

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

Johannesburg, 26 June 2018 – Global Credit Ratings has affirmed the national scale ratings of A-(ZA) and A1-(ZA) accorded to Transaction Capital Limited in the long term and short term respectively; with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale local currency (LC) rating of Transaction Capital Limited at BB-; with the outlook accorded as Stable.

RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Transaction Capital Limited ("TC", "the group") based on the following key criteria:

The ratings of TC reflect 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 defensible. 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 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. 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 healthy credit metrics in FY17, supported by strong collections, strict credit criteria and improved recoveries on refurbished vehicles. The non-performing loan 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 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.

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

NATIONAL SCALE RATINGS HISTORY

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

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

INTERNATIONAL SCALE RATINGS HISTORY

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

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

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Global Criteria for Rating Finance and Leasing Companies, updated March 2017
TC rating report (2016-17)

RATING LIMITATIONS AND DISCLAIMERS

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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 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 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.

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

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

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