



MEDIA RELEASE

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Transaction Capital generates 18% growth in continuing headline earnings per share

Specialist skills yield impressive credit performance despite the challenging credit environment experienced by most lenders.

Commenting on the results, David Hurwitz, group chief executive, said: *"I remain pleased with both the strategic positioning and financial performance of Transaction Capital. Our businesses strengthened their leadership positions in their market segments, delivering an 18% organic growth in continuing headline earnings per share ("HEPS")."*

Transaction Capital declared a final dividend of 10 cents per share taking the total dividend for the year to 16 cents. Based on the new construct of our earnings with a greater component derived from our cash generative services division, the board was satisfied to reduce Transaction Capital's dividend policy, now at 3 to 4 times cover, with a 2014 dividend cover of 3.6 times.

It is encouraging that the stricter credit-lending criteria and our specialist collection techniques have resulted in an impressive credit performance, despite the challenging credit environment experienced by most lenders. The non-performing loan ("NPL") ratio showed significant improvement from 29.0% the year before to 25.7%, with credit write-offs remaining stable at 5.2%."

Commenting on the group's restructure and its prospects, Hurwitz said: *"Transaction Capital expects sustainable headline earnings growth from continuing operations in the medium to long term. This organic growth may be enhanced by acquisitive activity which the group actively continues to seek. These opportunities are expected to ensue within the existing divisions, where our distinctive competencies can be leveraged. Following the reorganisation of the group, Transaction Capital's solid platform together with significant cash on hand and access to funding, positions it well to pursue organic and acquisitive growth opportunities with a view to render sustainable risk adjusted returns to shareholders."*

OVERVIEW

Transaction Capital strengthened its leadership positions in both the taxi finance and credit services market segments, generating 18% organic growth in continuing HEPS.

Despite the challenging credit environment experienced by many lenders, tighter credit-lending criteria and specialist collection techniques have resulted in an impressive credit performance, with NPLs showing significant improvement and stable credit write-offs.

This year Transaction Capital operated a portfolio of assets substantially different from those reported on last year. The change in portfolio, occasioned by the sale of its unsecured lending and payment services businesses early in the year, was a response to emergent opportunities to generate significant returns and realise value for shareholders while reducing the complexity and risk faced by the group.

After a 210 cents per share or R1.2 billion distribution to shareholders in March this year, Transaction Capital retains more than R1 billion of cash for acquisitive and organic growth.

The Transaction Capital group was restructured following the disposal of Paycorp and Bayport earlier in the year. During March 2014 the board and its sub-committees were reconstituted to support the strategic objectives and accommodate the requirements of the new group. Concurrently the group executive office structure was simplified as most group office functions were decentralised to subsidiaries or reduced. This enabled the devolution of responsibility and authority to the operating businesses and achieved cost savings.

Transaction Capital is now structured as a two division group incorporating an asset-backed lending and risk services division.

The asset-backed lending division, comprising of SA Taxi, operates as an innovative asset-backed lender. The division focuses predominantly on the financing of independent small-and-medium sized enterprises (“SMEs”) mainly in the minibus taxi industry but with the intention to expand into other adjacent markets or asset classes. Its success has been achieved by augmenting its core competencies well beyond credit assessment, collections and capital mobilisation and management. Vehicle and spare part procurement, direct vehicle sales, vehicle refurbishment, short-term comprehensive insurance, telematics and data analysis are now also important elements of the business model.

During the year the value proposition to clients was enhanced beyond the provision of finance and insurance, through new product offerings such as SA Taxi Media (i.e. advertising in taxis), a stand-alone insurance offering and a successful direct sales programme of new and refurbished vehicles. In addition, SA Taxi continues to leverage its skills to create defensible positions within identified adjacent market segments such as the financing of “bakkies”.

SA Taxi’s Transsec securitisation funding programme was launched on 5 June 2014, with an inaugural issue of R665 million. Despite the adverse debt capital market environment, a

cost of funding of approximately 200 basis points lower than historic rates was achieved, with eleven investors participating in the programme including five first time funders to SA Taxi.

MBD CS, Principa Decisions and Rand Trust make up the newly constituted risk services division. The challenging consumer credit environment provides this part of Transaction Capital with substantial opportunity to take advantage of its strong market position and reputation. This is achieved by applying the combined competencies of these businesses to its client base, being South Africa's largest credit providers. Many of these clients are displaying an increased demand for structured and complex credit risk management and capital solutions to better manage credit and operational risks, reduce costs, simplify processes, raise capital and improve working capital cash flow. In bringing these businesses together under one "go-to-market" strategy, the intention is to enhance and broaden the value proposition thereby deepening its penetration into its client base and expanding its competitive presence.

In addition, the division will leverage its core skill set to access adjacent market segments such as the public and commercial sectors. Revenue in this division remained subdued in the current consumer credit environment, however better growth was achieved in the second half of the financial year as MBD CS continued to make progress within the municipal sector.

ENDS

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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 and are therefore under-served. By applying its specialised credit, risk and capital management competencies, Transaction Capital develops its business units to achieve scale and leading positions in these market segments. At a divisional level, the Group focuses on augmenting and refining the distinctive competencies required to achieve 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.

FINANCIAL HIGHLIGHTS

- Continuing headline earnings up 17% to R 330 million
- Continuing headline earnings per share up 18% to 57.3 cents
- Continuing EBITDA up 18% to R159 million (Services division)
- Profit for the year increased by 60% to R937 million
- Continuing gross loans and advances up 14% to R 6 737 million
- Non-performing loan ratio improves by 11% to 25.7%
- Credit loss ratio stable at 5.2%
- After the capital distribution of 210 cents per share, net asset value reduced by 18% to 520.2 cents per share
- Capital adequacy ratio up 19% to 49.5%
- Continuing return on average equity down 29% to 10.9%, as a result of more than R1 billion of cash on hand
- Final dividend of 10 cents per share, bringing the total dividend for the year to 16 cents per share (3.6 times cover for 2014)

Continuing headline earnings grew by 17% from R283 million to R330 million. Net interest income increased by 19% to R814 million, driven by a 14% growth in gross loans and advances to R6 737 million and an increased net interest margin of 13.1%, effected in part by a lower average cost of borrowings of 10.4% from 10.8% the year before. Non-interest revenue increased by 11% to R1 133 million, whilst the cost-to-income ratio remained stable at 62.7% through the restructure of the group executive office and excellent cost containment and efficiencies in all businesses.

In line with the strategy to grow gross loans and advances in the mid-teens while focusing on credit quality, the group achieved gross loans and advances growth of 14%, while keeping the Rand value of NPLs stable, thus improving the credit quality of the book. Consequently, the group NPL ratio showed excellent improvement from 29.0% to 25.7% as a result of effective collection strategies, stricter credit origination criteria and a decrease in repossessed stock held via the accelerated write-off of entry-level stock. Provision coverage over the NPL balance was strengthened from 19.2% to 22.1%. Despite this, the credit loss ratio remained almost flat at 5.2%.

Following the disposal of Paycorp and Bayport, as well as the capital distribution, Transaction Capital's equity and debt capital position remains healthy. The capital adequacy level of 49.5% is particularly robust and Transaction Capital retains sufficient access to the debt capital markets.

The company noted that South Africa's economic growth was constrained for the entire financial year as employment and real wage growth slowed, elevated inflation eroded disposable income and a series of crippling strikes in various sectors had a wide-spread negative impact. This was further exacerbated by the increase in the repo rate by 50 basis points on 30 January 2014 and again by 25 basis points on 18 July 2014. These conditions have placed pressure on the economy as a whole, with both the consumer and SME sectors of the economy remaining at risk.

DIVISIONAL REVIEW

Asset-backed lending – SA Taxi and Rand Trust

Dominated by SA Taxi, the division grew headline earnings by 15% to R188 million, driven mostly by a 14% increase in gross loans and advances.

SA Taxi - SA Taxi is an innovative asset-backed lender, focusing predominantly on the financing of independent SMEs mainly in the minibus taxi industry.

- SA Taxi's 13% growth in gross loans and advances contracted slightly as new vehicle origination is now entirely comprised of premium vehicles and credit-lending criteria have been tightened further.
- The credit loss ratio of 5.5% is still well within SA Taxi's 6% upper tolerance level.
- Recovery rates remain stable at approximately 70%, owing to the nature of the loan which is secured by an asset of value which can be enhanced through the Taximart refurbishment operation, further differentiating SA Taxi from its competitors.
- Recent strong collection trends, the tightening of credit-lending criteria and the accelerated write-off of entry-level repossessed stock, has resulted in an improved NPL ratio of 27.7% from 31.0%.
- SA Taxi's cost-to-income ratio remains lean at 44.4% resulting from continued operational efficiencies.

Rand Trust - Rand Trust is a provider of working capital and commercial debtor management solutions to SMEs.

- Rand Trust experienced growth of 33% in gross loans and advances, yielding improved earnings and allowing the business to achieve greater economies of scale.

- Net interest margin has, however, decreased from 21.5% to 19.1% as new lower yielding products have been introduced, aimed at improving the value proposition to clients' thereby deepening penetration and extending the client's life cycle with Rand Trust.

Credit services – MBD CS and Principa Decisions

Dominated by MBD CS, the division increased headline earnings by 9% to R104 million.

MBD CS - MBD CS provides a comprehensive range of structured credit risk management, collection and capital solutions to South Africa's largest credit providers.

- Purchased book debts to the value of R214 million acquired during this financial year.
- Collections revenue remains subdued in the current consumer credit environment, however, better growth was achieved in the second half of the financial year as MBD CS continued to make progress within the municipal sector.
- Management has continued to focus on effective cost management resulting in a marginal improvement in the cost-to-income ratio from 84.4% to 84.0%.
- Legislation around the changes in the application of the principle of prescription has not yet been enacted. In anticipation thereof the business has aligned all of its operational procedures to be fully compliant, and the pricing of new purchased book debts reflects the impact of the forthcoming changes.

Principa Decisions - Principa Decisions is a provider of customer engagement solutions, focusing predominantly on the consumer credit life cycle.

- Revenue and earnings remain subdued but not deteriorating in the current consumer credit environment. It is encouraging that the Middle East joint venture, Qarar, and the continued expansion of its proprietary Smart software product suite continued to contribute to earnings.