MEDIA RELEASE
10 May 2016

Transaction Capital delivers 19% organic earnings and 20% dividend growth

Transaction Capital's SA Taxi business unit to transform the metered taxi industry

SA Taxi, the specialist asset-backed lender and short-term comprehensive insurer, currently focusing predominantly on servicing independent small-to-medium enterprises (SMEs) mainly in the fixed route minibus taxi industry, is set to expand into the metered or point-to-point taxi industry.

The business is focused on building a metered taxi business of scale, with the intention of transforming, recapitalising and formalising the existing metered taxi industry, estimated to comprise a national fleet of 17 000 vehicles.

SA Taxi has purchased three small metered taxi businesses in the last four months. Since then, this fleet of approximately 100 vehicles has been upgraded to Toyota Corollas and rebranded as Zebra Cabs.

Leveraging of SA Taxi's vertically integrated and successful minibus taxi business model

SA Taxi is applying its existing technology, data and skills gained in the minibus taxi industry towards the metered industry. Leveraging off SA Taxi's vertically integrated and successful minibus taxi business model, Zebra Cabs will procure customised luxury vehicles via their long-standing relationships with vehicle manufacturers, and thereafter sell these vehicles via its direct dealership. All vehicles are customised with leather seats and road-mapping systems, and meet the safety and luxury standards that are now the norm in the global metered taxi industry.

SA Taxi will provide the funding, insurance, telematics data, vehicle servicing capability, multiple booking systems and payments channels required; thereby giving owner-driver entrepreneurs the means to purchase a metered taxi business, and enhance their chances of sustaining their small-business.

A newly developed Zebra Cabs technology platform is available to owner-drivers, comprising a booking app, a niche combined sales channel and multiple payment methods, including card, online, and mobile payments.

The Zebra Cab business model remains agnostic to the booking method or sales channel, and allows for multiple lead generators including the Uber app, corporate sales, web based sales and centralised call centre and dispatch. These advanced facilities enable owner-drivers to expand their reach into the local market, therefore increasing their earnings potential.

A focus on incubating sustainable small businesses

SA Taxi aims to supply vehicles to metered taxi operators who may not have the credit history or sufficient capital to make the initial down payment required to qualify for conventional vehicle finance. Drivers have the option of an incubation period, which typically runs for six months. During this period, drivers may accumulate the required capital to make a down payment by saving a sufficient proportion of their monthly revenue, whilst at the same time establishing a track record of success. After this six month incubation period, SA Taxi will enable select operators to acquire the vehicle at a discounted price and extend the offering to include efficient longer-term finance and comprehensive insurance cover.

Thereafter, the necessary business support is provided in order to assist in sustaining the new metered taxi business. This encourages drivers to work towards owning the vehicle rather than being trapped in the type of endless lease agreements that are the norm for most in the industry. Specifically, the incubation period empowers drivers to, in the short term establish a small business of their own that can sustain them and their families.

Zebra Cabs will also establish a driver training academy, for which SETA accreditation will be sought. The academy will equip drivers with customer service skills as well as the knowledge and tools to ensure that they that can start and sustain a small business.

Zebra Cabs has commenced operations in Gauteng, and in time will expand its footprint, city by city, into the Western Cape and thereafter KwaZulu Natal. Zebra Cabs plans to have 3 000 metered taxis in its portfolio by 2020.

Commenting on the launch of Zebra Cabs, David Hurwitz, Transaction Capital group chief executive, said *"The metered taxi industry has not changed the way it operates for decades, and has been weakened by the lack of a national brand with standardised vehicles, pricing levels and service levels. For these reasons, the industry is in desperate need of transformation, consolidation, recapitalisation and further formalisation.*

As it has done over the past 15 years in the minibus taxi industry, SA Taxi is perfectly positioned to develop the metered taxi industry into a more professional and organised industry in which our Zebra Cab driver-owners will thrive. In doing so, it will lay the groundwork for the development of an entirely new group of entrepreneurs who will make an ongoing contribution to the economy and create an industry capable of long-term growth.

For SA Taxi, the focus is always on enterprise development, with a goal to transition individual drivers and owners into sustainable small business operators, where they can participate in better health-care, education and a broader array of lifestyle options.

The opportunities that our, Uber's and other billing technologies provide, combined with SA Taxi's experience of applying developmental finance, provides for an exciting extension of SA Taxi's business model, expected to bring further benefits to the public transport industry."

Highly defensive businesses intentionally positioned to withstand South Africa's challenging macro- and socio-economic context

Commenting on Transaction Capital's performance, David Hurwitz, group chief executive, said: ***"****While both SA Taxi and Transaction Capital Risk Services (TCRS) perform better in a positive economic environment, they are also highly defensive businesses intentionally positioned to withstand a challenging macro- and socio-economic context as currently experienced in South Africa. Against the backdrop of a stressed low-growth economy SA Taxi and TCRS have increased headline earnings organically by 23% and 15% respectively."*

The company noted that South Africa's economic growth remains constrained, exacerbated by various macro- and socio- economic challenges. Our economy is facing a potential sovereign credit downgrade with continued political instability. The already distressed consumer and the SME sectors of the economy remain vulnerable, and the level of social unrest and protest action continues mainly as a result of the stressed socio-economic environment.

Hurwitz comments: *"The circa 200 000 national minibus fleet remains under-capitalised and continues to age. This condition is further exacerbated by the under-supply of premium minibus taxi vehicles, with just less than a total of 1 000 new Toyota, Nissan and Mercedes minibus taxis being available for sale locally each month. This position continues to create a robust demand for the vehicles, finance, short-term comprehensive insurance and other related services provided by SA Taxi. In addition, despite the depressed consumer economy, commuters' use of minibus taxis has remained consistently high due to transport spend being non-discretionary and minibus taxis comprising the dominant component of public transport."*

Various negative key economic factors continue to exert increased financial pressure on an already distressed and vulnerable South African consumer. It is estimated that 86% of South Africans borrowed money between 2013 and 2014. Of the 23.74 million credit-active South African consumers, as of December 2015 9.87 million have impaired credit records. More than 11 million South African people are described as "over-indebted" compared to only 5 million in 2013. Economic pressure has intensified due to currency related inflation, drought-related food inflation and increased electricity and fuel costs. Furthermore, employment levels have remained low for a prolonged period, with little or no real wage growth. For all of these reasons, the household debt-to-disposable income ratio has remained at elevated levels, with debt-service costs expected to increase as interest rates rise.

TCRS' ability to collect from the South African consumer, and hence grow its revenues, has thus remained constrained. However, TCRS is a defensive business intentionally positioned to grow despite these difficult economic conditions as its clients display increased demand for collection and related credit risk management services.

Further, TCRS may apply some of its R800 million of excess capital and extensive data towards the selective acquisition of the increased number of non-performing portfolios available for purchase from banks, specialist lenders, credit retailers and the like. TCRS currently owns 159 principal book portfolios, with 3 new distressed debt portfolios purchased during the first half of the 2016 financial year for R41 million.

In addition to the economic factors referred to above, the changes to the legislative environment regarding prescription, affordability rules, interest rate caps and credit life insurance are also not conducive to the extension of credit by entities governed by the NCA, such as banks, credit retailers and other specialist lenders. Cognisant of this environment, TCRS's strategy remains to develop positions within identified non-NCA regulated adjacent markets, including the outsourced collection of outstanding claims in the public, insurance and telecommunication sectors.

SA Taxi's vertically integrated business model

The national minibus taxi fleet of approximately 200 000 privately owned vehicles is responsible for more than 15 million commuter trips daily, comprising 69% of all South African household commuter trips. By comparison, South Africa's bus and rail network is jointly responsible for a total of only 11 million commuter trips per day.

SA Taxi estimates that only 70 000 to 80 000 of these minibus taxi vehicles are subject to finance. As at 31 March 2016, SA Taxi's R6 688 million loans and advances portfolio comprises 25 591 vehicles, and thus accounts for one in every three of the financed national minibus taxi fleet.

SA Taxi continues to vertically integrate into the minibus taxi industry. This is achieved by augmenting its skill sets well beyond credit assessment, collections and capital mobilisation and management. SA Taxi now participates in vehicle and spare part procurement, direct vehicle sales, vehicle refurbishment, short-term comprehensive insurance and telematics. In line with SA Taxi's strategic objective to achieve deep vertical integration within its market segment, it has recently opened a dedicated minibus taxi vehicle dealership and also established a new auto body repair facility to augment its existing mechanical refurbishment capabilities.

SA Taxi anticipates selling, financing and insuring an estimated 2 000 vehicles per year directly via its newly launched dedicated minibus taxi vehicle dealership. This dealership is considered to be one of the largest dedicated minibus taxi dealerships in the country selling new and pre-owned Toyota, Nissan and Mercedes minibuses, Toyota bakkies and bespoke Toyota Corolla metered taxi vehicles.

After a capital investment of R25 million, SA Taxi's auto body repair facility commenced operations at the beginning of February 2016. SA Taxi's combined auto body repair and mechanical refurbishment facility now spans more than 20 000 square meters.

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Issued by: Transaction Capital Limited

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 businesses 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.

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

GROUP FINANCIAL HIGHLIGHTS

- Headline earnings per share up 20% to 37.0 cents
- Headline earnings up 19% to R210 million
- Return on average equity up to 15.9% from 15.0%
- Return on average assets up to 4.2% from 3.9%
- Gross loans and advances up 11% to R7 143 million
- Non-performing loan ratio improved to 17.0% from 17.9%
- Credit loss ratio improved to 3.2% from 3.9%
- Non-interest revenue up 7% to R611 million
- Interim dividend up 20% to 12 cents per share

Transaction Capital achieved robust organic earnings growth, despite challenging market conditions. Financial, credit and operational performance was in line with expectations for the first half of 2016, whilst continuing to report an improvement in all credit metrics.

Headline earnings grew by 19% to R210 million and headline earnings per share increased by 20% to 37.0 cents per share. Net interest income increased by 7%, driven by an 11% growth in gross loans and advances and increases in the prime interest rate, offset in part by a higher average cost of borrowing of 11.0%. Non-interest revenue increased by 7% to R611 million, mostly driven by growth in SA Taxi's direct vehicle sales following the opening of its dedicated taxi vehicle dealership. Return on average equity increased to 15.9% in the current period driven by the increase in earnings and effective but conservative capital deployment. Transaction Capital's equity and debt capital position remains robust, despite the IFRS 9 equity charge, with a capital adequacy level of 42.8% and uninterrupted access to the debt capital markets.

The company noted that the regulatory environment remains volatile. Regulatory changes have been proposed or enacted regarding caps on interest rates, fees and related credit insurance premium charges. Legislation containing amendments to the National Credit Act (specifically as regards the prescription of debt) was enacted almost 18 months ago while regulations regarding affordability assessments have recently been introduced. Recent court activity regarding the use of emolument attachment orders has been widely publicised and awaits clarification from the Constitutional Court. Finally, authenticated collections are set to replace NAEDO (non-authenticated early debit orders) as the primary debit order collection mechanism from 1 October 2016, although at this late stage there remains uncertainty as to the final process and the ability of the banks to implement in time.

Whilst the abovementioned regulatory changes are largely irrelevant to SA Taxi, TCRS has been actively engaging with all relevant stakeholders regarding the authenticated collections process and lobbying through industry bodies.

DIVISIONAL FINANCIAL AND OPERATIONAL REVIEW

ASSET-BACKED LENDING – SA TAXI

SA Taxi operates as a specialist asset-backed lender and short-term comprehensive insurer, currently focusing predominantly on servicing independent SMEs mainly in the minibus taxi industry, but with the intention to expand into other adjacent markets or asset classes.

SA Taxi increased headline earnings attributable to the group by 23% to R118 million for the six months ended 31 March 2016.

Gross loans and advances grew at 12% as credit granting criteria remain consistently conservative and the supply of new Toyota minibus taxis remained constrained after Toyota closed its local assembly facility for five months during the prior year to enable the plant to be reconfigured. Supply had not yet fully recovered by the start of the 2016 financial year, but has subsequently normalised.

Further, as the recently launched Nissan minibus taxi is still relatively new to the industry, SA Taxi is cautiously tracking the Nissan vehicles' credit performance before growing the portfolio aggressively. Despite being a small proportion of monthly origination, financing long distance minibus taxi routes remains profitable for SA Taxi. Historically a variety of long distance models were financed including the Mercedes, Volkswagen and Iveco. Going forward, SA Taxi intends to focus its efforts solely on the sale of Mercedes primarily via a direct dealership thus increasing profitability as product margin, efficiencies and increased volumes are captured.

The net interest margin decreased marginally to 11.0% as a result of a slightly higher cost of funding of at 10.4%. The credit loss ratio has improved to 3.4% for the half year, as recovery rates have improved slightly to 72%, owing to the nature of the loan which is secured by an asset of value which can be enhanced through the Taximart refurbishment operation. The efficiency of the procurement, repair and resale operations of Taximart, now one of the largest Toyota repair centres in Africa, assists in maintaining low levels of ultimate credit loss.

The non-performing loan ratio has improved to 18.0% due to a combination of continued strong collection performance and conservative credit granting criteria, which are continuously enhanced via the analytics applied to SA Taxi's telematics data. This data is accumulated daily from each minibus taxi and applied to credit score cards, route profitability assessments, collection strategies and insurance pricing. Provision coverage remains high at 7.8% being 3.2 times SA Taxi's after tax credit loss.

SA Taxi continues to uplift, diversify and enhance its non-interest revenue via the procurement and direct sales of new and refurbished vehicles and its short-term comprehensive vehicle insurance product. SA Taxi requires all taxis financed by it to be fully insured, and has thus designed a bespoke insurance product to meet its taxi owners' specific needs, including comprehensive vehicle cover, passenger liability as well as business interruption cover. In addition to product design, SA Taxi is also responsible for distributing the insurance product, collecting premiums and managing claims including parts procurement and refurbishment. Given these responsibilities, SA Taxi participates in the underwriting profits associated with this insurance business. As at 31 March 2016, 81.4% of SA Taxi's financed clients chose to also insure with SA Taxi, with the remaining financed clients being insured with other reputable insurers. Additionally, SA Taxi insures a further 3 299 non-financed minibus taxis.

With moderate growth in gross loans and advances, improving credit metrics and a stable cost-to-income ratio of 48.4%, it is evident that SA Taxi's credit, operational and financial performance has been robust in the first six months of the 2016 financial year.

TRANSACATION CAPITAL RISK SERVICES

TCRS is a provider of a comprehensive range of structured credit risk management, debtor management, data management, collection, customer engagement, call centre and capital solutions to South Africa’s largest credit providers, focusing predominantly on the consumer credit life cycle as well as commercial solutions for SMEs.

In the context of this challenging operating environment, it is pleasing to report that TCRS grew headline earnings by 15% driven by a slight increase in non-interest revenue, together with operational leverage achieved through tight cost control. A continued focus on effective cost management contributed to an improved cost-to-income ratio of 81.5%.

In addition, various new technologies are being investigated that are expected to enhance productivity within the call centres in the 2017 financial year. Growth in non-interest revenue was impacted mainly by Rand Trust and Principa, who have battled to grow revenue as a result of the weak economy.