported by strong collections, strict credit criteria and improved recoveries on refurbished vehicles. The non-performing loan ("NPL") ratio declined to 17.1% at FY17 (FY16: 17.4%), while the credit loss ratio increased slightly to 3.2% (FY16: 3.1%) albeit remaining within target range of 3-4%.
- Strong earnings performance was noted in FY17 and 1H FY18. Net interest income ("NII") was driven by strong loan growth in SA Taxi. Non-interest revenue ("NIR") expanded, with growth in contingency and fee-for-service income bolstered by collections on purchased book debts, and SA Taxi's insurance and dealership income. Increased cost base and higher impairment charges was offset by increased revenues, yielding an increase in bottom line metrics. ROaA and ROaE increased to 4.8% and 17.2% (FY16: 4.4% and 16.9%) respectively. FY18 earnings are expected to be impacted by continued growth in NIR, stable funding costs, and ongoing cost containment efforts.

Factors that could trigger a rating action may include

Positive change: A more diversified business model, coupled with improvement in asset quality and coverage could move the ratings up.
Negative change: The ratings could move down if there is capital and/or asset quality deterioration, reduced liquidity or less funding stability.

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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.

TC businesses and related strategy

In 2014, through the sale of some of its businesses and a subsequent corporate restructuring, TC separated its remaining businesses into two operating segments, namely SA Taxi and TCRS.

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 as income-producing assets for SMEs.
Transaction Capital Risk Services (Pty) Ltd and its subsidiaries
Collection Services
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; and • Capital solutions: distressed debt purchases and bespoke and structural capital solutions.
Recoveries Corporation Group Ltd Provider of customer management solutions to sectoral diverse clients in Australia. Services include debt recovery solutions, insurance claims recoveries, customer services and litigation management.
Transactional Services
This segment comprises:
Transaction Capital Payment Solutions (Pty) Ltd - Provider of payment processing services (to corporate clients), via EFT and related products.
Accsys Proprietary Limited (Accsys)* - Provider of Human Capital solutions
Transaction Capital Business Solutions (Pty) Ltd - Provider of working capital and commercial receivables management solutions to SMEs.
The Beancounter Financial Services (Pty) Ltd - Outsources accounting, payroll and tax services.
Principa Decisions (Pty) Ltd – Provider of customer management solutions (focusing on the consumer credit lifecycle) leveraging consulting, data analytical, software development and technology capabilities.
Value Added Services
RC Value Added Services (Pty) Ltd ("**Roadcover**") -Offers proprietary value-added services to the mass consumer market on a subscription

* Acquired during 1H FY18 for a total cash consideration of R44m.
Source: TC.

SA Taxi and TCRS are complemented by a group executive office ("GEO") which performs oversight, support and treasury functions.

TC's strategy includes: generation of organic and acquisitive growth strategies; credit risk and capital management; data and technology; and people. With regards to 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) which is also supported by Taximart, further illustrates 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 FY17 and 1H FY18, together with branch rationalisation and operational enhancements within Transaction Capital Recoveries, and the acquisition of Recoveries Corporation, Roadcover, the Beancounter, and Accsys, reflect developments in line with strategic goals.

Organisational structure

Ownership structure

Table 2 sets out TC's 31 March 2018 shareholding.

Table 2: Effective shareholding	%
Directors	32
Allan Gray	8
Old Mutual Investment Group	13
Remaining institutional shareholders	42
Retail investors	5

Source: TC 1H F18 Interim Results.

The group remains committed to its Broad Based-Black Economic Empowerment strategy, with iThemba Trust holding 17% equity in Transaction Capital Recoveries and Principa, and 19% of Road Cover Value Added Services.

Governance structure[1]

Table 3 summarises the composition of the board of directors ("board") and group adherence to selected aspects of good corporate governance. TC has set out its governance structures in line with the 16 principles of King IV, 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 Conduct Authority ("FSCA"), amongst others.

Table 3: Corporate governance summary at 31 March 2018	
Number of directors	11
- NEDs*	6 (comprising 4 independent NEDs and 2 non-independent NEDs)
- Executives	5
Separation of chairman	Yes
Board meeting frequency	Quarterly. 4 meetings held in FY17.
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 FY17 Annual Report.

The annual self-review of the effectiveness of the board and its committees undertaken in November 2017 did not highlight required changes and was reviewed as adequate.

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).

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.

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 FY17, the staff complement totalled 4,095 (FY16: 3,260) split between SA Taxi (965), TCRS (3,102), and the GEO. Staffing is considered adequate to support TC's current operational scale and development goals.

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

Reporting structure and access to information

TC's financial accounts are prepared in accordance with IFRS. The annual financial report is 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 not immune to exogenous shocks that may affect any business and the economy as a whole. However, SA Taxi primarily operates in a defensive market segment, while TCRS has a diverse revenue model and business across various consumer credit sectors and two geographies (South Africa and Australia). This minimises the impact of macroeconomic stresses and supports performance over various market cycles.

Economic overview

The financial services industry is impacted by economic growth, savings rates, and corporate/ consumer health (through investor behaviour and trends in the financial markets). Furthermore, South Africa's corporate and consumer resilience has a direct bearing on the financial strength of banks and other financial institutions ("FIs"). As such, high level commentary on trends in economic growth, financial markets, and the direction of and volatility in inflation, currency and interest rates (amongst others), provide significant context to the credit rating process.

South Africa's economy remained subdued in 2017, characterized by sluggish growth, easing inflation, low business and consumer confidence, and political uncertainty. Real GDP registered at 1.0% (2016: 0.3%), on the back of a rebound in the agriculture sector, and gains in manufacturing production capacity recorded in Q4 2017. Inflation fell into the central bank's target range (CPI averaged 5.3% down from 6.4% recorded in 2016), prompting the South African Reserve Bank ("SARB") to provide economic stimulus, cutting the repo rate by 25bps to 6.75% in 2017. Consumer-led stimuli such as consumer spending, household income growth, and savings rates remain at low levels (given high rates of unemployment, low consumer confidence, and limited credit extension). Nonetheless, expectations of stronger near-term global growth coupled with strong corporate earnings revisions noted in 2017 may provide impetus to domestic markets. Despite a degree of volatility, the Rand was relatively resilient in 2017, rallying towards year-end driven by positive investor sentiment on the back of leadership changes in the ruling party ("ANC") and the swearing-in of a new president in early 2018.

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 finance (the category within which SA Taxi's lending falls) has been included in NCR statistics since 2012 and comprised 4.3% of gross debtors book at Q1 2017.

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 subdued 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 High Court ruling (March 2018) stated that there is no longer need for credit providers to collect any specific form of document proving income for loan application, however cautioning of reckless lending.

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. During 2017, SA Taxi, in consultation with industry, agreed to reduce its maximum interest rate from 28.5% to 26.5% on future loans originated. As SA Taxi's risk-based credit model remains unchanged, this necessitates the need to exclude certain client segments that would have previously been eligible for credit.

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 (i.e., Authenticated Collections/DebiCheck). SARB has approved an extended trial and implementation period with the final implementation date, if successful, set for 2019.

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. Nonetheless, total consumer credit amounted to R1.7tn at Q1 FY17, representing 3% growth YoY and 1% QoQ. Mortgages increased by 2.45, while secured credit (dominated by motor vehicle finance) increased by 5.1%. Unsecured credit increased marginally by 0.3%.

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, 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.

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 serves a niche market of the fixed-route minibus taxi industry. Competitors include traditional vehicle asset finance providers such as banks (although none specialise in the lower end of the taxi market), and automotive equipment manufacturers financial services companies. SA Taxi's significant investment in technology and industry research from which it has built up data on its target market, and a business culture which thrives on innovation, has enabled it to develop bespoke credit risk assessment models to appropriately manage and price risk embedded in minibus taxi financing. SA Taxi is in a unique and strategic position to be one of the finance providers in the country to have vertically integrated down the vehicle value chain, increasing control over its costs, risks, and revenue streams.

TCRS' competitive position is measured by its participation in the purchased book debts market and collections mandates secured. TCRS is the only local listed industry participant and is ranked best or second best in 89% of mandates. 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, cements competitive advantages.

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 FY17 through an accelerated book-build.

Capital structure

The group's well capitalised balance sheet (with liquid excess capital of more than R650m at 1H FY18 for holding company) retains capacity for substantial leverage to accommodate growth initiatives.

Table 4: Capitalisation	FY16 Rm	FY17 Rm	1H FY18 Rm
Total reported capital	**2,944**	**3,718**	**3,815**
Paid up ordinary shares	*510*	*1,056*	*1,060*
Eligible reserves	*2,434*	*2,662*	*2,755*
Less: Goodwill	(200)	(1,135)	(1,103)
Total primary capital	**2,744**	**2,583**	**2,712**
Add: Eligible subordinated debt	965	963	1,067
Total available capital	**3,709**	**3,546**	**3,779**
Total balance sheet assets†	**10,891**	**11,909**	**12,924**
Selected ratios (%):			
Total capital/Total assets†	34.1	29.8	29.2
Dividend payout ratio*	37.2	41.5	41.3
Total borrowings/Total capital	176	204	203
Net borrowings/Total capital	152	190	179

† Assets include cash balances and exclude goodwill.
* Dividend per share/Earnings per share.
Source: TC FY17 Annual Report and 1H FY18 Interim Results.

TC maintains a conservative equity structure that supports organic growth and acquisition activities. Demonstrated shareholder capital injections coupled with significant profit retention has supported a healthy capital build over the review period, with reported capital (including non-controlling interest) registering at R3.8bn for FY17, up 26.3% from FY16. Albeit the group's CAR further declined, the metric trends within very strong ranges (FY17: 32.8%, FY16: 38.9%, FY15: 43.3%). The metric has been declining largely due to redeployment of excess cash realised following the sale of subsidiaries in FY14. Management views the balance sheet trending to be efficient as the group redeploys liquidity for profitable activities. As such, GCR's analysis focuses on relative capitalisation measures, in order to neutralise the impact of the evolving business mix.

As a NBFI, the group is not constrained by the capital reserving rules and minima applied to deposit taking institutions. Nonetheless, cognisance is taken that ALCO runs an economic capital program from which risk cognisant equity levels are calibrated (unexpected loss distribution approach), given a target credit rating. The risk-based minimum capital adequacy level at 30 September 2017 was 23.1% vs the actual capital adequacy of 32.8%.

In March 2018, Everglen Capital (Pty) Ltd ("Everglen") reduced its shareholding from 41% to 29%, disposing of 72 million shares via an accelerated bookbuild offering. Everglen is still the largest shareholder in the company and remains the shareholder of reference. In that regard, the group expanded its base of local and international investors, with international shareholding increasing to 15% from 5%. Furthermore, TC's share price performance continued to enhance liquidity and daily trade, supported by a significant increase in free float to 68%. A strong share performance is viewed to support the group's capital raising flexibility.

Funding structure

Funding is secured at subsidiary level. SA Taxi and TCRS utilise a number of funding structures to accommodate individual investors' mandates and risk profiles. This is achieved through three different channels namely; on balance sheet; securitisation & structured finance; and warehousing facilities. Table 5 sets out TC's debt composition.

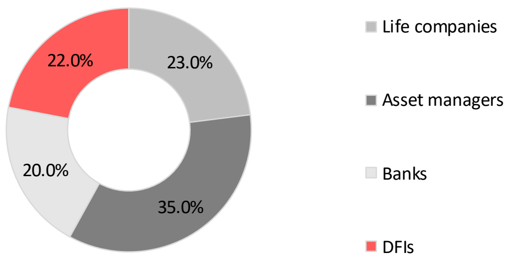
Table 5: External debt funding profile	FY16 Rm	FY16 %	FY17 Rm	FY17 %
Securitisation notes, loans and debentures (ZAR)	**4,154**	**55.6**	**3,728**	**45.5**
Senior notes	*3,651*	*48.8*	*3,419*	*41.7*
Junior/mezzanine	*503*	*6.7*	*309*	*3.8*
Loans (ZAR, USD and EUR)	**3,323**	**44.4**	**4,463**	**54.5**
ZAR senior loans	*2,263*	*30.3*	*2,870*	*35.0*
*ZAR sub/mezzanine loans**	*677*	*9.0*	*556*	*6.8*
USD mezzanine loans	*-*	*-*	*98*	*1.2*
EUR and USD senior loans†	*383*	*5.1*	*939*	*11.5*
Total	**7,477**	**100.0**	**8,191**	**100.0**
% ZAR funding		94.9		87.3
% senior funding		84.2		88.2
% bullet funding		22.0		24.9
% fixed rate funding		5.7		0.3

* R375m (FY17), R474m (FY16) are structurally subordinated.
† Hedged at inception (refer to 'Risk management' section).
Source: TC AFS.

SA Taxi raises/utilises the majority (84% at FY17) of external debt on balance sheet. Pass-through instruments (where principal collected from the assets repay principal due to funders) are preferred, maintaining funding structures that self-liquidate in the event originations stop. Amortising debt is preferred in the non-pass-through structures due to the amortising nature of assets, with assets maturing before liabilities. SA Taxi utilises a small amount of short term bullet debt, thus avoiding refinancing risk. Short-term bullet debt is backed by unutilised external term debt facility which is drawn from if funders do not want to roll the debt.

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

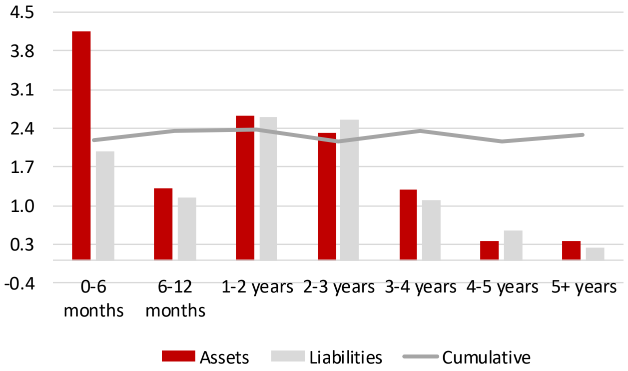
Figure 1: Diversification by funder category (1H FY18)



Proactive and regular engagement with existing and new funding partners ensures a strong funding pipeline. The group has robust access to debt capital markets and in 1H FY18 it secured R1.8bn. In addition, SA Taxi is fully funded for in excess of the next 12 months and has experienced oversubscriptions (3 times) in its listed and rated debt issuances during 1H FY18.

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 FY18 liquidity structure (Rbn)



Leverage
TC's balance sheet remains well capitalised at 1H FY18 (31.9% capital adequacy ratio), retaining capacity for further substantial leverage to accommodate growth initiatives. In this regard, debt (to fund lending operations) remained high in line with strong growth in SA Taxi's loan portfolio, as well as TCRS' significant book purchases. Consequently, the level of total borrowings/total capital (gross leverage) rose and stabilised at 203% at 1H FY18 (FY17: 204%, FY16: 176%). Nonetheless, TC's capitalisation/net leverage metrics remain relatively conservative, well within group targets, and in compliance with relevant statutory requirements and covenants.

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 (albeit stabilising at 12.0% in 1H FY18). Notwithstanding this fact is the healthy risk-adjusted net interest margin ("NIM") of 7.6% in 1H FY18 (8.2% in FY17) SA Taxi maintains, providing sound buffer against negative interest rate and credit environments.

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 FY17, 59.8% of group assets are encumbered. However, TCRS cashflows, income on TC's investments in lending subsidiaries, 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 FY17, with net advances totalling 71% of total assets.

Table 6: Asset mix	FY16		FY17	
	Rm	%	Rm	%
Liquid assets†	**1,276**	**11.7**	**944**	**7.9**
Cash at bank	*868*	*8.0*	*540*	*4.5*
Ceded cash in SPVs	*408*	*3.7*	*404*	*3.4*
Loans and advances	7,190	66.0	8,456	71.0
Purchased book debts	728	6.7	891	7.5
Other loans receivable	35	0.3	41	0.3
Investments	477	4.4	-	-
Property, equipment and intangibles	197	1.8	397	3.3
Other assets	988	9.1	1,180	9.9
Total BS assets*	**10,891**	**100.0**	**11,909**	**100.0**

† Liquid assets utilised elsewhere in this report of R808m (FY17) and R1,103m (FY16) are net of bank overdrafts.
* Including intangible assets, net of goodwill.
Source: TC AFS.

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, further increasing to 84.6% at FY17 (Table 7).

Table 7: Credit risk exposure	FY16		FY17	
	Rm	%	Rm	%
Loans and advances	**7,190**	**66.0**	**8,456**	**71.0**
Finance leases†	*6,654*	*61.1*	*7,850*	*65.9*
Mortgage/other loans	*67*	*0.6*	*51*	*0.4*
Discounted invoices	*469*	*4.3*	*555*	*4.7*
Other loans/receivables	**1,275**	**11.7**	**1,619**	**13.6**
Leased assets	*40*	*0.4*	*-*	*-*
Purchased book debts	*728*	*6.7*	*891*	*7.5*
Other loans receivable	*35*	*0.3*	*41*	*0.3*
Trade/other receivables	*472*	*4.3*	*687*	*5.8*
Total credit exposure	**8,486**	**77.7**	**10,075**	**84.6**
Total BS assets*	**10,891**	**100.0**	**11,909**	**100.0**

† Net of impairment provision at FY17 of R453m (FY16: R497m).
* Net of goodwill.
Source: TC AFS.

Transaction Capital Business Solutions
Continued limited growth in the discounted invoices portfolio in FY17 reflects low consumer and business confidence muting economic outlook on SMEs.

Invoice discounting, incorporating strict client and invoice eligibility criteria, exhibits conservative LTV and term characteristics.

Transaction Capital Recoveries
TCR has been active in the debt acquisition market during FY17, securing new portfolios with a face value of R5.2bn for an investment of R356m. Consequently, purchased book debts were up 22% to R891m at FY17, representing a higher 8.9% (FY16: 8.7%) of credit exposure. Asset growth reflects improved book pricing, with the best vintage performance (book purchased in 2015) having estimated remaining collections ("ERC") of 3.2x at 1H FY18 against 1.7x of this vintage being collected to date. Management targets ERC of 2.2x. Longevity in the yield of principal portfolios is expected to support future performance.

SA Taxi
The SA Taxi portfolio is granular and comprised 28,724 loans at FY17 (FY16: 26,352), exhibiting some geographical concentration, with 53% of the portfolio exposures in Gauteng and Kwa-Zulu Natal, South Africa's more economically vibrant provinces. The weighted average term remaining of loans on book was 47 months at FY17. R2.9bn in premium-vehicle loans were originated in FY17, with an average loan term of 67 months and weighted average interest rate at origination of 24.4%.

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 86% of collections settled in cash). As such, the probability of 'technical' delinquency is high, and management considers that accounts more than 30 days in arrears reflect an increase in the loan's risk profile. SA Taxi has an in-house call centre, with scripts designed for various circumstances in which taxi operators may find themselves. Advanced telematics support the collection strategy adopted in each case. Non-performing loans are defined as the balance outstanding of loans and advances with a contractual delinquency greater than three months including repossessed stock on hand – reduced by the balance of such outstanding loans and advances for which three cumulative qualifying payments have been received in the three month period preceding the measurement date. Loans are written off after the sale of repossessed vehicles.

Asset quality
Table 8 sets out a consolidated view of the group's asset quality (largely reflective of SA Taxi). The comparatively favourable risk profile of the loan book cemented healthy credit metrics in FY17, supported by strong collections, strict credit criteria and improved recoveries on refurbished vehicles.

Table 8: Asset quality	FY16 Rm	FY17 Rm	1H FY18 Rm
Gross advances	**7,687**	**8,909**	**9,518**
Performing	4,441	4,992	n.a.
Past due but not impaired*	1,996	2,496	n.a.
*<90 days overdue**	*1,518*	*1,795*	*n.a.*
*90+ days overdue**	*478*	*701*	*n.a.*
Impaired (NPLs)	1,250	1,421	1,536
Less: Impairment provisions	**497**	**453**	**464**
*Specific impairments**	*400*	*365*	*n.a.*
*Portfolio impairment**	*97*	*88*	*n.a.*
Net advances	**7,190**	**8,456**	**9,054**
Collateral (impaired assets) *	850.0	1,076	n.a.

* n.a. denotes detail not provided in 1H F18 Interim Results.
Source: TC FY17 Annual Report and AFS.

Other risks

Interest rate risk
TC is exposed to interest rate risk through its funded lending operations. At FY17, a large portion of the funding was maintained as floaters (fixed rate funding represented 0.3% at FY17) of total external debt funding, maintaining a naturally hedged funding portfolio. 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 R19m in FY17 (FY16: R22m), around 2.4% (FY16: 3.7%) of pre-tax profit.

Currency risk
Foreign currency funding levels were higher in FY17 due to more DFI funding secured. TC fully hedges foreign currency denominated funding at inception.

Operational segment focus

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

Table 9: FY17 divisional performance*	Group	SA Taxi	TCRS	GEO
Selected BS indicators (Rm)				
Total assets	11,909	9,419	2,297	193
Net loans and advances	8,456	7,872	584	n.a.
Cash and equivalents	944	608	161	175
Capital†	4,735	2,682	1,357	n.a.
Debt†	7,228	6,260	968	n.a.
Selected IS indicators (Rm)				
Total operating income	2,944	1,312	1,562	70
Net profit after tax#	590	309	240	41
Divisional contributions (%)				
Net interest income	100	88	8	4
Non-interest revenue	100	22	77	1
Profit before tax#	100	53	40	7
Selected ratios (%)				
Capital adequacy ratio	32.8	24.8	n.a.	n.a.
NIM	n.a.	11.4	n.a.	n.a.
Gross NPL ratio	n.a.	17.1	n.a.	n.a.
NPL coverage ratio	n.a.	30.3	n.a.	n.a.
Credit loss ratio	n.a.	3.2	n.a.	n.a.
Cost/income ratio	64.1	48.6	79.3	n.a.
ROaA	4.8	3.3	9.5	n.a.
ROaE	17.2	25.3	22.2	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 FY17 Annual Report, GCR estimates.

SA Taxi
SA Taxi, the asset-backed lending operating segment, contributed 53% (FY16: 54%) of TC's headline earnings and 76% (FY15: 80%) of assets, underpinning the strategic importance of this business division to the group. SA Taxi raises and utilises the majority of TC's funding and capital resources, generating 88% of group NII and 22% of NIR in FY17. Consequently, group asset quality, provision coverage and credit loss ratios are largely determined by SA Taxi's performance.

TCRS
Due to the business being capital light, TCRS generates the bulk of the NIR (77%) mainly from collections-related revenue in Transaction Capital Recoveries, while contributing 8% of group NII (through the invoice discounting operations of Transaction Capital Business Solutions. In addition to invoice discounting receivables, TCRS' assets comprise purchased debtor portfolios (R891m at FY17). Branch rationalisation/cost containment, the acquisition of three complementary businesses (The Beancounter, Roadcover and Accsys) and operational enhancements within the collections business evidence effective implementation of TCRS's strategy

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.

Financial performance

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

TC reported strong earnings performances in FY17 and 1H FY18 despite challenging operating environment. Total operating income (gross impairment charges) rose 32.4% in FY17 (FY16: 23.2%). NII grew 14.6% supported expansion of the loan book coupled with higher (24.4%) weighted average interest at origination. However, higher funding costs and low yields on excess cash continued to drive margin pressure, reflected by NIMs registered (FY17: 11.4%, FY16: 11.1%). Non-interest income grew by 51% supported by high fee and commission income on debt servicing and purchased book debts collections in TCRS. Non-funded revenue streams within SA Taxi include insurance and dealership revenue.

Accelerating cost growth (partly due to acquisitions) of 40.1% (FY16: 4.1%), and higher impairment charges in FY17 was more than offset by significant interest and non-interest revenues resulting in increased profitability at the pre-tax level by 31.9% to R793m (FY16: 20.4% to R601m). However, an expansion in the effective tax rate to 25.6% resulted in after tax profit growth of 27.4% to R590m (FY16: 14.3% to R463m). On a consolidated basis, TC's FY17 ROaA and ROaE increased to 4.8% and 17.2% (FY16: 4.4% and 16.9%), respectively.

In 1H FY18, operating income (gross impairments) rose 29.2% HoH. An expanding cost base (mainly due to acquisitions in TCRS and the upscaling of selected SA Taxi businesses) yielded HoH growth of 28.7% at the pre-tax level. Overall, the group disclosed core ROaA and ROaE of 4.7% and 16.5% (1H FY17: 4.3% and 16.1%), respectively.

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 are expected to continue in both TCRS and SA Taxi, while loan book metrics continue 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	2013*	2014	2015#	2016#	2017
Income Statement Analysis					
Interest income	1 225	1 413	1 504	1 688	1 971
Interest expense	(539)	(599)	(683)	(809)	(964)
Net interest income	**686**	**814**	**821**	**879**	**1 007**
Fee and commision income	559	601	632	601	1 090
Other operating income	464	532	563	678	847
Total operating income	**1 709**	**1 947**	**2 016**	**2 158**	**2 944**
Impairment charge	(283)	(322)	(233)	(209)	(260)
Operating expenditure	(1 071)	(1 220)	(1 295)	(1 348)	(1 888)
Non-operating income (incl. equity accounted income)	4	4	11	-	(3)
Net profit before tax	**359**	**409**	**499**	**601**	**793**
Tax	(76)	(79)	(94)	(138)	(203)
Net profit after tax	**283**	**330**	**405**	**463**	**590**
Minority interests	(49)	-	(4)	(5)	(13)
Other after tax income	425	559	14	24	(65)
Total comprehensive income	**659**	**889**	**415**	**482**	**512**
Balance Sheet Analysis					
Ordinary share capital	1 779	483	468	510	1 056
Reserves (incl. net income for the year)	1 936	2 480	2 113	2 434	2 662
Hybrid capital instruments (incl. subordinated debt)	2 131	1 267	1 194	965	963
Minority/Non-controlling interest	180	-	30	34	54
Less: Goodwill	(594)	(192)	(197)	(200)	(1 135)
Total capital and reserves	**5 432**	**4 038**	**3 608**	**3 743**	**3 600**
Bank overdrafts	71	101	52	173	136
Borrowings (incl. loans and securities issued)	2 216	1 368	1 806	2 013	2 718
Short-term funding (< 1 year)	**2 287**	**1 469**	**1 858**	**2 186**	**2 854**
Borrowings (incl. loans and securities issued)	5 254	3 543	3 640	4 499	4 510
Long-term funding (> 1 year)	**5 254**	**3 543**	**3 640**	**4 499**	**4 510**
Payables/deferred liabilities	764	448	400	463	945
Other liabilities	**764**	**448**	**400**	**463**	**945**
Total capital and liabilities	**13 737**	**9 498**	**9 506**	**10 891**	**11 909**
Other loans receivable (incl. purchased book debts)	700	845	818	763	932
Equity and financial investments	485	238	481	477	-
Property, plant and equipment (incl. software)	117	70	92	197	397
Receivables/deferred assets	1 948	770	1 086	1 396	1 626
Non-earnings assets	**3 250**	**1 923**	**2 477**	**2 833**	**2 955**
Bank placements (incl. call deposits)	255	1 189	869	868	498
Loans and advances (net of provisions)	10 232	6 386	6 160	7 190	8 456
Total earning assets	**10 487**	**7 575**	**7 029**	**8 058**	**8 954**
Total assets (excl. goodwill)	**13 737**	**9 498**	**9 506**	**10 891**	**11 909**
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	17.7	30.0	16.1	16.4	13.8
Total capital / Total assets	38.2	42.5	37.6	34.1	29.8
Liquidity					
Net advances / Total funding (excl. equity portion)	139.4	133.3	116.7	108.1	115.4
Liquid and trading assets / Total assets	4.4	13.1	11.8	10.1	6.8
Liquid and trading assets / Total short-term funding	26.3	84.7	60.1	50.5	28.3
Liquid and trading assets / Total funding (excl. equity portion)	8.0	24.8	20.3	16.5	11.0
Asset quality					
Impaired loans / Gross advances	16.2	25.7	17.0	16.3	16.0
Total loan loss reserves / Gross advances	3.1	5.7	8.2	6.5	5.1
Bad debt charge (income statement) / Gross advances (avg.)	5.1	5.2	3.6	2.9	3.1
Bad debt charge (income statement) / Total operating income	16.6	16.5	11.6	9.7	8.8
Growth in loan loss reserves	(67.8)	16.4	44.4	(10.1)	(8.9)
Profitability					
Net income / Total equity (avg.)	35.9	29.3	17.1	17.7	15.2
Net income / Total assets (avg.)	8.7	9.4	4.5	4.6	4.1
Net interest margin†	12.5	13.1	12.8	12.2	12.1
Non-interest income / Total operating income	59.9	58.2	59.3	59.3	65.8
Cost ratio	62.7	62.7	64.2	62.5	64.1
Effective tax rate	21.2	19.3	18.8	23.0	25.6
ROaE	12.8	10.9	16.7	16.9	17.2
ROaA	3.1	3.5	4.4	4.4	4.8
Nominal growth indicators					
Total assets	15.6	(30.9)	0.1	14.6	9.3
Net advances	16.5	(37.6)	(3.5)	16.7	17.6
Shareholders funds	17.1	(20.2)	(12.9)	14.1	26.3
Total capital and reserves	40.9	(25.7)	(10.6)	3.7	(3.8)
Total funding (excl. equity portion)	7.2	(33.5)	9.7	21.6	10.2
Net income (pre-adjustment for comprehensive income)	(27.1)	16.6	22.7	14.3	27.4

Includes effects of IFRS 9 early adoption.

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

‡ Split of long-term and short-term debt not disclosed in 1H FY17 Interim Results.

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

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

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.
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.
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.
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.
Forecast	A calculation or estimate of future financial events.
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.
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.
Investment Grade	Credit ratings equal to or higher than 'BBB-'.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
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.
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 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.
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.
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 ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings 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 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 2017 (plus four years of comparative numbers);
- Interim financial results of the group to 31 March 2018;
- 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.