



Transaction Capital Limited
(Incorporated in the Republic of South Africa)
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JSE share code: TCP
ISIN: ZAE000167391
("Transaction Capital" or "the group")

PRE-CLOSE UPDATE

On 27 and 29 September 2016 Transaction Capital will be holding meetings with analysts and investors ahead of its closed period for the year ending 30 September 2016. This statement details the information that will be covered in those meetings.

INTRODUCTION

Transaction Capital comprises two autonomous and decentralised divisions of scale, being SA Taxi and Transaction Capital Risk Services ("TCRS"). Both of these divisions are intentionally positioned within carefully chosen markets to take advantage of South Africa's demographic and socio-economic trends, enabling them to deliver both a social and commercial benefit. This alignment has enabled consistent organic earnings growth since listing on the Johannesburg Stock Exchange four years ago, which has continued into the first eleven months of the 2016 financial year.

While both SA Taxi and 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 is currently being experienced in South Africa. Thus, it is gratifying that Transaction Capital has made strong progress towards its strategic, operational and financial objectives in the first eleven months of the 2016 financial year.

DIVISIONAL REVIEW

SA Taxi

SA Taxi utilises its proprietary data and vertically integrated specialist capabilities within the financial services, vehicle retail and vehicle refurbishment markets to supply income

generating taxi vehicles, developmental credit, insurance and allied services to the underserved and emerging taxi market.

The national minibus taxi fleet of approximately 200 000 privately owned vehicles is responsible for 69% of all South African household commuter trips, estimated to encompass more than 15 million commuter trips per day. Minibus taxis are thus the dominant mode of public transport providing the commuter with a convenient, affordable and accessible service that is integrated with rail and bus modes of transport. This dominant position, together with the fact that public transport is a non-discretionary expense for the majority of the nation's commuters, makes the minibus taxi industry resilient and defensive despite the difficult economic climate.

SA Taxi estimates that of the 200 000 national minibus taxi fleet, only 70 000 to 80 000 of these are financed. This under-capitalised and ageing fleet, intensified by the under-supply of premium minibus taxi vehicles in our local market, continues to create a robust demand for the new and refurbished vehicles, finance, short-term comprehensive insurance and related services provided by SA Taxi. SA Taxi has been intentionally positioned as a provider of asset-backed developmental credit and allied services in this growing segment of a defensive industry, where it is able to be selective on credit risk. As at 31 March 2016, SA Taxi's R6.7 billion loans and advances portfolio comprised 25 591 vehicles, accounting for approximately one in every three of the financed national minibus taxi fleet. Further, due to SA Taxi's ability to refurbish and re-finance repossessed vehicles, it has created a unique position within the vehicle retail market to re-sell repossessed vehicles at superior prices in the liquid second hand market.

In line with SA Taxi's strategic objective to achieve deep vertical integration within South Africa's taxi industry, in November 2015 SA Taxi established a retail dealership in Midrand exclusively selling taxi vehicles. This dealership is considered to be one of the largest dedicated taxi dealerships in the country selling Toyota, Nissan and Mercedes minibuses, and the bespoke Toyota Corolla metered taxi vehicles. SA Taxi is piloting a second dealership in Kwazulu Natal selling pre-owned vehicles only, with a further dealership in Polokwane currently under consideration. SA Taxi anticipates selling, financing and insuring an estimated 2 000 vehicles per year directly via its dealerships, which constitutes approximately 30% of the vehicles financed by SA Taxi this year. The profitability of vehicles financed directly through SA Taxi's dealership outstrips the profitability of loans originated through other sales channels (i.e. affiliated and non-affiliated dealerships). This can be ascribed to a greater proportion of non-interest revenue earned (being product margin and increased insurance revenue) and better loan performance.

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 metres. This facility is designed to feed SA Taxi's dealerships with up to 180 quality refurbished taxi vehicles per month. This facility is estimated to be the largest buyer of Toyota spare parts in Africa.

In addition, SA Taxi continues to leverage its distinctive competencies to create defensible positions within identified adjacent market segments, financing asset classes such as point-to-point metered taxis with the intention of consolidating, recapitalising and formalising the existing metered taxi industry, estimated to comprise 17 000 vehicles nationally. Zebra Cabs provide customised luxury vehicles, a technology platform (including a booking application and multiple payment channels) and a niche combined sales channel that the industry does not currently have access to. Zebra Cabs commenced operations in Gauteng, and in time will expand its footprint into the Western Cape and Kwazulu Natal.

Zebra Cabs currently operate approximately 250 metered taxis on its platform, and aims to have 3 000 in its portfolio by 2020.

SA Taxi's strategic and operational results have translated into pleasing financial performance in 2016. Credit granting criteria remained consistently conservative with SA Taxi's number of active loan clients increasing by less than 4%. Loan origination levels were initially impacted by the constrained supply of new Toyota minibus taxis (as a result of Toyota closing its local assembly facility for five months during the prior year to enable a full plant rebuild), but has subsequently normalised. Growth in gross loans and advances was positively impacted by Toyota increasing vehicle prices by 8.5% since January 2016 resulting in mid-teen growth in SA Taxi's gross loans and advances for the eleven months ending 31 August 2016. A positive second order effect of Toyota increasing new vehicle prices is that pre-owned vehicle prices follow a similar trend, enabling SA Taxi to recover more when re-selling repossessed vehicles.

Although the Nissan minibus taxi is still relatively new to the industry, it is gaining market acceptance from taxi operators with the price differential between the Nissan and Toyota models widening.

SA Taxi's credit loss ratio continues to improve and recovery rates remain stable at 72%, owing to the nature of the loan which is secured by an asset of value which can be enhanced through SA Taxi's mechanical refurbishment facility, now one of the largest Toyota repair centres in Africa. The efficiency of the procurement, repair and resale operations of the refurbishment facility combined with increasing vehicle prices, both assist in maintaining low levels of ultimate credit loss. The non-performing loan ratio also continues to improve 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.

In addition to direct sales of new and refurbished vehicles, SA Taxi also continues to uplift, diversify and enhance its non-interest revenue via its short-term comprehensive vehicle insurance product. SA Taxi requires all minibus 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. More than 80% of SA Taxi's financed portfolio is insured directly through SA Taxi, with an additional 3 500 insurance policies taken up by non-financed clients. SA Taxi is 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.

With moderate growth in gross loans and advances, improving credit metrics, strong growth in non-interest revenue and a marginally increasing cost-to-income ratio, it is evident that SA Taxi's credit, operational and financial performance has been robust in the 2016 financial year.

Transaction Capital Risk Services

TCRS is a technology-led and data analytics driven provider of customer management solutions, enabling its clients to effectively manage their customers through their lifecycle. This is achieved by providing a comprehensive range of 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.

Of the 23.88 million credit-active South African consumers as at March 2016, 9.55 million have impaired credit records. TCRS's ability to grow agency revenue and generate returns from acquired non-performing loan portfolios has remained constrained during the year, mainly caused by negative key economic indicators such as increased inflation, increased interest rates, low economic growth and static employment rates, all contributing to increased financial pressure on an already distressed and vulnerable consumer credit sector.

However, TCRS is a defensive business intentionally positioned to withstand difficult economic conditions. In this depressed consumer economy TCRS is able to take advantage of its strong market position and reputation as well penetrated and new clients display increased demand for collection and related credit risk management services. Further, TCRS may apply its strong balance sheet and extensive data towards the selective acquisition of certain of the increased number of non-performing loan portfolios available for purchase.

As a result, TCRS enjoys deep penetration into the credit retail and specialist lending segments of its market, and aims to increase revenue from the Tier 1 banks where its penetration has been disproportionately lower.

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. In the medium term this may result in declining volumes of matters handed over to TCRS by clients who are governed by the National Credit Act of 2005 (NCA). Cognisant of this environment, TCRS's strategy includes increasing revenue from non-NCA regulated clients, including the outsourced collection of outstanding claims in the public, insurance and telecommunication sectors.

TCRS is well positioned to assist municipalities in enhancing the collection of both their performing and non-performing loan portfolios and remains cautiously optimistic about its prospects in this market. Many municipalities remain financially unstable due to inefficient collection processes compounded by poor financial management. Accordingly, TCRS's ability to recover outstanding amounts remains a challenge and legal action is often required to enforce payments. TCRS continues to work closely with municipal clients to refine its business model and is confident that the municipal business will mature.

Recent technological enhancements include the establishment of TCRS's Master Data Universe ("MDU"), an internal database of 9.2 million unique consumer records, which is expected to create significant operational leverage in the years to come. Further, post a successful pilot performed by TCRS earlier in the year, an enhanced predictive dialer was implemented alongside the existing preview dialer in the Johannesburg, Durban and Cape Town call centres in July 2016 resulting in increased call centre activity, improved right party contact and an associated increase in payments being observed. The integration of the MDU and dialer, with planned workforce management enhancements to be implemented in the 2017 financial year, is expected to have a positive impact in the 2017 year via both a lift in revenue and cost savings.

In addition to the above, TCRS has been focussing on bespoke capital transactions with targeted clients, whereby TCRS aims to apply its excess capital to acquire non-performing loan portfolios to deliver superior risk adjusted returns. In this regard, TCRS originated and concluded two purchases of non-performing loan portfolios on an exclusive basis, and has also initiated exclusive negotiations for the structured and on-going sales of portfolios with several of its larger clients. TCRS currently owns 165 principal book portfolios, with nine new distressed debt portfolios purchased in the first eleven months of the 2016 financial year for R139 million. Recent successful book acquisitions are expected to deliver positive future performance.

The strength of the MBD brand was reaffirmed in May 2016 with the Global Credit Ratings upgrade of the primary and special servicer ratings assigned to MBD to SQ1-(ZA) and SQ1(ZA) respectively, with the outlooks accorded as stable.

In the context of this challenging operating environment, it is pleasing to report that TCRS has yielded the expected results to date. A continued focus on data, technology and workforce management, together with aggressive cost containment initiatives, contributed to an improved cost-to-income ratio in 2016. Thus despite modest single digit growth in non-interest revenue, operational leverage has enabled targeted earnings growth to be achieved.

FUNDING AND CAPITAL ADEQUACY

Transaction Capital's equity and debt capital position is robust. Capital adequacy levels at 31 July 2016 remain high at 40.7% and the group is well positioned to take advantage of and fund organic and acquisitive growth opportunities.

With growing concerns regarding a potential downgrade of South Africa's credit rating to junk status, Transaction Capital has intensified its fundraising activities. SA Taxi has raised more than R3.4 billion of debt in the first 11 months of the 2016 financial year, enjoying continued uninterrupted access to both local and international funding pools, with a strong funding pipeline available and many more potential funding transactions currently being pursued.

SA Taxi returned to the local listed debt capital markets during August 2016 tapping its S&P Global rated and JSE listed securitisation programme, Transsec 2, successfully issuing R513 million of debt. The tap issuance was privately placed with nine investors, three of which were first time investors, at a weighted average cost of funding of 241 basis points ("bps") above 3 month JIBAR, which is approximately 100bps lower than SA Taxi's average cost of funding.

Despite the above-mentioned market sentiment, SA Taxi has already fulfilled most of its annual debt requirement for the 2017 financial year.

2016 FINANCIAL RESULTS

Financial results for the year ending 30 September 2016 will be released on Stock Exchange News Service of the JSE Limited on Tuesday, 22 November 2016. The information contained in this announcement has not been reviewed and reported on by Transaction Capital's external auditors.

Dunkeld West
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