Transaction Capital

UNAUDITED FINANCIAL RESULTS
FOR THE HALF-YEAR ENDED 31 MARCH 2013

TOTAL INCOME R2 504 million
↑ **21.8%** (2012: R2 055 million)

NON-INTEREST REVENUE R1 182 million
↑ **15.8%** (2012: R1 021 million)

GROSS LOANS AND ADVANCES R10 785 million
↑ **27.3%** (2012: R8 471 million)

HEADLINE EARNINGS R233 million
↑ **36.3%** (2012: R171 million)

WEIGHTED AVERAGE NUMBER OF SHARES 583.8 million
↑ **23.3%** (2012: 473.4 million)

HEADLINE EARNINGS PER SHARE 39.9 cents
↑ **10.5%** (2012: 36.1 cents)

NET ASSET VALUE PER SHARE 527.6 cents
↑ **30.1%** (2012: 405.5 cents)

RETURN ON EQUITY 15.6%
↓ **20.4%** (2012: 19.6%)

MAIDEN INTERIM DIVIDEND PER SHARE
↑ **9 cents** (2012: 0 cents)

Consolidated income statement

	1H13 Unaudited Rm	1H12 Reviewed Rm	Change %	FY12 Audited Rm
Interest and other similar income	**1 322**	1 034	27.9	2 224
Interest and other similar expense	**(471)**	(443)	6.3	(883)
Net interest income	**851**	591	44.0	1 341
Impairment of loans and advances	**(492)**	(337)	46.0	(740)
Risk-adjusted net interest income	**359**	254	41.3	601
Non-interest revenue	**1 182**	1 021	15.8	2 126
Operating costs	**(1 236)**	(1 035)	19.4	(2 181)
Profit before tax	**305**	240	27.1	546
Income tax expense	**(54)**	(56)	(3.6)	(112)
Profit for the period	**251**	184	36.4	434
Attributable to non-controlling equity holders	**18**	13	38.5	33
Attributable to ordinary shareholders	**233**	171	36.3	401
Basic earnings per share from continuing operations	**39.9**	36.1	10.5	77.2
Diluted basic earnings per share from continuing operations	**39.9**	38.0	5.0	77.2
Headline earnings per share from continuing operations	**39.9**	36.1	10.5	78.0
Normalised headline earnings per share	**39.9**	38.0	5.0	81.6

Consolidated statement of comprehensive income

	1H13 Unaudited Rm	1H12 Reviewed Rm	Change %	FY12 Audited Rm
Profit for the period	**251**	184	36.4	434
Other comprehensive income	**3**	–	100.0	–
Movement in cash flow hedging reserve				
Fair value gains/(losses) arising during the period	**29**	–	100.0	(6)
Amount removed from other comprehensive income and recognised in the profit and loss	**(18)**	–	(100.0)	4
Deferred tax	**(8)**	–	(100.0)	2
Total comprehensive income for the period	**254**	184	38.0	434
Attributable to non-controlling equity holders	**18**	13	38.5	33
Attributable to ordinary shareholders	**236**	171	38.0	401

Headline earnings reconciliation

	1H13 Unaudited Rm	1H12 Reviewed Rm	Change %	FY12 Audited Rm
Group profit attributable to ordinary shareholders	**233**	171	36.3	401
Headline earnings adjustable items (deducted)/added				
Losses on disposal of properties and equipment	**–**	–	–	2
Impairment of goodwill	**–**	–	–	3
Tax on headline earnings adjustments	**–**	–	–	(1)
Headline earnings from continuing operations	**233**	171	36.3	405
Listing costs	**–**	9	(100.0)	19
Normalised headline earnings	**233**	180	29.4	424

Consolidated statement of financial position

	1H13 Unaudited Rm	1H12 Reviewed Rm	Change %	FY12 Audited Rm
Assets				
Cash and cash equivalents	**1 260**	938	34.3	1 101
Tax receivables	**30**	47	(36.2)	28
Trade and other receivables	**624**	555	12.4	410
Inventories	**170**	172	(1.2)	203
Loans and advances	**9 594**	7 717	24.3	8 780
Purchased book debts	**420**	318	32.1	347
Other loans receivable	**291**	225	29.3	228
Other investments	**1**	28	(96.4)	–
Intangible assets	**34**	38	(10.5)	36
Property and equipment	**331**	292	13.4	308
Goodwill	**927**	930	(0.3)	927
Deferred tax assets	**127**	138	(8.0)	130
Total assets	**13 809**	11 398	21.2	12 498
Liabilities				
Bank overdrafts	**233**	180	29.4	158
Tax payables	**22**	74	(70.3)	13
Trade and other payables	**748**	560	33.6	827
Provisions	**6**	4	50.0	3
Interest-bearing liabilities	**9 458**	8 351	13.3	8 353
Senior debt	**7 720**	6 668	15.8	6 876
Subordinated debt	**1 738**	1 683	3.3	1 477
Deferred tax liabilities	**158**	123	28.5	156
Total liabilities	**10 625**	9 292	14.3	9 510
Equity				
Ordinary share capital and premium	**1 787**	1 159	54.1	1 792
Reserves	**–**	(3)	(100.0)	(3)
Retained earnings	**1 292**	883	46.4	1 112
Equity attributable to ordinary equity holders of the parent	**3 079**	2 039	51.0	2 901
Non-controlling interests	**105**	67	56.7	87
Total equity	**3 184**	2 106	51.2	2 988
Total equity and liabilities	**13 809**	11 398	21.2	12 498

Condensed consolidated statement of cash flows

	1H13 Unaudited Rm	1H12 Reviewed Rm	Change %	FY12 Audited Rm
Net cash (utilised)/generated by operating activities	**233**	(83)	(380.7)	(243)
Net cash utilised by investing activities	**(144)**	(89)	61.8	(133)
Net cash raised/(utilised) by financing activities	**(5)**	460	(101.1)	849
Net increase in cash and cash equivalents	**84**	288	(70.8)	473
Cash and cash equivalents at beginning of the period	**943**	470	100.6	470
Cash and cash equivalents at end of the period	**1 027**	758	35.5	943

Condensed segment report

	Asset-backed lending		Unsecured lending		Credit services		Payment services		Corporate support		Group	
	1H13 Unaudited Rm	1H12 Reviewed Rm	1H13 Unaudited Rm	1H12 Reviewed Rm	1H13 Unaudited Rm	1H12 Reviewed Rm	1H13 Unaudited Rm	1H12 Reviewed Rm	1H13 Unaudited Rm	1H12 Reviewed Rm	1H13 Unaudited Rm	1H12 Reviewed Rm
Condensed income statement for the six months ended 31 March 2013												
Net interest income	**318**	259	**525**	356	**1**	–	**(4)**	(4)	**11**	(20)	**851**	591
Impairment of loans and advances	**(128)**	(122)	**(362)**	(215)	**(2)**	–	**–**	–	**–**	–	**(492)**	(337)
Non-interest revenue	**92**	89	**450**	337	**390**	365	**262**	230	**(12)**	–	**1 182**	1 021
Total operating costs	**(193)**	(151)	**(502)**	(380)	**(330)**	(311)	**(219)**	(189)	**8**	(4)	**(1 236)**	(1 035)
Profit before tax	**89**	75	**111**	98	**59**	54	**39**	37	**7**	(24)	**305**	240
Headline earnings	**68**	58	**89**	69	**43**	39	**28**	24	**5**	(19)	**233**	171
Services: EBITDA					**62**	58	**77**	69				
Net interest margin (%)	**12.2**	11.9	**20.6**	20.9							**16.4**	15.1
Cost-to-income (%)	**47.1**	43.4	**51.5**	54.8	**84.4**	84.9	**84.9**	83.9			**60.8**	64.2
Number of employees	**572**	511	**1 221**	1 085	**2 831**	2 410	**411**	344	**67**	53	**5 102**	4 403
Condensed statement of financial position at 31 March 2013												
Assets												
Cash and cash equivalents	**483**	476	**553**	230	**25**	66	**131**	98	**68**	68	**1 260**	938
Loans and advances	**5 104**	4 370	**4 439**	3 274	**51**	68	**–**	–	**–**	5	**9 594**	7 717
Purchased book debts	**–**	–	**–**	–	**420**	318	**–**	–	**–**	–	**420**	318
Other assets and receivables	**491**	518	**796**	805	**299**	210	**340**	288	**609**	604	**2 535**	2 425
Total assets	**6 078**	5 364	**5 788**	4 309	**795**	662	**471**	386	**677**	677	**13 809**	11 398
Liabilities												
Bank overdrafts	**100**	162	**–**	–	**4**	–	**45**	18	**84**	–	**233**	180
Interest-bearing liabilities	**4 579**	4 459	**4 165**	2 963	**185**	139	**79**	80	**450**	710	**9 458**	8 351
Senior debt	**4 078**	4 043	**3 378**	2 408	**185**	137	**79**	80	**–**	–	**7 720**	6 668
Subordinated debt	**501**	416	**787**	555	**–**	2	**–**	–	**450**	710	**1 738**	1 683
Group	**630**	208	**217**	473	**61**	19	**–**	–	**(908)**	(700)	**–**	–
Other liabilities and payables	**281**	177	**252**	224	**194**	188	**177**	131	**30**	41	**934**	761
Total liabilities	**5 590**	5 006	**4 634**	3 660	**444**	346	**301**	229	**(344)**	51	**10 625**	9 292
Total equity	**488**	358	**1 154**	649	**351**	316	**170**	157	**1 021**	626	**3 184**	2 106
Return on average assets (ROA) (%)	**2.4**	2.3	**4.0**	4.2	**11.7**	11.2	**14.2**	15.1			**3.9**	3.5
Return on average equity (ROE) (%)	**29.6**	25.3	**17.0**	27.4	**25.5**	26.4	**34.4**	37.8			**15.6**	19.6
Capital adequacy ratio (%)	**28.0**	19.1	**35.7**	33.9	**48.8**	50.3	**50.0**	54.7			**34.4**	30.0
Average cost of borrowings (%)	**10.1**	11.0	**10.5**	11.9	**7.1**	12.5	**9.9**	9.0			**10.6**	11.1
Credit loss ratio (%)	**4.9**	5.6	**14.2**	12.6							**9.5**	8.6
Provision coverage (%)	**4.9**	4.1	**17.9**	14.7							**11.5**	8.9
Non-performing loan ratio (%)	**32.4**	28.3	**30.6**	28.2							**31.3**	28.0
Non-performing loan coverage (%)	**15.2**	14.4	**58.6**	52.0							**36.6**	31.8
Assets under management (Rb)					**23.7**	21.8						
Number of collection agents					**2 547**	2 159						
ATM disbursements (Rb)							**17.4**	14.1				
Number of ATMs							**4 522**	4 179				

Condensed consolidated statement of changes in equity

	Share capital and premium Rm	Cash flow hedging reserve Rm	Retained earnings Rm	Ordinary shareholders' equity Rm	Non-controlling interests Rm	Total equity Rm
Balance at 31 March 2012	1 159	(3)	882	2 038	67	**2 106**
Total comprehensive income	–	–	230	230	20	**250**
Profit for the period	–	–	230	230	20	**250**
Issue of shares	653	–	–	653	–	**653**
Repurchase of shares	(2)	–	–	(2)	–	**(3)**
Share issue costs	(18)	–	–	(18)	–	**(18)**
Balance at 30 September 2012	1 792	(3)	1 112	2 901	87	**2 988**
Total comprehensive income	–	3	233	236	18	**254**
Profit for the period	–	–	233	233	18	**251**
Other comprehensive income for the period	–	3	–	3	–	**3**
Dividends paid	–	–	(53)	(53)	–	**(53)**
Repurchase of shares	(5)	–	–	(5)	–	**(5)**
Balance at 31 March 2013	**1 787**	**–**	**1 292**	**3 079**	**105**	**3 184**

Basis for preparation

The financial results of the group for six months ended 31 March 2013 are unaudited and have been prepared in accordance with International Financial Reporting Standards ("IFRS") and contains the information required by IAS 34: Interim Financial Reporting, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

The accounting policies and their application are consistent, in all material respects, with those detailed in Transaction Capital's prior year annual financial statements, except for the adoption on 1 October 2012 of new and amended statements and interpretations of International Financial Reporting Standards with effective dates beginning on or after 1 October 2012.

The adoption of the new and amended statements of International Financial Reporting Standards, interpretations of statements of International Financial Reporting Standards had no material effect on the group's financial results.

Cash and cash equivalents of R152 million (1H12) and R43 million (FY12) in the services division, and corresponding trade and other payables were offset in line with IFRS. This relates to cash receipts from customers and payments made on their behalf.

These condensed financial results have been prepared under the supervision of D M Hurwitz, Chief financial officer.

Subsequent events

No events have taken place between 31 March 2013 and the date of the release of this report, which would have a material impact on either the financial position or operating results of the group.

Administration

Transaction Capital Limited
Registration number: 2002/031730/06 (Incorporated in the Republic of South Africa) ("Transaction Capital" or "the company" or "the group")
JSE share code: TCP • **ISIN:** ZAE000167391 • **Taxation registration number:** 9466/298/15/6
Registered office: Sandhavon Office Park, 14 Pongola Crescent, Eastgate Ext.17, Sandton, 2199. PO Box 41888, Craighall, 2024, Republic of South Africa. Tel: +27 (0)11 531 5485. Fax +27 (0)11 262 3713
Directors: Christopher Seabrooke *(Chairman)**, Mark Lamberti *(Chief executive officer)*, David Hurwitz (Chief financial officer), Jonathan Jawno, Steven Kark, Phumzile Langeni*, Michael Mendelowitz, Cedric Ntumba*, Roberto Rossi, Dumisani Tabata*, David Woollam*, Shaun Zagnoev** *(*Independent non-executive) (**Non-executive)*, Brenda Madumise (resigned 29 April 2013) • **Company secretary:** P J Katzenellenbogen • **Auditors:** Deloitte & Touche • **Sponsor:** Deutsche Securities SA Proprietary Limited
Transfer secretaries: Computershare Investor Services Proprietary Limited, 70 Marshall Street, Johannesburg, 2001

Overview

In the six months ended 31 March 2013, Transaction Capital moved closer to its strategic, operating and organisational objectives, culminating in a financial result in line with expectations for the first half of its first full year as a public company.

The results reflect the impact of approximately R870 million of new equity issued in two private placements during February 2012 and on the JSE listing of the company in June 2012:

- total income increased by 21.8% to R2 504 million;
- non-interest revenue increased by 15.8% to R1 182 million;
- gross loans and advances grew 27.3% to R10 785 million;
- headline earnings increased by 36.3% to R233 million;
- weighted average number of shares increased by 23.3% to 583.8 million shares;
- headline earnings per share increased by 10.5% to 39.9 cents;
- net asset value per share increased by 30.1% to 527.6 cents;
- return on average assets increased by 11.4% to 3.9%; and
- return on average equity of 15.6% was achieved, down from 19.6% in the prior year's first half.

An interim dividend of 9 cents per share was declared.

Environment

The South African consumer economy softened over the period with unemployment and higher food, fuel and electricity prices weighing more heavily on lower income households. This was offset partially by social grants and by informal economic activity which is more diverse, widespread and robust than generally reported.

Although still high, debt and debt service cost to household income ratios are declining as credit providers tighten standards and loan growth and debt consolidation slows. As intended by the National Credit Act, unsecured loans continue to be a necessary and valued source of finance, particularly for the 94% of South Africans who do not have a home loan.

The widely reported deterioration of national credit metrics is being addressed with appropriate credit, collection, provision and write-off procedures by major lenders, in keeping with their commitment to regulatory compliance and responsible market conduct. This together with regulatory refinement and enforcement will avert a consumer lending crisis.

Notwithstanding a less than vibrant economy, the upward migration of lower income consumers continued to stimulate demand for the financial products and services offered by Transaction Capital.

Financial performance

Transaction Capital's headline earnings for the half-year increased by 36.3% to R233 million as a result of strong revenue growth and an improvement in operational efficiencies.

Net interest income grew 44.0% to R851 million. The group improved its net interest margin from 15.1% to 16.4% due to an enhanced yield on gross advances as the weighting shifted towards higher yielding unsecured loans. The cost of debt reduced with the increase in equity.

The group's credit loss ratio increased from 8.6% to 9.5% as the weighting of loans and advances shifted to higher risk unsecured credit, which has a higher credit loss ratio than asset-backed lending. In addition, the increase in the unsecured lending credit loss ratio was offset slightly by the credit loss ratio in asset-backed lending decreasing as a result of improved asset quality.

Non-interest income grew 15.8% to R1 182 million due to growth in loans and advances of 27.3%, which drove fee, commission and insurance related income, and the active ATM network increasing by 8.2% to 4 522 ATMs, which combined with high network uptime yielded a 23.1% increase in ATM disbursements and payment based income growing by 14.4%.

The cost-to-income ratio improved from 64.2% to 60.8% as a result of excellent cost control in the services divisions and an increase in the group's lending operations, which have a lower cost-to-income ratio than the services divisions. Total expenses grew 19.4% to R1 236 million as both assets in the lending divisions and revenue generating activities in the services divisions expanded, and substantial investment in human capital continued. There was no significant change in the composition of the group's costs although some efficiency was realised from the investment in systems and process upgrades.

With a capital adequacy of 34.4% Transaction Capital is well positioned to take advantage of and fund growth opportunities. Since the start of the financial year 18 institutions invested more than R2.4 billion of debt capital.

Operational highlights

Asset-backed lending – SA Taxi, Rand Trust

SA Taxi is a specialist financier of mini-bus taxis to SME's. Credit quality improved due to more stringent credit scoring, improved collections and an origination strategy biased towards premium vehicles. Credit losses reduced from 5.8% a year ago to 5.1%, as the saleability of repossessed vehicles was enhanced by the company's Taximart refurbishment capability. Comprehensive refurbishment has however required repossessed vehicles to be held on book for a longer time period, causing the non-performing loan ("NPL") ratio to increase from 29.4% to 34.0%. NPL coverage was strengthened from 14.1% to 15.0%, as was provision coverage from 4.1% to 5.1%. SA Taxi's businesses were relocated to a single site.

Rand Trust provides receivables discounting and commercial debtor management to SME's. In an effort to create scale, Rand Trust invested heavily in its distribution channel, marketing mechanisms and client offering in order to diversify its client base, improve client's utilisation of available facilities and retain existing clients. The result was a 34.4% growth in loans and advances and a 26.7% growth in net interest income.

Unsecured lending – Bayport

Bayport is a provider of unsecured personal loans to middle market consumers.

Bayport experienced strong collections performance and a relatively stable NPL ratio from March 2012 (28.2%) to December 2012 (29.9%). Credit criteria were further tightened and disbursement levels decreased through the first quarter of 2013. Concurrently, the implementation of system improvements resulted in an initial slowdown in late stage collections. The resulting NPL ratio of 30.6% at 31 March 2013, was addressed through an improvement in the NPL coverage ratio from 52.0% to 58.6% and the provision coverage from 14.7% to 17.9% which increased credit losses from 12.6% to 14.2%.

Bayport will continue to be conservative in targeting client and employer segments while actively monitoring credit quality, loan size (average at origination: R14 866) and term (average at origination: 47 months).

Credit services – MBD Credit Solutions and Principa Decisions

MBD collects distressed consumer and commercial debt as agent for credit providers and as principal on acquired book debts. Earnings grew as a result of modest revenue growth enhanced by sound cost management. Book debt acquisitions of R99.5 million during the period, together with acquisitions of R42.6 million late in the prior financial year, necessitated an increase in MBD's collection capacity via the expansion of its Johannesburg CBD call centre and the optimisation of existing capacity. It is expected that the benefits of the investment in purchased book debts will be realised during the second half of the year. Principa Decisions provides credit risk consultancy services and software. Although a smaller contributor to group earnings, Principa Decisions' profit performance fell short of first half expectations.

Payment services – Paycorp

Paycorp comprises ATM Solutions, which owns, installs, operates and maintains a fleet of off bank premise ATMs and EFT terminals, and DrawCard, a prepaid card issuer.

Half-year earnings grew by 16.7% to R28 million. The active ATM fleet grew 8.2% to 4 522 machines, representing an estimated 16% share of South Africa's ATM footprint. This growth, the continued relocation of underperforming ATMs to better sites, and high network uptime levels, yielded a 23.1% increase in ATM disbursements and a 14.4% growth in payment based income. Innovation in the area of ATM security curtailed vandalism and facilitated the deployment of machines to higher risk areas.

Appreciation

For most of the 5 102 people who choose Transaction Capital as their employer, the journey started many years before our listing on the JSE less than a year ago. We thank them and our newer colleagues for their untiring contribution to these results and to our continued progress and growth.

Outlook

It is likely that the remainder of 2013 will be difficult for the clients and customers of Transaction Capital. Too many households are financially stressed or indebted for this not to be the case.

We are however confident that the probability of banking and financial instability is extremely remote and that the major providers of financial services will behave responsibly in assisting borrowers to deleverage through a period of low economic growth.

In such an environment Transaction Capital will continue to generate revenue by providing innovative solutions to client's needs, while exercising discipline in the control of costs and prudence in credit extension. Credit quality will not be compromised in pursuit of book growth, and credit metrics are likely to decline marginally as advances slow.

In the absence of any further issues, the weighted average number of shares at 30 September 2013 is expected to remain at about 583.8 million shares, resulting in less of a discrepancy between earnings growth and per share earnings growth than in this half-year result.

In the absence of a deterioration in the current environment, we expect our previously communicated earnings expectations to remain intact.

Dividend declaration

For the six months ended 31 March 2013 (the dividend period), the board has declared an interim gross cash dividend of 9 cents per share to those members recorded per the record date appearing below. The dividend is declared out of income reserves. The company has utilised STC credits to the value of 9 cents per share to offset the 15% withholding tax, in full resulting in a net dividend of 9 cents per share to those shareholders who are not exempt from dividend withholding tax. The company has a further R63 million of STC credits available. The salient features applicable to the interim dividend are as follows:

Issued shares as at declaration date	583 569 521
Declaration date	Tuesday, 7 May 2013
Last day to trade *cum* dividend	Friday, 31 May 2013
First day to trade *ex* dividend	Monday, 3 June 2013
Record date	Friday, 7 June 2013
Payment date	Monday, 10 June 2013

Share certificates may not be dematerialised or rematerialised between Monday, 3 June 2013 and Friday, 7 June 2013, both dates inclusive.

On Monday, 10 June 2013 the cash dividend will be electronically transferred to the bank accounts of all certificated shareholders where this facility is available. Where electronic fund transfer is not available or desired, cheques dated 10 June 2013 will be posted on that date. Shareholders who have dematerialised their share certificates will have their accounts at their CSDP or broker credited on Monday, 10 June 2013.

On behalf of the board

M J Lamberti
Chief executive officer

D M Hurwitz
Chief financial officer

7 May 2013