MEDIA RELEASE
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Transaction Capital reports 20% organic growth in HEPS and a 38% increase in dividends per share

Transaction Capital's SA Taxi business unit enters the metered taxi market

Commenting on Transaction Capital's 2015 annual results, David Hurwitz, group chief executive, said: *"Transaction Capital has delivered an impressive 20% organic growth in headline earnings per share. The reconstitution of our asset-backed lending and risk services divisions, together with their leading and defensive market positions has enabled Transaction Capital to prosper despite South Africa's challenging macro- and socio-economic environment. While both our business units perform better in a positive economic environment, they are also highly defensive, intentionally positioned to withstand these difficult economic conditions, as is evidenced by their strong financial performance this year."*

The company noted that South Africa's economic growth remains constrained, exacerbated by various macro- and socio- economic challenges including low employment levels, little or no real wage growth, local currency weakness, an increasing interest rate environment and increased electricity and fuel costs. The level of social unrest and protest action also continues to increase mainly as a result of the stressed socio-economic environment.

The regulatory environment remains volatile, with changes proposed or enacted regarding the ability to collect prescribed debt, affordability assessments and caps on interest rates, fees and related credit insurance premium charges. Finally, recent court activity regarding the use of emolument attachment orders has been widely publicised and awaits clarification from the Constitutional Court. Regarding South Africa's volatile regulatory environment, Hurwitz stated: "*None of the mentioned recent or proposed regulatory changes should have a material financial impact on Transaction Capital as most of these are not applicable to our businesses, and where required our processes were aligned and amended almost three years ago in anticipation of these changes.*"

Transaction Capital is amongst the first companies internationally to adopt IFRS 9, the accounting standard regulating the accounting treatment of Financial Instruments. Hurwitz said: "*Our portfolio is now comprised almost exclusively of high performing or premium Toyota and other European vehicles, with only 2% of the portfolio being Chinese vehicles which historically have performed poorly. Post the early adoption of IFRS 9, SA Taxi's balance sheet* *has been significantly de-risked through higher provisions thus vastly increasing its ability to withstand future credit losses, our non-performing loans ratio and credit loss ratio has improved, and the business should now yield a higher return on equity of approximately 20% in the medium term. Excess capital held since the sale of our two subsidiaries, Bayport Financial Services and Paycorp Holdings, in the 2014 financial year, positioned Transaction Capital well to early adopt IFRS 9 and absorb the resulting one-off equity adjustment. Any further uncertainty relating to the implementation of IFRS 9 on our financial results and ratios has now been removed."*

Within the asset-backed lending division, with Entry-level or Chinese vehicles now comprising a minimal proportion of loans and advances, Transaction Capital expects the non-performing loan ("NPL") ratio and credit loss ratio to remain structurally lower over the medium term, thus yielding improved returns for shareholders.

SA Taxi, South Africa's largest dedicated and independent financier of fixed route minibus taxis and one of the country's few certified developmental credit providers, is set to expand into the metered point-to-point taxi industry.

SA Taxi aims to procure and supply vehicles to metered taxi operators who may not have access to deposits to buy their own vehicle, or a credit history to qualify for conventional vehicle finance. Vehicles will initially be provided in terms of a six month short-term contract.

Extending its close association with Toyota SA, in the minibus taxi and "bakkie" industries, SA Taxi will acquire Corollas and adapt them internally with billing systems, leather seating, on board cameras, Bluetooth and other specifications. Taximart, a division of SA Taxi will undertake all remodelling of the Toyota Corollas to meet required standards.

The focus is not just to create jobs, but rather to incubate small business owners by giving them the opportunity over a six month period to build up a deposit, to establish a track record and then provide them with the necessary business support in order to assist in creating a sustainable metered taxi business. After this six month incubation period, SA Taxi will selectively enable operators to acquire the vehicle and hence establish a new metered taxi businesses, by extending the offering to include efficient longer-term finance and comprehensive insurance cover on a selective basis.

SA Taxi's decision to enter into the metered taxi sector will enable it to provide vehicles to those interested in working on the Uber as well as other billing platforms. In addition, SA Taxi's vertically integrated value chain is designed specifically to reduce cost and increase revenue for our customers, being metered point-to-point taxi operators.

Hurwitz comments: “For SA Taxi, the goal is always to transition individual drivers and owners into sustainable small business operators and from the informal to the formal economy, where they can participate in better health-care, education and a broader array of lifestyle options. The opportunities that Uber and other billing technologies provide, combined with SA Taxi’s experience of applying developmental finance, provides for an exciting extension of SA Taxi’s existing customer base and also brings further benefits to the transport economy.”

Transaction Capital continues its acquisitive search. Commenting on Transaction Capital’s acquisitive growth strategy, Hurwitz said: *“While Transaction Capital remains well positioned and suitably capitalised to affect significant acquisitive activity, the use of our capital for acquisitions will only be considered for optimal transactions. In light of the attractive risk adjusted returns being achieved organically from our established businesses, management remains circumspect and conservative in its acquisitive search. Transaction Capital favours a narrow focus on assets whose value can be enhanced by active management within its existing divisions. We apply stringent criteria when evaluating potential investments to ensure acquisitions will either enhance our specialist capabilities, enable access to adjacent market segments or diversify risk via international expansion.”*

OVERVIEW

At the core of Transaction Capital’s 2015 three year strategy is the reconstitution of its portfolio of assets into two autonomous and decentralised divisions of scale, being the asset-backed lending and risk services divisions. The restructuring of the divisions, together with their leading and defensive market positions has enabled Transaction Capital to prosper despite South Africa’s challenging macro- and socio-economic environment. Transaction Capital’s financial, credit and operational performance was in line with expectations for the 2015 financial year, growing headline earnings per share organically by 20% to 69.0 cents, whilst continuing to report an improvement in all credit metrics.

Transaction Capital’s business units operate in market segments of the financial services sector perceived to be of higher risk that require a greater level of specialisation which have been developed and refined over a number of years. Transaction Capital’s strategy is to augment and refine its specialised competencies to achieve deep vertical integration within its chosen market segments, as well as to leverage its existing and scalable platforms to create defensible positions within identified adjacent market segments.

ASSET-BACKED LENDING - SA TAXI

The estimated national fleet of circa 200 000 privately owned minibus taxis remains the primary means of transport for most South African commuters, accounting for an estimated 69% of all household trips. The replacement of ageing minibus taxi vehicles continues to create robust demand for the finance, vehicles and related services provided by SA Taxi, intensified by the under-supply of Premium minibus taxi vehicles into the South African vehicle market. Furthermore, regardless of the depressed consumer economy, with transport spend being non-discretionary, commuters' use of minibus taxis has remained consistently high.

The asset-backed lending division extends credit, insurance, telematics and allied services to the underserved and emerging small-to-medium enterprise (SME) market.

Via SA Taxi, Transaction Capital is the leading provider of financial and allied services to SMEs in the fixed route minibus taxi industry. SA Taxi continues to diversify its revenue via the procurement and direct sales of new vehicles, the re-sale of refurbished vehicles and telematics services. New developments include the planned establishment of a dedicated SA Taxi panel repair facility and vehicle dealership, to augment its refurbishment and direct sales capabilities. Another key component of the value chain from which SA Taxi benefits is its short-term insurance business which provides comprehensive insurance cover over taxi operators vehicles.

SA Taxi has recently initiated the financing of income producing vehicles including bakkies used by SMEs, with more than 750 bakkies financed at the end of the year, as well as metered and Uber point-to-point taxis, with a newly established fleet of more than 50 vehicles.

With moderate growth in gross loans and advances, improving credit metrics and a stable net interest margin and cost-to-income ratio it is evident that SA Taxi's credit, operational and financial performance is robust.

RISK SERVICES

The depressed consumer economy provides Transaction Capital's risk services division with substantial opportunity, as its clients strive to mitigate credit and operational risks associated with their customer base, reduce costs, simplify processes, raise capital and improve working capital cash flow.

The risk services division provides customer management and capital solutions, thus assisting banks, retailers, insurers and the like to originate, manage and collect from their customers. This division works with large consumer credit providers across multiple industries, including banking, credit retailer, telecommunications, insurance, specialist lending, the public sector; as well as providing working capital and commercial receivables management solutions to SMEs.

Transaction Capital remains committed to investing significantly in organic capital deployment opportunities and in bolt-on acquisitive growth opportunities within its asset-backed lending and risk services divisions, to further enhance their scale and entrench their leading market positions. In light of Transaction Capital's positioning within this socio-economic context, management believes that it is well positioned to achieve continued growth.

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ADDITIONAL INFORMATION

ABOUT THE COMPANY

Transaction Capital is a non-deposit taking financial services group operating in the asset-backed lending and specialist risk services segments of the South African financial services sector.

Transaction Capital's businesses operate in market segments that are perceived to be of a higher risk, that require a greater level of specialisation, and are therefore under-served. By applying its specialised credit, risk and capital management competencies, Transaction Capital develops its businesses to achieve scale and leading positions in these market segments. At a divisional level, the group focuses on achieving deep vertical integration in its chosen market segments and to move into adjacent market segments. This progressively enhances the customer value propositions and sustainable competitive advantage of its divisions.

Transaction Capital intentionally positions its businesses to take advantage of opportunities arising from South Africa's macro- and socio-economic context.

*Throughout the financial highlights and commentary that follows, the 2015 audited results are compared to 2014 comparatives that are pro forma numbers calculated as if IFRS 9 was adopted on 1 October 2013, unless otherwise indicated with a *. This is to enable comparison on a "like-for-like" basis. Numbers marked with a * are based on previously published 2014 numbers prepared in terms of IAS 39. The pro forma financial information has been reported on by Deloitte & Touché in terms of International Standard on Assurance Engagements 3420 – Assurance Engagements to report on the compilation of pro forma financial information, and their Reporting Accountants Report.*

FINANCIAL HIGHLIGHTS

- Headline earnings per share* up 20% to 69.0 cents per share
- Headline earnings up 19% to R393 million
- Return on average equity up to 16.7% from 12.8%
- Return on average assets up to 4.4% from 3.5%
- Gross loans and advances up 10% to R6 713 million
- Non-performing loan ratio improved to 17.0% from 18.8%
- Credit loss ratio improved to 3.6% from 4.2%
- Dividend per share (total) up 38% to 22 cents per share

Transaction Capital's operations delivered pleasing results in line with expectations, despite, challenging market conditions. Headline earnings from continuing operations grew by 19%* from R330 million to R393 million. When compared to 2014 IFRS 9 pro forma numbers the headline earnings growth is 30%.

Net interest income increased by 13%, driven by a 10% growth in gross loans and advances from R6 089 million to R6 713 million and increases in the prime interest rate offset in part by a higher average cost of borrowing of 10.7% from 10.4% the year before. Non-interest revenue increased by 5% to R1 195 million, mostly driven by MBD's improved agency collections but offset by a more subdued contribution from insurance operations.

Effective collection strategies, strict credit origination criteria and an improved quality of repossessed vehicles produced by SA Taxi have continued to promote improved credit metrics. Consequently, the NPL ratio showed excellent improvement from 18.8% to 17.0%, the credit loss ratio improved from 4.2% to 3.6%, and NPL coverage strengthened from 47.9% to 48.6%.

Return on average equity increased to 16.7% in the current period driven by the increase in earnings, effective but conservative capital deployment, as well as the lower equity base resulting from the IFRS 9 adoption.

DIVISIONAL FINANCIAL REVIEW

ASSET-BACKED LENDING - SA TAXI

The division increased headline earnings by 20% to R212 million from R176 million in the prior year, by way of a 12% increase in gross loans and advances, no change in the impairment expense, and a continued diversification of its revenue streams. The stable impairment charge despite the growth in the loans and advances was driven by improved credit quality and a better construct of its loans and advances with only 2% being Entry-level or Chinese vehicles.

Credit granting criteria remained conservative and access to new Premium vehicles was interrupted from March 2015 onwards due to the temporary closure by Toyota of its local assembly facility to enable a full plant rebuild. The constrained supply of new Toyota minibus taxis has however provided SA Taxi with an opportunity to re-finance more of its repossessed and refurbished vehicles as well as the recently launched Nissan minibus taxi.

Credit losses have improved from 4.4% in the prior year to 3.9% due to the improved quality of loans and advances, as well as the efficiency of the procurement, repair and resale operations of Taximart (now one of the largest Toyota repair centres in Southern Africa).

Continued strong collection trends and the improved quality of repossessed vehicles produced by Taximart, have resulted in an improved NPL ratio of 18.2% from 20.5% the year before.

With Entry-level vehicles comprising a minimal proportion of loans and advances, Transaction Capital expects the NPL ratio to remain in the high teens and the credit loss ratio to remain around 4% over the medium term.

The net interest margin has remained stable at a healthy level of 11.3%, while the cost of borrowing increased slightly from 9.7% to 10.0% due to the recent focus on raising offshore funding which is priced more expensively.

SA Taxi's cost-to-income ratio has improved slightly from 48.9% for the comparative period, and remains lean at 48.7%.

RISK SERVICES

The division has yielded promising results, with headline earnings increasing by 16%* to R134 million. Despite earnings growth in MBD and Rand Trust exceeding 30%, the disappointing performance of Principa, driven mainly by a the challenging local consumer credit environment together with losses in its Qarar joint venture, significantly tempered performance. For these reasons, the Qarar joint venture was sold during September 2015 to Simah, Principa's Saudi joint venture partner.

The 11% increase in non-interest revenue from R861 million to R953 million during this period was encouraging, despite the challenging consumer environment. The risk services division continues to make pleasing progress with its existing and newly identified clients, with further benefits being realised from lucrative capital deployment opportunities. The division progresses with caution in the municipal sector as most municipalities are in financial distress.

Principal portfolios acquired this year are performing in line with expectations, with further books being purchased for R166 million in the current financial year. MBD currently owns 154 principal book portfolios.

A continued focus on effective cost management contributed to an improved cost-to-income ratio of 82.5% from 86.9% in the prior year.