# TRANSACTION CAPITAL

# INTERIM RESULTS

# 2020

FOR THE HALF YEAR ENDED 31 MARCH

Transaction Capital

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COMMENTARY

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## Results pre COVID-19 adjustments[1]

Core headline earnings from continuing operations attributable to the group

| TRANSACTION CAPITAL GROUP | SA TAXI | TRANSACTION CAPITAL RISK SERVICES (TCRS) |
|---|---|---|
| ↑ 19% | ↑ 20%[4] | ↑ 23% |
| R402 million[3] | R230 million | R158 million |

Core headline earnings per share from continuing operations attributable to the group

↑ 18%

65.4 cents

2019: 55.3 CENTS

## Results post COVID-19 adjustments[2]

Non-cash adjustments relating to anticipated COVID-19 effects on assets held at 31 March 2020

| SA TAXI | TCRS |
|---|---|
| increase in provisions (before tax) | decrease in carrying value of purchased book debts (before tax) |
| R126 million | R65 million |

Core headline earnings from continuing operations

| TRANSACTION CAPITAL GROUP | SA TAXI | TCRS |
|---|---|---|
| ↓ (17%) | ↓ (19%) | ↓ (13%) |
| R281 million[2] | R156 million | R111 million |

Core headline earnings per share from continuing operations

↓ (17%)

45.8 cents

2019: 55.3 CENTS

Net asset value per share

↑ 9%

809.1 cents

2019: 745.3 CENTS

Group liquidity position remains robust, underpinned by a conservative approach to structuring debt

No interim dividend declared to preserve financial flexibility and liquidity

1. *Transaction Capital's core financial ratios pre COVID-19 adjustments exclude:*
   - *Discontinued operations: Transaction Capital Business Solutions, Principa Decisions and Company Unique Finance, which collectively made a loss of R16 million for the period (March 2019: R6 million profit).*
   - *Once-off acquisition costs of R4 million incurred in the first half of the 2020 financial year, relating to the acquisition of Net1 Fihrst Holdings (Fihrst) on 1 December 2019.*
   - *Once-off costs of R84 million, which arose in the first half of the 2019 financial year relating to SA Taxi's ownership transaction with the South African National Taxi Council (SANTACO), of which R81 million was non-cash and in accordance with IFRS 2 and a further R3 million related to early debt settlement costs.*
   - *Non-cash adjustments to SA Taxi's credit provisioning model of R126 million and TCRS's carrying value of purchased book debts of R65 million relating to the anticipated COVID-19 effects on cash flow from assets held at 31 March 2020, given information available at present.*
2. *Transaction Capital's core financial ratios post COVID-19 adjustments exclude discontinued operations and once-off costs, but include the adjustments to SA Taxi's credit provisioning model and TCRS's carrying value of purchased book debts relating to COVID-19 per note 1 above.*
3. *Transaction Capital Group core headline earnings pre COVID-19 adjustments of R402 million, includes R14 million from the group executive office, R158 million from TCRS and R230 million from SA Taxi.*
4. *SA Taxi's total headline earnings pre COVID-19 adjustment rose by 36%, with the portion attributable to the group up 20% in the first half of 2020. For the period 1 October 2018 to 6 February 2019 (the effective date of the ownership transaction with SANTACO), Transaction Capital consolidated 98.5% of SA Taxi's total headline earnings. For the period 6 February 2019 to 31 March 2019, Transaction Capital consolidated 81.4% of SA Taxi's total headline earnings.*
5. *The group adopted IFRS 16 – Leases based on the modified retrospective approach from 1 October 2019, with no restatement of comparative information, which is permitted under the specific transitional provisions in the standard. The cumulative effect arising from the initial adoption of IFRS 16 is presented as an adjustment to the opening balance of retained earnings at 1 October 2019.*

# INTRODUCTION

Transaction Capital is an active investor in and operator of credit-orientated alternative assets, with a near 20-year track record for high-quality earnings growth and attractive risk-adjusted returns. Our strong decentralised divisional management teams manage our assets within well-governed, efficient operational platforms. SA Taxi and Transaction Capital Risk Services (TCRS) are strategically positioned in their markets to deliver good commercial returns and meaningful social impact in variable economic conditions. With support from the group executive office, both divisions have continued to refine their competitive value propositions, diversify their revenues and expand their total addressable markets.

As the novel Coronavirus and the disease it causes (COVID-19) spreads across the world, we are deeply saddened by the loss of life and livelihoods seen thus far. We are also concerned about the implications for the global and our local economy. While we commend the South African Government's swift and decisive response to "flattening the curve" of infections, the consequences of the extended lockdown and phased relaxation of restrictions will be extreme for the country's fragile economy, heightening the risk of social instability.

In this unprecedented context of emerging risk to our economy, sectors and businesses, it is difficult to assess the full impact of COVID-19 on the group at this time. However, our businesses continue to be flexible and agile in the ever-changing environment. In understanding, planning for and adapting to the multi-faceted effects of the pandemic, we will continue to monitor the progression of the disease, its impact on consumers and on our market sectors, the rate of economic recovery and Government's response to these events. Given the intrinsic social relevance of our businesses, we will work closely with our stakeholders to support the recovery and sustainability of our sectors and the clients we serve[1].

For the months of April, May and June 2020, all non-executive and executive directors of Transaction Capital took salary, benefit and fee reductions of 30%. All amounts foregone have been donated by Transaction Capital to The Solidarity Fund to assist the collective efforts of South Africa in combating the COVID-19 pandemic.

# PERFORMANCE OVERVIEW

Transaction Capital has achieved compound annual growth in core headline earnings per share of 20% over the past five years. Prior to the effects of COVID-19, the group was on track to deliver earnings growth in line with past performance and guidance given at the time of our AGM. The group's core headline earnings from continuing operations grew by 19% to R402 million, with core headline earnings per share up 18% to 65.4 cents. This was before the adjustments made to SA Taxi's credit provisioning model and the valuation model for non-performing consumer loan portfolios (NPL Portfolios) owned by TCRS, in anticipation of the future impact of COVID-19.

The COVID-19 adjustments saw our financial performance deviate from our historical earnings growth trend, with the group's core headline earnings from continuing operations post COVID-19 adjustments down 17% to R281 million, and core headline earnings per share from continuing operations post COVID-19 adjustments also 17% lower at 45.8 cents.

The group has adopted a conservative approach regarding the anticipated impact of COVID-19 on future cash flows. Importantly, the adjustments are non-cash, and relate to assets held at 31 March 2020 and not to the origination of future assets. The adjustment at SA Taxi resulted in a R126 million increase in impairment provisions, and the re-evaluation of TCRS's purchased NPL Portfolios resulted in a R65 million reduction in their carrying value (both before tax).

## SA TAXI

To mid-March, SA Taxi performed to expectation, although disrupted vehicle supply due to industrial action at the Toyota plant early in 2020 constrained vehicle sales and originations of loans and insurance policies. Despite this, the division was on track to grow the group's attributable portion of earnings in line with prior years.

The first case of COVID-19 in South Africa was reported on 5 March 2020 and the escalation in cases led to a nationwide lockdown from 27 March 2020. The last week of any month typically accounts for a disproportionately large volume of business activity. With SA Taxi Direct, other vehicle dealerships and the vehicle licencing department closed for the lockdown, SA Taxi recorded lower vehicle sales in its dealership and originated fewer new loans and insurance policies for March 2020.

To minimise the economic consequences of COVID-19 on its clients, SA Taxi introduced a loan repayment and insurance premium relief programme for April 2020. Due to the restrictions on clients' ability to operate and afford loan instalments in the short term, as well as the impact of the relief programme, we increased provision coverage from 4.3% to 5.4%. As payment patterns normalise, this higher provision will unwind into profit. However, should the COVID-19 related payment disruption manifest itself as credit risk over time, the provision will be utilised as loans are written-off.

Prior to the COVID-19 adjustment, SA Taxi's headline earnings grew 36% to R282 million, with the group's attributable portion up 20% to R230 million. Post the adjustment, headline earnings were down 8% to R191 million, with Transaction Capital's attributable portion 19% lower at R156 million.

1. *In January 2020, Transaction Capital released its first impact report, available online, which provides further information and data on the economic, social and environmental performance of our divisions.*

### TCRS

Similarly, TCRS performed well for the period, with collections services in South Africa and Australia proving resilient to the negative early stage impacts of COVID-19. TCRS's headline earnings pre COVID-19 adjustment grew by 23% to R158 million.

With collections projected to be lower in the short term, and the consequent adjustment in the carrying value of the division's purchased NPL Portfolios, TCRS's headline earnings reduced 13% to R111 million.

## TRADING ENVIRONMENT

Since the end of our 2019 financial year, despite lower fuel prices and a benign inflation outlook that allowed an interest rate cut of 0.25% in January 2020, conditions in South Africa continued to deteriorate. With retrenchments exacerbating critically high unemployment (29.1% in the last quarter of 2019), low wage growth, high household debt and a volatile Rand, low consumer and business confidence persisted. The latter had reached the lowest levels for decades, indicating a significantly weaker outlook for the domestic economy even before the COVID-19 outbreak and consequent restrictions on economic activity.

The economic ramifications of COVID-19, including weaker global growth and commodity demand and muted domestic consumption and production, are expected to result in a deep recession. Some forecasts expect the country's gross domestic product (GDP) to retract by as much as 6% in 2020. Notwithstanding the Government's planned emergency relief measures (equivalent to 10% of GDP), and the additional 2% cut in interest rates since the beginning of March, consumers are expected to struggle as household income is eroded and over-indebtedness persists.

In Australia, GDP growth fell to below 1% over the past six months due to slowing household consumption, the consequences of the widespread bushfires and early effects of COVID-19. Consensus opinion is that the country's GDP will contract by more than 4% and unemployment will double to more than 10% due to the pandemic. However, a historically low official cash rate of 0.25%, Government's economic stimulus packages (equivalent to 16% of GDP) and wage subsidies could moderate the severity of the impact.

## BALANCE SHEET AND LIQUIDITY

The group's balance sheet is well capitalised and liquid at a holding company level, underpinned by our conservative capital strategy. Along with the additional measures implemented to preserve liquidity in response to COVID-19, we have ample liquidity and financial flexibility to support the divisions as the pandemic runs its course and recessionary conditions intensify.

Our capital strategy remains appropriately conservative in the current conditions, with undeployed capital of approximately R800 million (2019: R1 billion) at 31 March 2020. Of this, R500 million remains invested in TCRS. The remaining R300 million, previously allocated to the accelerated acquisition of NPL Portfolios in South Africa, Australia and selected international markets, is immediately available to support both divisions.

At 31 March 2020, our balance sheet at holding company level was ungeared. We have an approved, undrawn R400 million facility available to alleviate any short-term cash flow pressures across the group.

Our longstanding and cautious debt funding philosophy is designed to protect the group against liquidity and refinancing risk. Most of our debt is structured on an amortising basis and incorporates few bullet repayments. We maintain a positive asset-liability gap, with the duration of liabilities exceeding that of our assets. Wherever possible, our debt arrangements avoid hard coded covenants which could trigger an accelerated repayment of debt.

SA Taxi is well capitalised, with a Tier I capital adequacy ratio of 16.5% and R2.7 billion of equity, bolstered by SANTACO's acquisition of a 25% equity stake in SA Taxi for R1.7 billion in February 2019. Central to its debt funding philosophy, SA Taxi typically raises debt via ringfenced structures, with no cross-default or recourse to its holding company or Transaction Capital. The division's access to liquidity remains unfettered, with its funding requirements for loan origination already secured for the next year.

SA Taxi has a strong reputation for delivering good commercial and social returns to its longstanding and supportive funding partners, which comprises a diverse base of international developmental finance institutions (DFIs) and local banks, fixed income funds and institutional investors. The mandates of DFIs generally enable them to support socially relevant entities, such as SA Taxi, particularly in times of financial market dislocation and other extraordinary circumstances.

Our debt funding philosophy positions SA Taxi to absorb the short term cashflow mismatches arising from the loan and insurance relief provided to its clients in April, and any other COVID-19 cashflow disruption that may arise.

With R5.5 billion of assets and R2.1 billion of senior debt underpinned by R1.8 billion of equity at 31 March 2020, TCRS's funding position remains robust.

# SA TAXI

| | | For the half year ended 31 March | | |
|---|---|---|---|---|
| | | **2020** | 2019 | Movement |
| **FINANCIAL PERFORMANCE** | | | | |
| Core headline earnings pre COVID-19 adjustment | Rm | **282** | 208 | 36% |
| Core headline earnings attributable to the group pre COVID-19 adjustment | Rm | **230** | 192 | 20% |
| Core headline earnings post COVID-19 adjustment | Rm | **191** | 208 | (8%) |
| Core headline earnings attributable to the group post COVID-19 adjustment | Rm | **156** | 192 | (19%) |
| Non-interest revenue | Rm | **321** | 309 | 4% |
| Net interest income | Rm | **677** | 553 | 22% |
| Net interest margin | % | **12.2** | 11.5 | |
| Core cost-to-income ratio | % | **41.3** | 44.5 | |
| **CREDIT PERFORMANCE** | | | | |
| Gross loans and advances | Rm | **11 304** | 9 947 | 14% |
| Non-performing loan (NPL) ratio | % | **19.1** | 18.2 | |
| Credit loss ratio pre COVID-19 adjustment | % | **3.8** | 4.3 | |
| Credit loss ratio post COVID-19 adjustment | % | **6.1** | 4.3 | |
| Provision coverage pre COVID-19 adjustment | % | **4.3** | 4.7 | |
| Provision coverage post COVID-19 adjustment | % | **5.4** | 4.7 | |

*Note: Comparative information has been restated for the adoption of IFRS 17 – Insurance Contracts.*

## OPERATING CONTEXT

Most South Africans rely on public transport, with the minibus taxi industry being the largest and most vital service in the integrated public transport network. More commuters choose minibus taxis over bus or rail services due to competitive pricing, convenience and accessibility, with the industry providing more than 15 million trips a day. Over the past few weeks, the COVID-19 pandemic has highlighted the indispensable nature of the minibus taxi industry as the dominant form of public transport. Spending on minibus taxi transport is non-discretionary for most South Africans, making this a defensive industry with minibus taxi operators remaining resilient in challenging economic conditions.

At 31 March 2020, the 12-month average for petrol and diesel prices were 4% and 3% higher respectively than a year ago, but they are currently at four-year lows. Interest rates are at their lowest since 1973, with further cuts anticipated. However, minibus taxi vehicle prices have risen 5.5% since September 2019 (up 2.5% to 31 March 2020 and a further 3% in April 2020), bringing the recommended retail price of a Toyota HiAce diesel vehicle to R477 000, compared to about R360 000 five years ago. Further vehicle price increases are expected later this year.

Despite the price inelasticity of minibus taxi services, the industry has not materially increased fares in the last two years. Minibus taxi operators have had to absorb the financial impact of a hostile environment. With economic recession affecting lower-income consumers the most, it is unlikely that the minibus taxi industry will be able to increase fares in 2020.

## COVID-19 IMPACT

SA Taxi is committed to the health and safety of minibus taxi operators and commuters, and the recovery and long-term sustainability of the minibus taxi industry. Together with the South African National Taxi Council (SANTACO) and the National Taxi Alliance (NTA), the division has implemented COVID-19 prevention protocols at minibus taxi ranks across the country, and has committed more than R3 million towards face masks and hand sanitisers for commuters and taxi operators, and disinfecting ranks and vehicles.

Sharply lower commuter mobility and restricted minibus taxi operations due to the lockdown has intensified the economic strain on the industry. As an essential service, the industry operated under national restrictions during the lockdown; long-distance travel was prohibited and the transport of essential service workers and other citizens requiring essential travel was only permitted at certain times. SA Taxi's telematics data shows that on average its clients travelled around 47% of their normal distance between 27 March 2020 and 30 April 2020. The limitations on the number of passengers per trip also affected minibus taxi profitability during this period.

From 1 May, the South African Government started easing the lockdown restrictions. The return to economic activity will be phased in over five levels, with level 5 restrictions the same as full lockdown and level 1 the resumption of normal economic activity subject to health guidelines. The appropriate level will be applied to provinces and municipalities, depending on the local extent of COVID-19 infection and transmission. This means that restrictions can be eased or tightened as required.

For the minibus taxi industry, the easing of restrictions will enable the sector to increase its operations. This will be further stimulated, as restrictions on other industries are eased, increasing the number of commuters requiring public transport.

We believe the minibus taxi industry's defensive character will enable it to normalise quickly, as demand for minibus taxi services will be first to benefit from the recovery in economic activity.

## SA TAXI FINANCE AND SA TAXI AUTO REPAIRS

SA Taxi's loans and advances grew 14% to R11.3 billion comprising 33 079 loans, despite the origination of new loans reducing by 9%. Lower vehicle supply from Toyota constrained loan origination, which was then further affected by the lockdown.

Higher vehicle retail prices, retention of market share and the uptake of a lower interest rate product for better quality clients offset the impact of lower loan originations, supporting the growth in gross loans and advances. In line with SA Taxi's strategy, strong momentum was seen in the sale and finance of its fully refurbished pre-owned minibus taxis, as operators continued to opt for this more affordable yet reliable alternative to buying a new taxi vehicle in the challenging environment.

In the second half of the 2020 financial year, we anticipate lower loan originations as the closure of Toyota's and SA Taxi Auto Repair's facilities during the lockdown will curb the availability of new and pre-owned vehicle stock.

Net interest income grew 22% to R677 million, with the net interest margin improving to 12.2% (2019: 11.5%). This was mainly due to using R1.0 billion from the proceeds of shares issued to SANTACO in February 2019 to settle interest-bearing debt. A robust risk-adjusted net interest margin of 8.4% was achieved, supported by a lower credit loss ratio of 3.8% (before the COVID-19 adjustment).

SA Taxi's integrated business model effectively mitigates credit risk. The division's ability to refurbish repossessed vehicles to provide high-quality income generating pre-owned minibus taxis, enables it to recover more than 75% of the loan value on the sale of these vehicles. Improved recoveries on repossessed vehicles, attributable to a lower average cost to refurbish them, are due to efficiencies in SA Taxi Auto Repairs and SA Taxi Auto Parts' cost-efficient procurement of parts. This will continue to support the division's credit loss ratio. Higher new vehicle prices will also enable SA Taxi Direct to increase the price of pre-owned vehicles, further improving credit recoveries.

SA Taxi is in the process of expanding SA Taxi Auto Repairs from two sites (panel and mechanical) to four (including dedicated insurance and Nissan repair facilities). Efficiencies from this expansion will assist in maintaining credit losses within risk tolerance and will increase pre-owned vehicle supply.

Non-performing loans (NPLs) in SA Taxi's loans and advances portfolio remained in line with our expectations for most of the period, with the NPL ratio at about 18%. However, reduced origination of loans and lower collections in March 2020 resulted in an increase in NPLs to 19.1% for the half year (2019: 18.2%).

While loan collections are anticipated to be lower for the rest of the financial year, the absolute value of cash collected over the full term of the loans is not expected to decrease, but to be collected later and over an extended period. Cash flows will be protected as the useful life of a minibus taxi greatly exceeds SA Taxi's average loan term of 71 months.

## SA TAXI DIRECT

SA Taxi's retail dealerships in Midrand and Polokwane generated gross revenue of about R320 million in the period, lower than for the half year ended March 2019 and marginally below expectation. This was due to vehicle supply constraints, partially offset by higher sales of pre-owned minibus taxis.

In the second half of the 2020 financial year, SA Taxi Direct anticipates lower gross revenues due to the disruption in new and pre-owned vehicle supply, and its closure during the lockdown.

SA Taxi is in the process of relocating its Midrand dealership to a larger facility able to accommodate retail outlets for new and pre-owned vehicles, and a small warranty repair facility. Other new dealership locations will be considered over the medium term.

## SA TAXI PROTECT

SA Taxi's insurance business is the main contributor to non-interest revenue, with gross written premiums growing 16% to R462 million. On average, individual insurance premiums remained stable, with the growth in gross written premium due almost exclusively to new client acquisition. The strategy to broaden its client base via its broker network, specifically targeting open market clients (insurance clients not financed by SA Taxi Finance), is yielding positive results as anticipated.

Clients financed by SA Taxi Finance are required to have fully comprehensive insurance. Penetration of SA Taxi's financed customer base remained stable, with most of SA Taxi Finance's clients choosing to be insured through SA Taxi Protect.

SA Taxi Protect's competitive advantage is its ability to reduce its cost of claim through efficiencies in SA Taxi Auto Repairs and SA Taxi Auto Parts, which supports a competitively priced insurance premium. A small proportion of SA Taxi Protect's insurance claims are processed by SA Taxi Auto Repairs, with the majority outsourced to approved external autobody repairers. An initiative to expand the division's refurbishment capacity, dedicated to SA Taxi Protect, is set for later in 2020 and additional premises have been secured. These new premises will support a higher proportion of SA Taxi Protect insurance claims repaired internally by SA Taxi Auto Repairs, further improving its cost of claim.

SA Taxi Protect continues to broaden its product offering, with bespoke products in development that will aim to replicate the success of the unique credit life offering launched last year.

In the second half of the 2020 financial year, SA Taxi Protect anticipates lower gross written premium due to disruption in new and pre-owned vehicle supply, retail and financing.

## CONCLUSION

Despite the extraordinary conditions, SA Taxi delivered a strong operational performance for the half year. This was evident in gross loans and advances growth, healthy net interest margins and continued non-interest revenue growth. Underpinning SA Taxi's performance and supporting future profitability has been our investment in technology to drive operational efficiencies. This has seen the division's core cost-to-income ratio improve to 41.3%.

We will continue to track the emerging risks related to COVID-19, the phased easing of restrictions and the related impact on the minibus taxi sector, our clients and commuters. COVID-19 restrictions will contain minibus taxi activity in the short term, impinging on clients' ability to make their loan instalment and insurance premium repayments. Lower vehicle supply and operational closures will also impact the sale, financing and insuring of minibus taxis. These factors will influence SA Taxi's performance during the second half of this year. Regardless, SA Taxi is well positioned to withstand the impact due to its flexible capital structure, enduring assets and cash flows, and the resilience of the sector it serves.

The indispensable nature of the minibus taxi industry will support its quick recovery and smooth transition to normal operations as the phased easing of the lockdown progresses and the South African economy re-opens. SA Taxi's vertically integrated business model and market positioning places it well to serve its clients and will remain highly relevant in the post COVID-19 environment.

SA Taxi will continue to assess opportunities to invest in adjacent and vertically integrated sectors of the industry, to support future organic growth. SA Taxi Auto Parts will refine its strategy of retailing well-priced auto parts to minibus taxi operators and wholesaling parts to SA Taxi Auto Repairs and other external auto body repairers. An important growth initiative for SA Taxi will be to establish a transactional business that combines its telematics capabilities, rewards programmes, client data and finance offerings into a single transactional account relevant to South Africa's 250 000 minibus taxi operators. This will significantly broaden its addressable market. With SANTACO as a strategic partner, SA Taxi will leverage its unique position in the market to drive growth over the medium term, to the benefit of taxi operators and the broader industry.

# TRANSACTION CAPITAL RISK SERVICES

| | | For the half year ended 31 March | | |
|---|---|---|---|---|
| | | **2020** | 2019 | Movement |
| **FINANCIAL PERFORMANCE** | | | | |
| Core headline earnings from continuing operations attributable to the group pre COVID-19 adjustment | Rm | **158** | 128 | 23% |
| Core headline earnings from continuing operations attributable to the group post COVID-19 adjustment | Rm | **111** | 128 | (13%) |
| Non-interest revenue | Rm | **1 108** | 933 | 19% |
| **PURCHASED BOOK DEBTS** | | | | |
| Cost price of purchased book debts acquired | Rm | **556** | 437 | 27% |
| Carrying value of purchased book debts pre COVID-19 adjustment | Rm | **2 840** | 1 727 | 64% |
| Carrying value of purchased book debts post COVID-19 adjustment | Rm | **2 775** | 1 727 | 61% |
| Estimated remaining collections | Rm | **5 321** | 3 597 | 48% |

## OPERATING CONTEXT

### SOUTH AFRICA

Of the 25.2 million credit-active South African consumers at March 2020, more than 40% (10.7 million) had impaired credit records. Transaction Capital's Consumer Credit Rehabilitation Index, which measures South African consumers' propensity to repay debt, reflects the distress in the consumer credit environment, with consumers' propensity to repay debt deteriorating by 0.4% in the first quarter of the 2020 calendar year, compared to the quarter before.

Even before factoring in the consequences of COVID-19, the domestic economy was fragile, with the downgrades to South Africa's credit ratings, critically high unemployment, high household debt and a volatile Rand. The anticipated recession and job losses will dramatically intensify the pressure on consumers, reducing credit extension and retail sales.

### AUSTRALIA

The debt collection environment in Australia has been challenging. The socio-economic impact of the bushfires that began in September 2019 and continued into early 2020, placed pressure on an already highly indebted consumer. The impact of COVID-19 on economic activity is likely to result in increasing unemployment and declining property prices, further affecting consumers.

## COVID-19 IMPACT

TCRS supports the effective functioning of consumer credit markets, rehabilitating indebted consumers and freeing up the operational capacity and capital of its clients so they can continue advancing credit to their customers.

TCRS's business model, which operationalises this social contract, is highly relevant in the COVID-19 environment. The division's clients, being consumer facing entities, will have larger levels of NPL Portfolios to manage and will face operational challenges due to COVID-19 related restrictions. As the economic impact of COVID-19 plays out over the medium term, TCRS's extensive collections infrastructure positions it well to win agency collection mandates or acquire NPL Portfolios to be collected as principal.

Despite the disruption to its operations of COVID-19, TCRS's omni-channel and data analytics capability enabled it to continue contacting and transacting with consumers, as voice and data networks remained robust. The positive response of consumers to non-voice and digital channels, specifically in Australia, supported higher levels of right party contact and online payments. A significant proportion of the division's collections is annuity based, collected via recurring payment arrangements. The remainder is collected via approximately 1 650 call centre and legal collection agents, of which more than 1 000 have now been enabled to work from home without compromising data security or access to technology. Collection agents were directed to focus their efforts on higher yielding mandates to optimise revenue during the lockdown.

## COLLECTION SERVICES

In its most significant business activity, TCRS acts either as a principal in acquiring and then collecting on NPL Portfolios, or as a service provider on an outsourced contingency or fee-for-service (FFS) basis. These business activities are diversified across sectors, clients and geographies, which lowers concentration risk and supports good performance and returns in different market conditions.

TCRS's collection services delivered organic revenue growth of about 20%. Excellent revenue growth in South Africa from the collection of NPL Portfolios acquired as a principal positively offset the impact of the slowdown in contingency and FFS collections revenue, which was expected. The Australian collections business performed in line with expectations, growing revenue in double-digit percentages during the year, a strong result given the increasing pressure on the Australian consumer.

### ACQUISITION OF NPL PORTFOLIOS AS PRINCIPAL

During the period, TCRS invested R483 million in South Africa and R73 million in Australia in acquiring NPL Portfolios. At 31 March 2020, TCRS owned 284 NPL Portfolios valued at R2 840 million (up 64% from R1 727 million a year ago). This asset will support strong and predictable annuity revenue (estimated at R5 321 million, up 48% from R3 597 million a year ago) over the medium term.

The accelerated acquisition of NPL Portfolios in South Africa remains a meaningful medium-term strategic growth initiative, subject to the rate of economic recovery. The market is still in an early stage of development and we expect many sizeable NPL portfolios to become available for acquisition as South Africa emerges from the pandemic. TCRS also continues to drive growth in this market by broadening the category of NPL Portfolios traded. Historically, the division focused on acquiring NPL Portfolios of written-off unsecured retail debt via auction but it has extended its addressable market to include NPL Portfolios prior to write-off, those collected via legal process and those sold on a bilateral or recurring contractual basis. Furthermore, TCRS continues to educate its clients on the benefits of selling their NPL Portfolios.

Due to the volatile environment and in line with our risk appetite, TCRS will however take a conservative approach to acquiring NPL Portfolios in South Africa in the second half of the 2020 financial year.

The Australian collections market is significantly larger than the South African market and mainly comprises unsecured consumer loan portfolios, an asset class in which TCRS has almost 20 years of experience in South Africa. However, the appetite of banks to sell their NPL Portfolios has declined in recent months, as they implement the recommendations of the Royal Commission into Misconduct in the Banking Industry, and now exacerbated by the effects of COVID-19. Instead, clients are moving to FFS collection mandates, instead of contingency collection mandates or the sale of their NPL Portfolios. TCRS's diversified business model enables it to respond effectively to this shift.

TCRS will continue to follow a cautious and selective approach in acquiring NPL Portfolios in Australia during the second half of the 2020 financial year. Its medium-term strategy remains to establish a more meaningful position in this larger market.

### CONTINGENCY AND FEE-FOR-SERVICE REVENUE

Recoveries Corporation in Australia posted a robust performance, gaining new mandates from existing clients and winning new clients to grow organic revenue by double-digit percentages. Operating costs were well managed considering the changing revenue mix to FFS mandates. Greater management depth, investment in data and analytics, the deployment of technologies proven in South Africa, and the implementation of business information, payment automation and collection technologies supported this pleasing result. The division continues to explore the benefits of new technologies, including artificial intelligence.

South African contingency and FFS division performed in line with expectations in the difficult consumer credit environment. Despite lower volumes and yields from contingency matters handed over for collection, TCRS deepened its penetration in its traditional market segments (banks, retailers and specialist lenders) as well as in the adjacent insurance and telecommunication sectors, according to its sector specialisation strategy.

In the second half of the 2020 financial year, muted retail sales and credit extension are expected to translate into lower volumes of matters handed over by clients. Agency collection revenues will be further impacted by lower recoveries as consumers struggle to repay their debt.

## TRANSACTIONAL SERVICES

Although Transaction Capital Payment Solutions (TCPS) was allowed to operate during the lockdown, it felt the impact of the challenging operating environment. As a relatively small services-orientated business, it is difficult for TCPS to make operational adjustments to counter market conditions.

As part of a deliberate strategy to establish a more focused and substantial payment services business diversified by payment activity, client and sector, we acquired Accsys in December 2017, and Fihrst two years later on 1 December 2019. During the first half of 2020, TCRS began integrating TCPS, Accsys and Fihrst, applying best-in-class technology from each of the businesses to create an integrated and efficient payment services platform. As TCPS's strong and entrepreneurial management team grows this business to scale, it will be better placed to withstand prevailing market conditions and lift performance. The opportunity to cross-sell a more competitive offering to clients will also lower concentration risk and drive organic revenue growth.

TCPS and Fihrst are both registered third-party payment providers and system operators within South Africa's National Payment System, processing approximately 30 million payment and disbursement transactions valued at more than R140 billion per year. Accsys provides administrative and payment services to support human resource management and payroll systems, directly impacting approximately 400 000 employees per month.

As a non-core business with limited opportunity for scale, we disposed of Principa on 17 April 2020 (refer to the IFRS 5 disclosure on page 20 for more detail). Principa will be accounted for as a discontinued operation.

## TRANSACTION CAPITAL BUSINESS SOLUTIONS (TCBS)

Cognisant of the higher risk in the small- and medium-sized enterprises (SME) sector, TCBS has proactively curbed gross loans and advances to this sector since the second half of 2018. In the first half of the 2020 financial year, we took the decision to significantly reduce this exposure. We believe the capital currently allocated to TCBS can be applied elsewhere to achieve better risk adjusted returns. TCBS will be accounted for as a discontinued operation, as its business and assets are available for sale as the group drives various disposal strategies.

## CONCLUSION

Despite the extreme conditions, TCRS posted a robust operational performance for the first six months of this year, specifically from its collection services business. Strong growth in revenue from the collection of NPL Portfolios acquired as a principal and a solid performance from its Australian collections business supported its performance.

We will continue to monitor the impact of COVID-19 on the consumer credit sector and our clients. As indicated, during the second half of this year, TCRS will be cautious in its approach to acquiring NPL Portfolios due to the uncertain environment. Agency revenues will remain under pressure, compounded by lower recoveries.

TCRS is well positioned to manage these impacts due to its operational agility and enduring cash flows. Our capability for call centre collections to be operationalised on a "work from home" basis at scale, provides TCRS with the flexibility to operate under COVID-19 restrictions. Despite the reduction in collections from its NPL Portfolios likely in the short term, the gross value of these cash flows will not reduce but will be collected over a longer period. Cash flows from a single NPL Portfolio will typically last for up to 10 years, generating a total return of 2.0 to 2.2 times the amount invested in purchasing the portfolio. The long-term nature of these assets enables TCRS to extend the collection period without affecting the recoverability of the underlying cash value.

Once the strategic realignment of TCRS is complete, the division will comprise a high-growth collections services business (comprising Transaction Capital Recoveries and Recoveries Corporation); a larger payment services business (comprising TCPS, Fihrst and Accsys), and a fledgling value-added services business (including Road Cover). TC Global Finance will be managed by the group executive office.

In a post COVID-19 environment, TCRS's diversified service offering has never been more relevant to its clients and the effective functioning of credit systems critical to economic recovery.

# GROUP EXECUTIVE OFFICE

The executive office added R14 million (2019: R18 million) to the group's headline earnings for the period from efficient management of its undeployed capital. This result is net of central costs incurred by the group executive office and includes cost recoveries from SA Taxi and TCRS. The reduced contribution compared to the prior comparative period was due to interest earned on a lower balance of undeployed capital held over the period.

In terms of its TC Global Finance strategy, the group has to date invested €8.7 million in the higher-yielding niche of the European specialised credit market. Initial returns have been in line with our expectations. Our growth strategy in this market, as previously communicated, remains valid. Given the global uncertainty surrounding COVID-19, we believe it is prudent to retain liquidity for our established business operations, if required, and to follow a conservative approach over the short term as the European specialised credit market settles.

## PROSPECTS AND STRATEGY

SA Taxi and TCRS have demonstrated resilience in variable conditions over many years. Transaction Capital's core headline earnings growth (prior to the COVID-19 adjustments) was in line with past performance and market expectations. Despite our businesses' flexible and agile response to this ever-changing environment, it is difficult to assess the full impact of COVID-19 on the group. It is not possible at this time to project full year headline earnings, as COVID-19 continues to impact our divisions' level of activities, and it is likely that COVID-19 adjustments to SA Taxi's credit provisioning model and the carrying value of TCRS's NPL Portfolios will be needed at year end at levels to be determined at that time.

Although we continue to align SA Taxi's and TCRS's operational structures to the prevailing economic realities, their business models have become even more relevant in a post COVID-19 context. Both will remain focused on executing their stated medium-term growth strategies (set out in our announcement at the time of our AGM), in tandem with the responses required to mitigate and manage the impact of COVID-19.

Our strongly positioned divisions within resilient market sectors, the measures taken to strengthen our capital structure and ensure adequate liquidity, the long-term nature of our assets and the defensive character of our divisions will support the group's resilience and growth in the period ahead. Our divisional management's unrelenting focus on managing the risks of COVID-19, in the context of their medium-term growth strategies, should see the group return to its long-term trend of strong organic earnings and dividend growth despite the initial impact of COVID-19 and the associated longer-term economic headwinds.

## SHAREHOLDING AND BOARD CHANGES

Stakeholders are referred to our SENS announcements on 18 and 19 February 2020 for details on the sale by Transaction Capital's founders, Jonathan Jawno, Michael Mendelowitz and Roberto Rossi, of a portion of their interests in Transaction Capital. The founders remain materially invested in the group, each retaining 5.9% for a total combined shareholding of approximately 17.7%.

On 12 March 2020, Sharon Wapnick was appointed to the board as an independent non-executive director. The board now comprises seven non-executive directors, six of whom are independent, and five executive directors.

## DIVIDEND DECLARATION

Transaction Capital's ordinary dividend policy is 2 to 2.5 times cover. After extensive deliberation and in view of the uncertainty around the full impact of COVID-19, the board has opted to retain capital and not to pay a dividend for the half year. The board will consider a dividend at year end should it have greater certainty on the impact of COVID-19 and a more informed view of the recovery of our sectors and return to normal operations. This cautious and conservative approach to ensure adequate financial capacity and flexibility is aligned to the guidance of the South African Reserve Bank, in which financial services providers are directed to act prudently in preserving capital and focusing on financial stability.

## BASIS FOR PREPARATION

The condensed consolidated interim financial results have been prepared under the supervision of Sean Doherty (CA) SA, chief financial officer. The financial information on which this announcement is based has not been reviewed and reported on by Transaction Capital's external auditors. The unaudited results of the group for the half year ended 31 March 2020 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim reports, and the requirements of the Companies Act, 71 of 2008. The Listings Requirements require interim reports to be prepared in accordance with, and containing the information required by, IAS 34: Interim Financial Reporting and 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 in terms of International Financial Reporting Standards (IFRS) and are consistent, in all material respects, with those detailed in Transaction Capital's prior year annual financial statements, except for the adoption of IFRS 16 – Leases.

Any forecast financial information has not been reviewed or reported on by the company's auditors.

## APPROVAL BY THE BOARD OF DIRECTORS

Signed on behalf of the board of directors:

**David Hurwitz**
Chief executive officer

**Sean Doherty**
Chief financial officer

Dunkeld West
13 May 2020

**Enquiries:** Investor Relations
**Telephone:** +27 (0) 11 049 6700

**Sponsor:** RAND MERCHANT BANK (a division of FirstRand Bank Limited)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 March 2020*

| | Notes | 31 March 2020 Unaudited Rm | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Audited Rm |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | | **1 055** | 1 539 | 919 |
| Tax receivables | | **22** | 22 | 26 |
| Trade and other receivables | | **1 716** | 1 149 | 1 287 |
| Inventories | | **975** | 611 | 832 |
| Loans and advances | | **10 816** | 10 314 | 10 991 |
| Purchased book debts | | **2 775** | 1 727 | 2 382 |
| Other loans receivable | | **49** | 39 | 45 |
| Equity accounted investments | | **260** | 19 | 92 |
| Intangible assets | | **468** | 285 | 294 |
| Property and equipment | | **448** | 173 | 172 |
| Goodwill | 3 | **1 299** | 1 155 | 1 152 |
| Deferred tax assets | | **298** | 355 | 271 |
| Assets classified as held for sale | 5 | **666** | – | – |
| **TOTAL ASSETS** | | **20 847** | 17 388 | 18 463 |
| **LIABILITIES** | | | | |
| Bank overdrafts | | **316** | 316 | 381 |
| Other short-term borrowings | | **56** | – | 76 |
| Tax payables | | **34** | 12 | 16 |
| Trade and other payables | | **437** | 522 | 709 |
| Provisions | | **53** | 52 | 53 |
| Insurance contract liabilities | | **441** | 690 | 537 |
| Benefits ceded on insurance contracts relating to inventories | | **47** | 61 | 54 |
| Benefits ceded on insurance contracts relating to loans and advances | | **127** | 310 | 174 |
| Benefits accruing to insurance contract holders | | **267** | 319 | 309 |
| Interest-bearing liabilities | 4 | **13 430** | 10 313 | 10 806 |
| Senior debt | | **12 350** | 9 758 | 10 287 |
| Subordinated debt | | **664** | 552 | 517 |
| Lease liabilities | | **416** | 3 | 2 |
| Deferred tax liabilities | | **495** | 377 | 413 |
| Liabilities directly associated with assets classified as held for sale | 5 | **48** | – | – |
| **TOTAL LIABILITIES** | | **15 310** | 12 282 | 12 991 |
| **EQUITY** | | | | |
| Ordinary share capital | | **1 121** | 1 083 | 1 103 |
| Reserves | | **254** | 150 | 179 |
| Retained earnings | | **3 589** | 3 326 | 3 614 |
| **EQUITY ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | **4 964** | 4 559 | 4 896 |
| Non-controlling interests | | **573** | 547 | 576 |
| **TOTAL EQUITY** | | **5 537** | 5 106 | 5 472 |
| **TOTAL EQUITY AND LIABILITIES** | | **20 847** | 17 388 | 18 463 |

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, and the adoption of IFRS 15 – Revenue from Contracts with Customers and IFRS 17 – Insurance Contracts in the prior year's annual financial statements.*

# CONDENSED CONSOLIDATED INCOME STATEMENT

*For the half year ended 31 March 2020*

| | Notes | 31 March 2020 Unaudited Rm | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Unaudited Restated** Rm |
|---|---|---|---|---|
| Interest income | | **1 328** | 1 114 | 2 353 |
| Interest expense | | **(681)** | (570) | (1 158) |
| NET INTEREST INCOME | | **647** | 544 | 1 195 |
| Impairment of loans and advances | | **(338)** | (206) | (322) |
| RISK-ADJUSTED NET INTEREST INCOME | | **309** | 338 | 873 |
| Non-interest revenue | 6 | **1 429** | 1 242 | 2 602 |
| Net insurance result | | **228** | 201 | 364 |
| Insurance revenue | | **462** | 398 | 823 |
| Insurance service expense | | **(234)** | (194) | (455) |
| Insurance finance expense | | **–** | (3) | (4) |
| Other non-interest revenue | | **1 201** | 1 041 | 2 238 |
| Operating costs | | **(1 324)** | (1 209) | (2 425) |
| Non-operating profit | | **–** | 8 | 7 |
| Equity accounted income | | **4** | – | 4 |
| PROFIT BEFORE TAX | | **418** | 379 | 1 061 |
| Income tax expense | | **(105)** | (118) | (288) |
| PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS | | **313** | 261 | 773 |
| DISCONTINUED OPERATIONS | | | | |
| (Loss)/profit for the period from discontinued operations | 5 | **(16)** | 6 | 14 |
| PROFIT FOR THE PERIOD | | **297** | 267 | 787 |
| PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS ATTRIBUTABLE TO: | | | | |
| Ordinary equity holders of the parent | | **275** | 262 | 713 |
| Non-controlling interests | | **38** | (1) | 60 |
| (LOSS)/PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO: | | | | |
| Ordinary equity holders of the parent | | **(16)** | 6 | 14 |
| Non-controlling interests | | **–** | – | – |
| EARNINGS PER SHARE (CENTS) | | | | |
| From continuing operations | | | | |
| Basic earnings per share | 7 | **44.8** | 42.8 | 116.5 |
| Diluted basic earnings per share | 7 | **44.2** | 42.4 | 115.1 |
| From continuing and discontinued operations | | | | |
| Basic earnings per share | 7 | **42.2** | 43.8 | 118.8 |
| Diluted basic earnings per share | 7 | **41.6** | 43.4 | 117.4 |

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and the adoption of IFRS 17 – Insurance Contracts.*

** *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the half year ended 31 March 2020*

| | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Unaudited Restated** Rm |
|---|---|---|---|
| PROFIT FOR THE PERIOD | **297** | 267 | 787 |
| OTHER COMPREHENSIVE (LOSS)/INCOME | | | |
| Movement in cash flow hedging reserve | **(3)** | (10) | 1 |
| Fair value (loss)/gain arising during the period | **(4)** | (14) | 1 |
| Deferred tax | **1** | 4 | – |
| Exchange gain on translation of foreign operations | **80** | 6 | 5 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | **374** | 263 | 793 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO: | | | |
| Ordinary equity holders of the parent | **336** | 264 | 733 |
| Non-controlling interests | **38** | (1) | 60 |

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and the adoption of IFRS 17 – Insurance Contracts.*

** *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the half year ended 31 March 2020*

| | Number of ordinary shares Unaudited million | Share capital Unaudited Rm | Reserves Unaudited Rm | Retained earnings Unaudited Rm | Ordinary equity holders of the parent Unaudited Rm | Non-controlling interests Unaudited Rm | Total equity Unaudited Rm |
|---|---|---|---|---|---|---|---|
| RESTATED BALANCE AT 30 SEPTEMBER 2018* | 610.2 | 1 056 | 52 | 2 647 | 3 755 | 59 | 3 814 |
| Total comprehensive (loss)/income | – | – | (4) | 268 | 264 | (1) | 263 |
| Profit for the period | – | – | – | 268 | 268 | (1) | 267 |
| Other comprehensive loss | – | – | (4) | – | (4) | – | (4) |
| Disposal of subsidiary | – | – | – | – | – | (3) | (3) |
| Transactions with non-controlling interests | – | – | 100 | 604 | 704 | 496 | 1 200 |
| Grant of share appreciation rights and conditional share plans | – | – | 19 | – | 19 | – | 19 |
| Settlement of share appreciation rights | – | – | (17) | (15) | (32) | – | (32) |
| Dividends paid | – | – | – | (178) | (178) | (4) | (182) |
| Issue of shares | 2.1 | 38 | – | – | 38 | – | 38 |
| Repurchase of shares | (0.6) | (11) | – | – | (11) | – | (11) |
| RESTATED BALANCE AT 31 MARCH 2019* | 611.7 | 1 083 | 150 | 3 326 | 4 559 | 547 | 5 106 |
| Total comprehensive income | – | – | 10 | 459 | 469 | 61 | 530 |
| Profit for the period | – | – | – | 459 | 459 | 61 | 520 |
| Other comprehensive income | – | – | 10 | – | 10 | – | 10 |
| Transactions with non-controlling interests | – | – | – | 6 | 6 | 1 | 7 |
| Grant of share appreciation rights and conditional share plans | – | – | 26 | – | 26 | – | 26 |
| Settlement of share appreciation rights and conditional share plans | – | – | (7) | (12) | (19) | – | (19) |
| Dividends paid | – | – | – | (165) | (165) | (33) | (198) |
| Issue of shares | 1.0 | 20 | – | – | 20 | – | 20 |
| BALANCE AT 30 SEPTEMBER 2019 AS PREVIOUSLY REPORTED | **612.7** | **1 103** | **179** | **3 614** | **4 896** | **576** | **5 472** |
| Adjustment on initial adoption of IFRS 16** | **–** | **–** | **–** | **(51)** | **(51)** | **–** | **(51)** |
| RESTATED BALANCE AT 1 OCTOBER 2019 | **612.7** | **1 103** | **179** | **3 563** | **4 845** | **576** | **5 421** |
| Total comprehensive income | **–** | **–** | **77** | **259** | **336** | **38** | **374** |
| Profit for the period | **–** | **–** | **–** | **259** | **259** | **38** | **297** |
| Other comprehensive income | **–** | **–** | **77** | **–** | **77** | **–** | **77** |
| Grant of share appreciation rights and conditional share plans | **–** | **–** | **31** | **–** | **31** | **–** | **31** |
| Settlement of share appreciation rights and conditional share plans | **–** | **–** | **(33)** | **(24)** | **(57)** | **–** | **(57)** |
| Dividends paid | **–** | **–** | **–** | **(209)** | **(209)** | **(41)** | **(250)** |
| Issue of shares | **2.8** | **60** | **–** | **–** | **60** | **–** | **60** |
| Repurchase of shares | **(2.0)** | **(42)** | **–** | **–** | **(42)** | **–** | **(42)** |
| BALANCE AT 31 MARCH 2020 | **613.5** | **1 121** | **254** | **3 589** | **4 964** | **573** | **5 537** |

* *The group adopted IFRS 17 – Insurance Contracts during the 2019 financial year. On transition date (1 October 2017) the comparative information was restated applying the transitional provisions in Appendix C to IFRS 17. The group also adopted IFRS 15 – Revenue from Contracts with Customers during the 2019 financial year. In accordance with the transitional provisions of IFRS 15, the group adopted this standard retrospectively, with the cumulative effect of initial adoption reported as an adjustment to the opening balance of retained earnings as at 1 October 2018.*
*Refer to the 2019 audited consolidated annual financial statements for the nature and impact of the changes due to the adoption of these standards.*

** *The group adopted IFRS 16 – Leases during the period ended 31 March 2020. Refer to note 1 for further details.*

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the half year ended 31 March 2020*

| | Notes | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Audited Rm |
|---|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | | |
| Cash generated by operations | | **943** | 900 | 1 731 |
| Income taxes paid | | **(35)** | (44) | (108) |
| Dividends paid | | **(250)** | (182) | (380) |
| CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND WORKING CAPITAL | | **658** | 674 | 1 243 |
| INCREASE IN OPERATING ASSETS | | **(1 218)** | (1 369) | (2 908) |
| Loans and advances | | **(680)** | (932) | (1 741) |
| Purchased book debts | | **(538)** | (437) | (1 167) |
| CHANGES IN WORKING CAPITAL | | **(551)** | (342) | (553) |
| Increase in inventories | | **(143)** | (133) | (354) |
| (Increase)/decrease in trade and other receivables | | **(156)** | 10 | (167) |
| Increase in other loans receivable | | **(4)** | – | (6) |
| Decrease in trade and other payables | | **(248)** | (219) | (26) |
| **NET CASH UTILISED BY OPERATING ACTIVITIES** | | **(1 111)** | (1 037) | (2 218) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| Acquisition of property and equipment | | **(12)** | (26) | (48) |
| Proceeds on disposal of property and equipment | | **–** | 1 | 3 |
| Acquisition of intangible assets | | **(131)** | (23) | (57) |
| Acquisition of equity accounted investments | | **(131)** | (19) | (87) |
| Business combinations | 9 | **(175)** | (7) | (7) |
| Proceeds on disposal of subsidiary | | **–** | 8 | 8 |
| **NET CASH UTILISED BY INVESTING ACTIVITIES** | | **(449)** | (66) | (188) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | |
| Proceeds from interest-bearing liabilities | | **4 589** | 3 112 | 9 088 |
| Repayment of interest-bearing liabilities | | **(2 672)** | (2 659) | (8 101) |
| (Repayment)/proceeds from other short-term borrowings | | **(20)** | – | 76 |
| Repayment of lease liabilities | | **(44)** | – | – |
| Additional interest acquired in subsidiary | | **–** | (28) | (28) |
| Net proceeds on issue of shares by subsidiary to non-controlling interests | | **–** | 1 128 | 1 135 |
| Repurchase of shares | | **(42)** | (11) | (11) |
| **NET CASH GENERATED BY FINANCING ACTIVITIES** | | **1 811** | 1 542 | 2 159 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **251** | 439 | (247) |
| Cash and cash equivalents at the beginning of the year | | **538** | 784 | 784 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | **3** | – | 1 |
| **CASH AND CASH EQUIVALENTS AT THE END OF YEAR**** | | **792** | 1 223 | 538 |

* *Restated for the adoption IFRS 17 – Insurance Contracts. In addition, the "Additional interest acquired in subsidiary" and the "Net proceeds on issue of shares by subsidiary to non-controlling interests" lines, which were classified as cash flows from investing activities in the prior year's interim results, have been reclassified to reflect as cash flows from financing activities in accordance with IAS 7 – Statement of Cash Flows.*

** *Cash and cash equivalents are presented net of bank overdrafts and includes cash transferred as part of assets held for sale.*

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies applied in the preparation of the condensed consolidated interim results are in terms of International Financial Reporting Standards (IFRS) and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for the adoption of IFRS 16 – Leases, as described below.

### 1.1 IFRS 16 – LEASES

IFRS 16 introduces a single, on-balance sheet accounting model for lessees, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, other than short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the group's consolidated interim results is described below.

The group has adopted IFRS 16 based on the modified retrospective approach from 1 October 2019, with no restatement of comparative information, as permitted under the specific transitional provisions in the standard. The cumulative effect arising from the initial adoption of IFRS 16 is presented as an adjustment to the opening balance of retained earnings as at 1 October 2019.

#### IMPACT OF THE NEW DEFINITION OF A LEASE

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer.

The group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease, will continue to be applied to those leases entered into or modified before 1 October 2019.

The group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 October 2019 (whether it is a lessor or a lessee in the lease contract).

#### IMPACT OF LESSEE ACCOUNTING

IFRS 16 introduces significant changes to lease accounting by removing the distinction between operating and finance leases under IAS 17.

The group recognised right-of-use assets to the value of R428 million and lease liabilities to the value of R532 million for all leases, other than short-term leases and leases of low value assets, on initial adoption of IFRS 16. An adjustment of R33 million was made to the right-of-use assets relating to prior year deferred lease liabilities and the remaining R51 million (net of taxation) was recognised as an adjustment to the opening balance of retained earnings.

Right-of-use assets were initially measured at cost, or an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to a specific lease immediately prior to the date of initial adoption. The election in accordance with IFRS 16 paragraph C8(b) was applied on a lease by lease basis. Subsequently, right-of-use assets are measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liabilities. Right-of-use assets are tested for impairment in accordance with IAS 36 – Impairment of Assets.

Lease liabilities were initially measured at the present value of the future lease payments, discounted using the discount rate implicit in the lease. The weighted average incremental borrowing rate applied on initial adoption was 10.9%. Subsequently, the lease liabilities are adjusted for interest and lease payments, as well as the impact of lease modifications.

The group recognises a lease expense on a straight-line basis in the income statement for short-term leases and leases of low value assets, as permitted by IFRS 16.

The group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- The application of a single discount rate to a portfolio of leases with similar characteristics.
- The application of the exemption not to recognise right-of-use assets and lease liabilities for leases with a lease term of less than 12 months.
- The use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

### IMPACT ON FINANCIAL STATEMENTS

| | 1 October 2019 Rm |
|---|---|
| Operating lease commitments as at 30 September 2019 as disclosed in the group's consolidated annual financial statements (adjusted)* | 503 |
| *Adjustments made for the purposes of IFRS 16:* | |
| Recognition exemption for: | 276 |
| – short-term leases | (3) |
| – leases of low value assets | (1) |
| Extension and termination options reasonably certain to be exercised | 302 |
| Variable lease payments based on an index or a rate | (22) |
| Finance lease liabilities recognised as at 30 September 2019 | 2 |
| Discounted using the incremental borrowing rate as at 1 October 2019 | (249) |
| Lease liabilities recognised as at 1 October 2019 | 532 |

* *Operating lease commitments at 30 September 2019, previously disclosed as R480 million, have been adjusted to an amount of R503 million in order to include an additional R23 million worth of lease commitments (in terms of IAS 17) that was erroneously excluded in the prior year.*

## 2 GOING CONCERN

The condensed consolidated financial statements were prepared on a going concern basis. Based on their assessment the directors have no reason to believe that the company will not continue as a going concern in the foreseeable future. This assessment includes an assessment of the relevance of the business models of SA Taxi and TCRS; the nature of the primary assets in each and the cash-flows generated from these assets; the group's strong balance sheet, underpinned by our conservative capital strategy; and the increased flexibility provided by additional liquidity measures implemented in response to COVID-19.

### BUSINESS MODEL RELEVANCE

Most South Africans rely on public transport, with the minibus taxi industry being the largest and most vital service in the integrated public transport network. More commuters choose minibus taxis over bus or rail services due to competitive pricing, convenience and accessibility, with the industry providing more than 15 million trips a day. Over the past few weeks, the COVID-19 pandemic has highlighted the indispensable nature of the minibus taxi industry as the dominant form of public transport. Spending on minibus taxi transport is non-discretionary for most South Africans, making this a defensive industry with minibus taxi operators remaining resilient in challenging economic conditions.

TCRS supports the effective functioning of consumer credit markets, rehabilitating indebted consumers and freeing up the operational capacity and capital of its clients so they can continue advancing credit to their customers. TCRS's business model, which operationalises this social contract, is highly relevant in the COVID-19 environment. With disposable income under pressure and high personal debt, more consumers in South Africa and Australia will experience acute hardship. TCRS's clients, being consumer facing entities, will have larger levels of non-performing consumer loan portfolios (NPL Portfolios) to manage and will face operational challenges due to COVID-19 related restrictions. TCRS's extensive collections infrastructure positions it well to gain agency collection mandates or acquire the NPL Portfolios to be collected as principal, as the economic impact of COVID-19 plays out over the medium term.

### NATURE OF PRIMARY ASSETS

In SA Taxi, the absolute value of the primary balance sheet asset, gross loans and advances, and the amount of cash to be collected will be preserved even if there is a need to collect on these assets over an extended period. This is evidenced by (i) the useful life of a minibus taxi which is in excess of nine years (108 months) versus an average loan term at origination of six years (72 months), and (ii) the fact that SA Taxi has the operational ability to further extend this life through its refurbishment capabilities.

Similarly, the absolute amount of cash emanating from our purchased book debts will not diminish but rather be collected over an extended period as short-term collections are anticipated to reduce.

### BALANCE SHEET AND LIQUIDITY

The group's capital strategy remains appropriately conservative in the current conditions, with undeployed capital of approximately R800 million at 31 March 2020. Of this, R500 million has been invested in TCRS to mitigate any short-term operational cashflow disruption from COVID-19. The remaining R300 million is immediately available to support both divisions. As at 31 March 2020 the balance sheet at holding company level was ungeared.

As at 31 March 2020 SA Taxi had secured its funding requirements for loan origination for the next year, with TCRS maintaining a secured funding runway of approximately 12 months.

Refer to the liquidity risk management in note 8.2 as well as the subsequent events in note 11.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

| | 31 March 2020 Unaudited Rm | 31 March 2019 Unaudited Rm | 30 September 2019 Audited Rm |
|---|---|---|---|
| **3 GOODWILL** | | | |
| **3.1 CARRYING VALUE AT THE BEGINNING OF THE PERIOD** | **1 152** | 1 142 | 1 142 |
| Additions recognised from business combinations: | **125** | 9 | 9 |
| Net1 Fihrst Holdings (Pty) Ltd | **125** | – | – |
| Black Elite Benefits (Pty) Ltd | **–** | 9 | 9 |
| Transferred to assets held for sale | **(5)** | – | – |
| Impairment loss recognised for the period* | **(3)** | – | – |
| Effect of foreign currency exchange differences | **30** | 4 | 1 |
| **CARRYING VALUE AT THE END OF THE PERIOD** | **1 299** | 1 155 | 1 152 |
| **COMPOSITION OF GOODWILL PER CASH-GENERATING UNIT** | | | |
| **SA TAXI** | **508** | 511 | 511 |
| **TRANSACTION CAPITAL RISK SERVICES (TCRS) COMPONENTS:** | | | |
| TCRS – South Africa | **286** | 166 | 166 |
| TCRS – Australia | **405** | 378 | 375 |
| Value Added Services | **100** | 100 | 100 |
| **TOTAL GOODWILL** | **1 299** | 1 155 | 1 152 |

* *Impairment losses are recognised as part of operating costs in the income statement.*

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired.

When testing goodwill for impairment, the recoverable amounts of cash-generating units (CGUs) are determined as the lower of value in use and fair value less costs to sell, the lower being the value in use. The CGUs prepare five year forecasts using growth rates based on the specific market segments in which they operate and their expected performance in these markets. The key assumptions for value in use calculations are discount rates, growth rates and expected margins over the determined period. Discount rates reflect management's assessment of risks specific to the CGU as well as current market trends of the time value of money. Growth rates and expected margins are based on industry indicators as well as current and expected business trends.

At September 2019, the group prepared five year cash flow forecasts for each CGU. Terminal values were calculated based on long-term growth rates of 6.7% for SA Taxi and 5% for TCRS, respectively. These rates do not exceed the average long-term growth rate for the relevant markets. The values in use of the CGUs which are lending businesses are determined based on free cash flow to equity, discounted with a cost of equity, and the value in use of CGUs which operate as service businesses are determined based on free cash flows to the company, discounted with a weighted average cost of capital. The discount rates used in the value in use calculations at 30 September 2019 were 14.3% for SA Taxi, 17.9% for TCRS South Africa, 12.5% for TCRS Australia and 23.0% for Value Added Services. At 31 March 2020, the impairment calculations were revisited to take into consideration the impact of COVID-19 on each of the CGUs.

## GOODWILL IMPAIRMENT

No indications of impairment were identified, with the exception of Zebra Cabs (Pty) Ltd, which forms part of the SA Taxi CGU. The valuation method applied is consistent with that of the prior period.

The goodwill associated with Zebra Cabs (Pty) Ltd arose when the business was acquired by the group in 2016. The business has continued to operate on a satisfactory basis, but without achieving any significant increase in market share.

During the year, indications of impairment relating to the business arose as a result of the uncertainties surrounding the COVID-19 virus, the adverse cash flow effects arising from the impact of the virus and the subsequent national lockdown implemented at the end of March 2020. The directors have consequently determined to write off the goodwill directly associated to Zebra Cabs (Pty) Ltd amounting to R3 million. No other write downs of the assets of the business were deemed necessary.

| | 31 March 2020 Unaudited Rm | 31 March 2019 Unaudited Rm | 30 September 2019 Audited Rm |
|---|---|---|---|
| **4 INTEREST-BEARING LIABILITIES** | | | |
| TYPE OF LOAN | | | |
| Securitisation notes, debentures and loans | **3 784** | 4 567 | 3 829 |
| Loans | **9 230** | 5 743 | 6 975 |
| Lease liabilities | **416** | 3 | 2 |
| **TOTAL INTEREST-BEARING LIABILITIES** | **13 430** | 10 313 | 10 806 |
| CLASSES OF INTEREST-BEARING LIABILITIES | | | |
| Senior debt | **12 350** | 9 758 | 10 287 |
| Subordinated debt | **664** | 552 | 517 |
| Lease liabilities | **416** | 3 | 2 |
| **TOTAL INTEREST-BEARING LIABILITIES** | **13 430** | 10 313 | 10 806 |
| MATURITY PROFILE | | | |
| Payable within 12 months | **4 608** | 4 563 | 2 216 |
| Payable thereafter | **8 822** | 5 750 | 8 590 |
| **TOTAL INTEREST-BEARING LIABILITIES** | **13 430** | 10 313 | 10 806 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 5 DISCONTINUED OPERATIONS

Cognisant of the higher risk in the small- and medium-sized enterprises (SME) sector, Transaction Capital Business Solutions (Pty) Ltd (TCBS) has proactively curbed gross loans and advances to this sector since the second half of 2018. In the first half of the 2020 financial year, we took the decision to significantly reduce this exposure. We believe the capital currently allocated to TCBS can be applied elsewhere to achieve better risk adjusted returns. TCBS will be accounted for as a discontinued operation effective 19 March 2020, as its business and assets are available for sale as the group drives various disposal strategies.

The group entered into a sale agreement to dispose of Principa Decisions (Pty) Ltd (Principa) with an effective date of 17 April 2020. A sale agreement to sell Company Unique Finance (Pty) Ltd (CUF) was also signed on 24 March 2020, subject to standard conditions precedent being met by 1 July 2020. The disposals, deemed non-core business with limited opportunity for scale, were effected in order to generate cash flow for the expansion of the group's other businesses.

The results of the discontinued operations, which have been included in the profit for the period, were as follows:

| | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Rm | 30 September 2019 Unaudited Rm |
|---|---|---|---|
| Risk-adjusted net interest income | **23** | 36 | 70 |
| Non-interest revenue | **37** | 41 | 86 |
| Operating costs | **(81)** | (68) | (137) |
| (LOSS)/PROFIT BEFORE TAX | **(21)** | 9 | 19 |
| Income tax benefit/(expense) | **5** | (3) | (5) |
| **(LOSS)/PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS** | **(16)** | 6 | 14 |

During the period, TCBS, Principa and CUF contributed R70 million (March 2019: R51 million, September 2019: paid R3 million) to the group's net operating cash flows, paid R7 million (March 2019: R6 million, September 2019: R15 million) in respect of investing activities and paid R64 million (March 2019: R51 million, September 2019 received: R10 million) in respect of financing activities.

These operations have been classified as disposal groups held for sale and are presented separately in the statement of financial position. The disposal proceeds for Principa and CUF are expected to substantially exceed the carrying amount of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale. The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

| | **31 March 2020 Unaudited Rm** |
|---|---|
| Cash and cash equivalents | **52** |
| Trade and other receivables | **33** |
| Loans and advances | **507** |
| Intangible assets | **36** |
| Property and equipment | **16** |
| Goodwill | **5** |
| Deferred tax assets | **17** |
| **TOTAL ASSETS CLASSIFIED AS HELD FOR SALE** | **666** |
| Trade and other payables | **35** |
| Provisions | **3** |
| Lease liabilities | **9** |
| Deferred tax liabilities | **1** |
| **TOTAL LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE** | **48** |
| **NET ASSETS OF DISPOSAL GROUP** | **618** |

## 6 NON-INTEREST REVENUE

Revenue earned from the group's vehicle insurance offering (Net insurance result) mainly includes insurance premiums and commission income earned from insurance contracts, all of which are accounted for in accordance with IFRS 17 – Insurance Contracts, and therefore fall outside the scope of IFRS 15 – Revenue from Contracts with Customers.

The recognition of revenue earned from collecting on purchased credit-impaired loan portfolios as principal (Revenue from purchased book debts) is in accordance with the amortised cost model under IFRS 9 – Financial Instruments, and therefore fall outside the scope of IFRS 15.

Other non-interest revenue streams are disaggregated into the following major revenue streams in accordance with IFRS 15:

| | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Unaudited Restated** Rm |
|---|---|---|---|
| NON-INTEREST REVENUE | | | |
| NON-INTEREST REVENUE COMPRISES: | | | |
| Net insurance result | **228** | 201 | 364 |
| Revenue from purchased book debts | **559** | 397 | 902 |
| Other non-interest revenue | **642** | 644 | 1 336 |
| Fee-for-service revenue | **445** | 438 | 912 |
| Commission income | **38** | 37 | 75 |
| Fee income | **112** | 108 | 214 |
| Revenue from sale of goods | **29** | 40 | 74 |
| Other income | **18** | 21 | 61 |
| **TOTAL NON-INTEREST REVENUE** | **1 429** | 1 242 | 2 602 |

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and the adoption of IFRS 17 – Insurance Contracts.*

** *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

| | Units | 31 March 2020 Unaudited | 31 March 2019 Unaudited Restated* | 30 September 2019 Unaudited Restated** |
|---|---|---|---|---|
| **7 EARNINGS PER SHARE** | | | | |
| **7.1 FROM CONTINUING AND DISCONTINUED OPERATIONS** | | | | |
| Basic earnings per share | cents | **42.2** | 43.8 | 118.8 |
| Diluted basic earnings per share | cents | **41.6** | 43.4 | 117.4 |
| Headline earnings per share | cents | **42.6** | 42.5 | 117.5 |
| Diluted headline earnings per share | cents | **42.0** | 42.1 | 116.1 |
| The calculation of earnings per share is based on the following data: | | | | |
| **EARNINGS** | | | | |
| Earnings for the purposes of basic and diluted basic earnings per share | Rm | **259** | 268 | 727 |
| *Being profit for the period attributable to ordinary equity holders of the parent* | | | | |
| Headline earnings adjustments: | | **2** | (8) | (8) |
| Impairment of goodwill | Rm | **2** | – | – |
| Profit on disposal of subsidiary | Rm | **–** | (8) | (8) |
| Earnings for the purposes of headline and diluted headline earnings per share | Rm | **261** | 260 | 719 |
| **NUMBER OF SHARES** | | | | |
| Number of ordinary shares in issue at the beginning of the period | million | **612.7** | 610.2 | 610.2 |
| Effect of shares issued during the period | million | **1.9** | 1.4 | 2.0 |
| Effect of shares repurchased during the period | million | **(0.8)** | (0.2) | (0.4) |
| Weighted average number of ordinary shares for the purposes of basic and headline earnings per share | million | **613.8** | 611.4 | 611.8 |
| Effect of dilutive potential ordinary shares: | | | | |
| Shares deemed to be issued for no consideration in respect of Share Appreciation Rights Plan and Conditional Share Plan | million | **8.3** | 6.7 | 7.6 |
| Weighted average number of ordinary shares for the purposes of diluted basic and headline earnings per share | million | **622.1** | 618.1 | 619.4 |
| **7.2 FROM CONTINUING OPERATIONS** | | | | |
| Basic earnings per share | cents | **44.8** | 42.8 | 116.5 |
| Diluted basic earnings per share | cents | **44.2** | 42.4 | 115.1 |
| Headline earnings per share | cents | **45.2** | 41.5 | 115.2 |
| Diluted headline earnings per share | cents | **44.2** | 42.4 | 115.1 |
| The calculation of earnings per share is based on the following data: | | | | |
| **EARNINGS** | | | | |
| Profit for the period attributable to ordinary equity holders of the parent | Rm | **259** | 268 | 727 |
| Adjustments to exclude the loss/(profit) for the period from discontinued operations | Rm | **16** | (6) | (14) |
| Earnings from continuing operations for the purposes of basic and diluted basic earnings per share excluding discontinued operations | Rm | **275** | 262 | 713 |
| Headline earnings adjustments: | | **2** | (8) | (8) |
| Impairment of goodwill | Rm | **2** | – | – |
| Profit on disposal of subsidiary | Rm | **–** | (8) | (8) |
| Earnings from continuing operations for the purposes of headline and diluted headline earnings per share excluding discontinued operations | Rm | **277** | 254 | 705 |

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and the adoption of IFRS 17 – Insurance Contracts.*

** *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

# 8 FINANCIAL RISK MANAGEMENT

The group's operations expose it to a number of financial risks, including market risk (interest rate risk), credit risk and liquidity risk. A risk management programme has been established to protect the group against the potential adverse effects of these financial risks.

The board is responsible for risk management and the setting of the risk management framework. Oversight of risk management is the responsibility of two board sub-committees; the asset and liability committee (ALCO) and the audit, risk and compliance (ARC) committee. ALCO monitors risks associated with liquidity and funding, interest rates, counterparties, currency exposures and capital adequacy. The ARC committee monitors risks associated with financial reporting, accounting policies, internal control and IT governance. The ARC committee is responsible for risk management including setting the risk management framework, setting risk appetite and monitoring the group's management of risk including credit and compliance.

The responsibility for day to day management of risks falls to each of the respective subsidiary's chief executive officers and their executive committees. Risk management is managed at subsidiary level through the divisional executive committees and reviewed by each of the respective subsidiary boards. Group oversight is the responsibility of the group chief financial officer.

## 8.1 CREDIT RISK

Credit risk is the risk of loss arising from the failure of a client or counterparty to discharge an obligation to the group. The primary credit risks that the group are exposed to arise from finance leases to minibus taxi operators, invoice discounting and secured mortgage loans. SA Taxi has strict policies for granting credit. Loans and advances comprise a large number of accounts which are secured by minibus taxis. Collections of instalments are made through a combination of cash and debit order collections, with 86% of the portfolio being cash payers. The nature of SA Taxi's services does not result in significant concentration risks in unsecured credit. The portfolio of purchased book debts exposes the group to credit risk if they fail to perform in accordance with estimated net future cash flows. It is not the group's strategy to avoid credit risk, but rather to manage credit risk within the group's risk appetite and to earn an appropriate risk-adjusted return.

The group limits its counterparty exposure arising from money market instruments by dealing only with well established financial institutions of high credit standing. Deposits are limited to the big five banks within South Africa.

### CREDIT RISK MANAGEMENT AND MEASUREMENT

Each subsidiary is responsible for the identification, measurement, management, control and reporting of credit risk within their business units. Exposure to credit losses is managed by assessing customers' affordability and their ability to repay loans and advances, a customer's risk profile, employment status and stability, earnings potential in the case of minibus taxis and collectability in the case of purchased book debts. Each of the group's lending businesses tends to have homogeneous or similar asset portfolios within their respective businesses. Impairments are monitored and provided for using statistical techniques including experiential and behavioural models. These models are based on customers' financial performance information while on book and assume that recent performance is a strong indicator of future performance. In the case of key asset classes, independent models are developed to monitor the robustness of the primary models relative to actual performance and to optimise their effectiveness. Models are either developed internally or by expert external advisors.
In the case of secured lending asset classes, the realisable/fair value of the underlying security is taken into consideration in arriving at a final impairment.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 8 FINANCIAL RISK MANAGEMENT continued

### 8.1 CREDIT RISK continued

**CREDIT RISK MANAGEMENT AND MEASUREMENT** continued

***SA Taxi***

*Method of provisioning and fair valuing*

The credit committee is responsible for providing executive management and oversight over credit risk arising within and impacting the SA Taxi balance sheet. Credit committee meetings are attended by the company chief executive officer, chief financial officer, chief risk officer and executive director of capital management.

The credit policy is designed to ensure that SA Taxi's credit process is efficient for the applicant, while providing SA Taxi with the necessary details to make informed credit decisions. SA Taxi takes the following into consideration in granting credit to prospective customers:

- Vehicle type;
- Validity of the taxi route;
- Client's ability to pay using a route calculator (affordability check); and
- Verification of details and credit history against two independent credit bureaus.

The expected loss model is developed using statistical techniques based on actual historical data. The expected loss is calculated for each active account, using parameter estimates including the probability of default (PD), exposure at default (EAD) and loss given write-offs (LGWs). The segmentation ensures homogeneous risk buckets. The LGW is calculated on an explicit basis per account, taking into consideration the settlement balance, market value of collateral repair cost, discount rates and discount periods. The group determines whether the credit risk of financial instruments has increased significantly since initial recognition based on the contractual delinquency (CD) state (aging and recency). If the account is in stage 1 then the 12-month expected credit loss is calculated, otherwise, for stage 2 and 3, the lifetime expected loss is calculated.

The group determines significant increases in credit risk using both arrears aging and recency of payments for an account. Due to the nature of the business and higher risk appetite, compared to other Tier 1 financiers, it is the expectation that a client who is 30 days past due is not a significant risk. The group has therefore rebutted the 30-day past due presumption for significantly increased credit risk. This rebuttal is based on a quantitative analysis of account performance relative to expectation at initial recognition as well as alignment to operation collections processes. The group's rebuttal is on segments that are never expected to be very large but which are appropriate for the business. The group has therefore defined stage 2 as an account in arrears that did make a qualifying payment in the last month. A qualifying payment is defined as a payment made which is more than 50% of the cumulative instalments due during the reference period.

The group has defined default as 90 days past due, with no qualifying payment received in the past 3 months. The 90-day presumption was rebutted based on a quantitative analysis of the PDs and alignment to operational collection processes.

The definition of credit-impaired financial assets aligns to the default definition described above. Applying this approach ensures consistency between the accounting application, impairment modelling and internal credit risk management practices. The write-off of an asset occurs at the point of sale of the vehicle, following repossession.

Once a vehicle has been repossessed, refurbished and ultimately sold, any difference between the net recovery value and the outstanding amount of the underlying asset is written off. Amounts written off in the current year still subject to enforcement activity total R273 million (March 2019: R297 million, September 2019: R275 million).

Quantitative analysis has proven that the modifications do not exhibit significantly higher risk than non-modified accounts. The value of these modified accounts is immaterial, relative to the book size. Modifications (term extensions) are provided to clients who have shown proven payment performance and have had operational issues with the vehicle (e.g. mechanical breakdown or accident). Although the term of a contract can be extended, the interest rate applicable for the contract remains unchanged and therefore term extensions do not have any effect on the net present value (NPV) of the financial asset. Due to the fact that a vehicle is an income-producing asset, the group understands that the client is unable to pay if the vehicle is out of operation, however the group does not proactively restructure distressed clients in the normal course of business.

# 8 FINANCIAL RISK MANAGEMENT continued

## 8.1 CREDIT RISK continued

### CREDIT RISK MANAGEMENT AND MEASUREMENT continued

***Transaction Capital Business Solutions***

Exposure to credit losses is managed by assessing customers' affordability and their ability to repay loans and advances, customers' risk profile and collectability of invoices discounted. The realisable/fair value of the underlying security is taken into consideration in arriving at a final impairment. The credit committee assesses all applications for credit and will approve a facility based on the risk profile of the customer and an assessment of the collectability of its trade receivables. Ongoing risk management and collections are handled by experienced credit controllers.

Impairments are monitored and provided for on a customer specific basis and based on an assessment of the probability of obligations being met. This assessment is based on direct exposure where there is a probability of non-recovery, taking into account the realisable/fair value of any underlying security.

***Transaction Capital Recoveries***

*Investment process*

Before the acquisition of purchased book debts there is a defined investment process that is followed in accordance with guidelines as determined by an investment committee. Purchased book debts are acquired from various sectors. Valuation of these books is determined by analysis of the historic underlying payment history as well as other parameters which are ultimately presented to the investment committee to decide on a fair price that the company is willing to offer.

*Collections process*

The data and analytics team continually develops and evolves strategies which are implemented by operations to collect the outstanding debt. Methods include debtor tracking and tracing services, data analysis and scorecard building, leading credit and risk analysis, SMSs, emails and direct calling.

*Method of provisioning and fair valuing*

Principal book portfolios are classified as purchased credit-impaired financial assets (stage 3) on initial recognition based on the assumption that events that have a detrimental impact on the estimated future cash flows of these financial assets have occurred before initial recognition. The classification of the debt portfolio does not change subsequent to initial recognition, even in the unlikely event of the expected cash flows returning to full contractual terms.

Transaction Capital Recoveries utilises statistical techniques to value the principal book portfolio on a monthly basis. Each matter is modelled on a 12-month period based on the collection activity applied to it. A combination of inflows for each matter and cost projections are used to determine a net cash flow which is discounted to the present value using a credit-adjusted effective interest rate, being the amortised cost for that matter at the end of the month.

Transaction Capital Recoveries performed a detailed statistical analysis on a multitude of macro-economic factors, namely prime interest rate, unemployment rate, petrol price, USD/ZAR exchange rate, GDP and CPI. Regression analysis shows that the economic factors do not add explanatory information to the model as there is no significant correlation, hence they are not included.

The Transaction Capital Recoveries amortised cost model takes into account the lifetime of expected cash flows on the portfolio by estimating the cash flows over the lifetime of each book included in the portfolio. A loss allowance is recognised equal to the expected future credit losses, discounted at the credit-adjusted effective interest rate of the principal book portfolio.

Due to the nature of the credit-impaired financial assets, no contractual terms exist without activation by Transaction Capital Recoveries at the date of purchase. Any changes in expected cash flows will not be treated as a modification and will therefore not result in a change to the credit risk.

Other financial assets, recognised within the principal book portfolio, include a receivables balance measured at fair value. The valuation technique calculates the present value of future expected cash flow.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 8 FINANCIAL RISK MANAGEMENT continued

### 8.1 CREDIT RISK continued

**CREDIT RISK MANAGEMENT AND MEASUREMENT** continued

**IMPACT OF COVID-19**

***SA Taxi***

The outbreak of COVID-19 locally is expected to have a significant impact on the collections performance across all portfolios. Given the restriction on public movement and public transport operation, a large portion of clients will be placed under strain in terms of their ability to generate income and service instalment payments on their loans.

In light of this expected strain, SA Taxi provided its client base interim payment relief for the month of April 2020, provided that the client's account is in good standing and their vehicles have a fully functioning telematics device. This relief will extend the term of certain contracts, however the interest rate will remain unchanged and therefore this relief does not impact the NPV of the financial asset.

Collections performance has a significant impact on several of the assumptions driving the loans and advances provisioning model, which include the probability of default (PD), exposure at default (EAD) and loss given write-offs (LGWs). These assumptions, to the extent that these were already impacted by collections performance in the last week of March 2020 (the start of the nationwide lockdown), have been applied in determining expected cash shortfalls arising from non-payment in the best estimate provision on the loan book as at 31 March 2020, resulting in a R24 million COVID-19 provision.

In addition, while the models continue to reflect the customers' financial performance information while on book and historical performance remains a strong indicator of future performance, the group has also overlaid its current best estimate of the impact of future collection strains on forward looking expected losses to be incurred. This best estimate was based on collection assumptions of 20% in April 2020, which gradually builds to normalised collections by financial year end. This has resulted in the recognition of an additional general COVID-19 impairment charge of R102 million in SA Taxi.

Management continues to support the rebuttals of the 30- and 90-day presumptions and does not believe that collateral values will be affected.

The extent to which COVID-19 has further impacts on credit losses going forward will depend on future developments, which are highly uncertain and cannot be predicted with confidence. These developments include the duration and severity of the outbreak, the actions that may be required to contain COVID-19 or treat its impact and the resulting recovery profile. Given this uncertainty, we are unable to reasonably estimate the impact on future credit losses across the portfolio. The longer the strain on the collection of the portfolio, the more adversely this will impact estimated credit losses and overall results of operations.

**TRANSACTION CAPITAL RISK SERVICES**

Despite the operational disruption caused by COVID-19, TCRS's omni-channel and data analytics capability enabled it to continue contacting consumers, as voice and data networks remained robust. The positive response of consumers to non-voice and digital channels, specifically in Australia, is contributing to higher levels of right party contact and online payments. A significant component of collections is annuity based, collected via recurring payment arrangements.

While collections on non-performing loan portfolios acquired as a principal were mainly in line with expectation to March 2020, they were negatively affected thereafter. Future collections are projected to be lower in the short-term, necessitating an additional R65 million adjustment to the carrying value of purchased book debts as at 31 March 2020. Projected portfolio collections over the six month period to 30 September 2020 have been stressed downward by 30%, returning to pre COVID-19 levels thereafter.

# 8 FINANCIAL RISK MANAGEMENT continued

## 8.1 CREDIT RISK continued

### 8.1.1 FINANCIAL ASSETS SUBJECT TO RISK

| | Loans and advances* Rm | Other loans receivable Rm | Trade and other receivables** Rm | Purchased book debts Rm | Total Rm |
|---|---|---|---|---|---|
| 31 March 2020 – Unaudited | | | | | |
| Neither past due nor impaired | **5 890** | **49** | **1 138** | **2 775** | **9 852** |
| Past due but not impaired | **3 782** | **–** | **98** | **–** | **3 880** |
| Impaired | **2 032** | **–** | **88** | **–** | **2 120** |
| Impairment allowance | **(582)** | **–** | **(17)** | **–** | **(599)** |
| Performing loans and advances | **(102)** | **–** | **–** | **–** | **(102)** |
| Non-performing loans and advances | **(378)** | **–** | **–** | **–** | **(378)** |
| Additional COVID-19 general provision | **(102)** | **–** | **–** | **–** | **(102)** |
| Non-performing trade and other receivables | **–** | **–** | **(17)** | **–** | **(17)** |
| Transferred to non-current assets held for sale | **(507)** | **–** | **(33)** | **–** | **(540)** |
| **CARRYING VALUE OF FINANCIAL ASSETS** | **10 615** | **49** | **1 274** | **2 775** | **14 713** |
| Fair value of collateral held for loans neither past due nor impaired | 9 235 | – | – | – | 9 235 |

| | Loans and advances* Rm | Other loans receivable Rm | Trade and other receivables** Rm | Purchased book debts Rm | Total Rm |
|---|---|---|---|---|---|
| 31 March 2019 – Unaudited (Restated***) | | | | | |
| Neither past due nor impaired | 5 841 | 39 | 682 | 1 727 | 8 289 |
| Past due but not impaired | 3 039 | – | 103 | – | 3 142 |
| Impaired | 1 458 | – | 63 | – | 1 521 |
| Impairment allowance | (443) | – | (3) | – | (446) |
| Performing loans and advances | (115) | – | – | – | (115) |
| Non-performing loans and advances | (328) | – | – | – | (328) |
| Non-performing trade and other receivables | – | – | (3) | – | (3) |
| **CARRYING VALUE OF FINANCIAL ASSETS** | 9 895 | 39 | 845 | 1 727 | 12 506 |
| Fair value of collateral held for loans neither past due nor impaired | 8 572 | – | – | – | 8 572 |

| | Loans and advances* Rm | Other loans receivable Rm | Trade and other receivables** Rm | Purchased book debts Rm | Total Rm |
|---|---|---|---|---|---|
| 30 September 2019 – Unaudited (Restated****) | | | | | |
| Neither past due nor impaired | 6 214 | 45 | 756 | 2 382 | 9 397 |
| Past due but not impaired | 3 197 | – | 105 | – | 3 302 |
| Impaired | 1 855 | – | 4 | – | 1 859 |
| Impairment allowance | (507) | – | (16) | – | (523) |
| Performing loans and advances | (101) | – | – | – | (101) |
| Non-performing loans and advances | (406) | – | – | – | (406) |
| Non-performing trade and other receivables | – | – | (16) | – | (16) |
| **CARRYING VALUE OF FINANCIAL ASSETS** | 10 759 | 45 | 849 | 2 382 | 14 035 |
| Fair value of collateral held for loans neither past due nor impaired | 9 505 | – | – | – | 9 505 |

* *Loans and advances net of expected credit losses (ECL) and benefits ceded on insurance contracts to the credit provider. Loans and advances relating to repossessed stock of R74 million (31 March 2019: R109 million; 30 September 2019: R58 million) are not financial assets and therefore have been excluded.*

** *Prepayments and VAT receivables are not financial assets and therefore have been excluded from trade and other receivables.*

*** *Restated for the adoption of IFRS 17 – Insurance Contracts.*

**** *The IFRS 7 disclosure of the impairment provision for loans and advances at 30 September 2019, previously disclosed as R601 million, has been adjusted to an amount of R507 million in order to correctly reflect repossessed stock that was erroneously disclosed as part of this note in the prior year.*

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 8 FINANCIAL RISK MANAGEMENT continued

## 8.1 CREDIT RISK continued

### 8.1.2 LOANS AND ADVANCES THAT ARE NEITHER PAST DUE NOR IMPAIRED

| | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Unaudited Restated** Rm |
|---|---|---|---|
| Carrying amount of loans and advances that are neither past due nor impaired | **5 890** | 5 842 | 6 214 |
| Credit quality | | | |
| High | **5 631** | 5 580 | 5 918 |
| Medium | **248** | 254 | 286 |
| Low | **11** | 8 | 10 |

* *Restated for the adoption of IFRS 17 – Insurance Contracts.*

** *During the current period, the credit application scorecards were redeveloped. In line with best practice, application scorecards were recalibrated to ensure the scorecards remain statistically accurate at ranking and predicting default risk. Comparative information has therefore been restated to align to the revised credit scoring methodology.*

The credit quality of loans and advances is determined as follows:

***SA Taxi***

SA Taxi, in conjunction with TransUnion, has developed a bespoke application scorecard to assess credit quality when granting loans. The scorecard uses demographic, vehicle, route and credit bureau information to determine the risk of the deal. A detailed affordability assessment is also performed to mitigate risk.

***Transaction Capital Business Solutions***

The credit committee assesses all applications for credit and will approve a facility based on the risk profile of the applicant and an assessment of the collectability of the trade receivables and realisable value of other tangible security. Ongoing risk management and collections are handled by experienced credit controllers.

***Transaction Capital Risk Services***

The credit quality is assessed on the date the loan is granted based on the loan to value percentage. Where the loan to value percentage is less than 100% the credit quality is assessed as high, where it is in excess of 100% the credit quality is assessed as medium.

In addition to the loans and advances disclosed above, other loans receivables have been assessed as having no significant increased credit risk based on the nature of the counterparty and the recent payment history. Similarly, trade and other receivables have been deemed to not have significant increased credit risk as all the debtors are on standard terms with minimal write-offs and limited concentration to individual debtors. Also refer note 8.1 for details on the assessment of the credit quality of the purchased book debts in the "Transaction Capital Recoveries: Method of provisioning and fair valuing" section.

# 8 FINANCIAL RISK MANAGEMENT continued

## 8.1 CREDIT RISK continued

### 8.1.3 FINANCIAL ASSETS THAT ARE PAST DUE BUT NOT IMPAIRED

Financial assets that are past due but not impaired are assets where contractual interest or principal payments are past due, but the group believes that impairment is not appropriate. Recent payment history and the level of collateral available, if any, are key considerations in determining whether an asset is impaired. The ageing of loans and advances and trade and other receivables that are past due but not impaired is as follows:

| | Past due up to 1 month Rm | Past due up to 1 – 2 months Rm | Past due up to 2 – 3 months Rm | Past due up to 3 – 4 months Rm | Past due older than 4 months Rm | Total Rm |
|---|---|---|---|---|---|---|
| 31 March 2020 – Unaudited | | | | | | |
| Loans and advances | **1 348** | **816** | **431** | **288** | **899** | **3 782** |
| Trade and other receivables | **49** | **5** | **5** | **22** | **17** | **98** |
| **FINANCIAL ASSETS THAT ARE PAST DUE BUT NOT IMPAIRED** | **1 397** | **821** | **436** | **310** | **916** | **3 880** |
| 31 March 2019 – Unaudited (Restated*) | | | | | | |
| Loans and advances | 1 152 | 657 | 343 | 232 | 655 | 3 039 |
| Trade and other receivables | 49 | 18 | 5 | 18 | 13 | 103 |
| FINANCIAL ASSETS THAT ARE PAST DUE BUT NOT IMPAIRED | 1 201 | 675 | 348 | 250 | 668 | 3 142 |
| 30 September 2019 – Audited | | | | | | |
| Loans and advances | 1 236 | 704 | 307 | 251 | 699 | 3 197 |
| Trade and other receivables | 33 | 6 | 5 | 4 | 57 | 105 |
| FINANCIAL ASSETS THAT ARE PAST DUE BUT NOT IMPAIRED | 1 269 | 710 | 312 | 255 | 756 | 3 302 |

** Restated for the adoption of IFRS 17 – Insurance Contracts.*

#### *Valuation of collateral*

The group typically holds minibus taxi vehicles, bonds over residential property and debtor books in the case of invoice discounting as collateral against secured advances. Any security taken as part of the credit decision is valued according to the applicable credit policies at the time of credit approval and at regular intervals thereafter. The group uses a number of approaches for the valuation of collateral, including:

- SA Taxi values collateral at the expected pre-owned sales value minus costs to repair; and
- Valuations of property held as security over mortgage loans take into account market conditions, area where the property is situated, the condition of the property and comparable sales within the geographical area.

Due to the specialised nature of the group's businesses, a certain degree of concentration in the collateral underpinning the various portfolios cannot be avoided. At the statement of financial position date, the group did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 8 FINANCIAL RISK MANAGEMENT continued

## 8.1 CREDIT RISK continued

### 8.1.4 IMPAIRMENT PROVISION RECONCILIATION

| LOANS AND ADVANCES | 12 month expected credit losses Rm | Lifetime expected credit losses Rm | Credit impaired financial assets Rm | Total |
|---|---|---|---|---|
| 31 March 2020 – Unaudited | | | | |
| Balance at the beginning of the period | **24** | **84** | **399** | **507** |
| Originations | **7** | **6** | **5** | **18** |
| Existing book movements | **(8)** | **17** | **7** | **16** |
| Write-offs | **(3)** | **(23)** | **(34)** | **(60)** |
| Derecognition (settlements in the ordinary course of business) | **–** | **–** | **(1)** | **(1)** |
| Transferred to non-current assets held for sale | **(1)** | **(19)** | **(5)** | **(25)** |
| Additional COVID-19 general provision* | **–** | **–** | **–** | **102** |
| **BALANCE AT THE END OF THE PERIOD*** | **19** | **65** | **371** | **557** |
| 31 March 2019 – Unaudited (Restated**) | | | | |
| Balance at the beginning of the period | 22 | 89 | 282 | 393 |
| Originations | 7 | 8 | 3 | 18 |
| Existing book movements | (5) | 1 | 113 | 109 |
| Write-offs | – | (7) | (69) | (76) |
| Derecognition (settlements in the ordinary course of business) | – | – | (1) | (1) |
| **BALANCE AT THE END OF THE PERIOD*** | 24 | 91 | 328 | 443 |
| 30 September 2019 – Unaudited (Restated***) | | | | |
| Balance at the beginning of the year | 22 | 89 | 282 | 393 |
| Originations | 12 | 28 | 26 | 66 |
| Existing book movements | (4) | (11) | 184 | 169 |
| Write-offs | (5) | (21) | (92) | (118) |
| Derecognition (settlements in the ordinary course of business) | (1) | (1) | (1) | (3) |
| **BALANCE AT THE END OF THE PERIOD*** | 24 | 84 | 399 | 507 |

* *Loans and advances net of ECL and benefits ceded on insurance contracts to the credit provider. Loans and advances relating to repossessed stock are not financial assets and therefore have been excluded. For the purposes of 31 March 2020, an additional general provision of R102 million was recognised representing management's current estimate of the expected future losses that will be incurred related to COVID-19. As the actual experience translates compared to best estimate expectation, the provision will be allocated against the segmented categories of the loans and advances portfolio accordingly.*

** *Restated for the adoption of IFRS 17 – Insurance Contracts.*

*** *The IFRS 7 disclosure of the impairment provision for loans and advances at 30 September 2019, previously disclosed as R601 million, has been adjusted to an amount of R507 million in order to correctly reflect repossessed stock that was erroneously disclosed as part of this note in the prior year.*

# 8 FINANCIAL RISK MANAGEMENT continued

## 8.1 CREDIT RISK continued

### 8.1.4 IMPAIRMENT PROVISION RECONCILIATION continued

The maximum exposure to credit risk of loans and advances at the period end is analysed further as follows:

| LOANS AND ADVANCES | 12 month expected credit losses Rm | Lifetime expected credit losses Rm | Credit impaired financial assets Rm | Total Rm |
|---|---|---|---|---|
| **31 March 2020 – Unaudited** | | | | |
| Neither past due nor impaired | **5 871** | **19** | **–** | **5 890** |
| Past due not impaired | **964** | **2 818** | **–** | **3 782** |
| Impaired | **–** | **23** | **2 009** | **2 032** |
| Impairment allowance | **(20)** | **(82)** | **(378)** | **(480)** |
| Performing loans and advances | **(20)** | **(82)** | **–** | **(102)** |
| Non-performing loans and advances | **–** | **–** | **(378)** | **(378)** |
| Transferred to non-current assets held for sale | **(427)** | **(21)** | **(59)** | **(507)** |
| Additional COVID-19 general provision | **–** | **–** | **–** | **(102)** |
| **CARRYING VALUE OF FINANCIAL ASSETS*** | **6 388** | **2 757** | **1 572** | **10 615** |
| 31 March 2019 – Unaudited (Restated**) | | | | |
| Neither past due nor impaired | 5 826 | 15 | – | 5 841 |
| Past due not impaired | 877 | 2 162 | – | 3 039 |
| Impaired | – | 73 | 1 385 | 1 458 |
| Impairment allowance | (24) | (91) | (328) | (443) |
| Performing loans and advances | (24) | (91) | – | (115) |
| Non-performing loans and advances | – | – | (328) | (328) |
| **CARRYING VALUE OF FINANCIAL ASSETS*** | 6 679 | 2 159 | 1 057 | 9 895 |
| 30 September 2019 – Unaudited (Restated***) | | | | |
| Neither past due nor impaired | 6 193 | 21 | – | 6 214 |
| Past due not impaired | 894 | 2 303 | – | 3 197 |
| Impaired | 12 | 40 | 1 803 | 1 855 |
| Impairment allowance | (24) | (84) | (399) | (507) |
| Performing loans and advances | (19) | (82) | – | (101) |
| Non-performing loans and advances | (5) | (2) | (399) | (406) |
| **CARRYING VALUE OF FINANCIAL ASSETS*** | 7 075 | 2 280 | 1 404 | 10 759 |

* *Loans and advances net of ECL and benefits ceded on insurance contracts to the credit provider. Loans and advances relating to repossessed stock of R74 million (31 March 2019: R109 million; 30 September 2019: R58 million) are not financial assets and therefore have been excluded.*

** *Restated for the adoption of IFRS 17 – Insurance Contracts.*

*** *The IFRS 7 disclosure of the impairment provision for loans and advances at 30 September 2019, previously disclosed as R601 million, has been adjusted to an amount of R507 million in order to correctly reflect repossessed stock that was erroneously disclosed as part of this note in the prior year.*

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 8 FINANCIAL RISK MANAGEMENT continued

### 8.2 LIQUIDITY RISK MANAGEMENT

The group's capital markets (CM) team is responsible for executing on fund raising mandates given to it by subsidiaries in support of respective business models. This includes the ongoing assessment and evaluation of various funding sources designed to grow and diversify the group's funding base to achieve an optimal funding profile and sound liquidity. The CM team is also responsible for the ongoing monitoring of asset portfolio performance and its obligations to funders, including covenants. Over several years, the CM team has developed strong relationships with funders and ensures equitable treatment of all funder partners.

The monitoring and reporting of liquidity risk takes the form of, as a minimum, cash flow projections to settlement of longest dated funding obligations by subsidiary or securitisation vehicle, an analysis of the group's borrowing facilities and utilisation thereof, borrowing facilities under discussion, maturity profile and concentration of liability by counterparty, asset maturities and borrowing facility obligations and special conditions.

At 31 March 2020, the balance sheet at holding company level was ungeared. An undrawn R400 million facility is available to alleviate any short-term cashflow pressures across the group.

Our longstanding and cautious debt funding philosophy is designed to protect the group against liquidity and refinancing risk. Most of our debt is structured on an amortising basis and incorporates few bullet repayments. We maintain a positive asset-liability gap, with the duration of liabilities exceeding that of our assets. Wherever possible, our debt arrangements avoid hard coded covenants which could trigger an accelerated repayment of debt.

The table below analyses financial liabilities at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | **On demand Rm** | **Within 1 year Rm** | **From 1 – 5 years Rm** | **More than 5 years Rm** | **Total Rm** |
|---|---|---|---|---|---|
| 31 March 2020 – Unaudited | | | | | |
| LIABILITIES | | | | | |
| Bank overdrafts | **316** | **–** | **–** | **–** | **316** |
| Other short-term borrowings | **56** | **–** | **–** | **–** | **56** |
| Trade and other payables* | **178** | **156** | **–** | **–** | **334** |
| Interest-bearing liabilities | **2** | **5 350** | **9 597** | **144** | **15 093** |
| Financial liabilities | **552** | **5 506** | **9 597** | **144** | **15 799** |
| Non-financial liabilities | **36** | **621** | **–** | **–** | **657** |
| **TOTAL LIABILITIES** | **588** | **6 127** | **9 597** | **144** | **16 456** |

| | On demand Rm | Within 1 year Rm | From 1 – 5 years Rm | More than 5 years Rm | Total Rm |
|---|---|---|---|---|---|
| 31 March 2019 – Unaudited | | | | | |
| LIABILITIES | | | | | |
| Bank overdrafts | 316 | – | – | – | 316 |
| Trade and other payables* | 125 | 260 | – | – | 385 |
| Interest-bearing liabilities | 426 | 4 883 | 6 801 | 63 | 12 173 |
| Financial liabilities | 867 | 5 143 | 6 801 | 63 | 12 874 |
| Non-financial liabilities | 54 | 812 | – | – | 866 |
| **TOTAL LIABILITIES** | 921 | 5 955 | 6 801 | 63 | 13 740 |

# 8 FINANCIAL RISK MANAGEMENT continued

## 8.2 LIQUIDITY RISK MANAGEMENT continued

| | On demand Rm | Within 1 year Rm | From 1 – 5 years Rm | More than 5 years Rm | Total Rm |
|---|---|---|---|---|---|
| **30 September 2019 – Audited** | | | | | |
| **LIABILITIES** | | | | | |
| Bank overdrafts | 381 | – | – | – | 381 |
| Other short-term borrowings | 76 | – | – | – | 76 |
| Trade and other payables* | 214 | 268 | – | – | 482 |
| Interest-bearing liabilities | 41 | 3 290 | 9 327 | 193 | 12 851 |
| Financial liabilities | 712 | 3 558 | 9 327 | 193 | 13 790 |
| Non-financial liabilities | 108 | 510 | – | – | 618 |
| **TOTAL LIABILITIES** | 820 | 4 068 | 9 327 | 193 | 14 408 |

* *Revenue received in advance, deferred lease liabilities (prior year), VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables and included in non-financial liabilities.*

The group has access to financing facilities as described below, of which R1 415 million were unused at the reporting date (31 March 2019: R1 919 million; 30 September 2019: R2 608 million). The group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

| | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Rm | 30 September 2019 Unaudited Rm |
|---|---|---|---|
| Unsecured bank overdraft facility, reviewed annually and payable on demand: | | | |
| Amount used | **175** | 20 | – |
| Amounts unused | **137** | 281 | 310 |
| **TOTAL** | **312** | 301 | 310 |
| Secured bank overdraft facility: | | | |
| Amount used | **197** | 297 | 457 |
| Amounts unused | **248** | 298 | 113 |
| **TOTAL** | **445** | 595 | 570 |
| Secured bank loan facilities with various maturity dates through to 30 September 2021 and which may be extended by mutual agreement: | | | |
| Amount used | **5 113** | 2 414 | 2 599 |
| Amounts unused | **1 031** | 1 339 | 2 184 |
| **TOTAL** | **6 144** | 3 753 | 4 783 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 8 FINANCIAL RISK MANAGEMENT continued

### 8.3 CAPITAL RISK

The objective of the group's capital management strategy is to maximise shareholder value. To achieve this the group considers the capital required to support growth in its operating divisions, to maintain credit ratings in group entities, to comply with borrowing covenants and for unexpected shocks.

The group defines capital as equity, group loans and subordinated and structurally subordinated debt.

Equity comprises permanent paid up capital, revenue and other reserves.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a strong capital position.

#### CAPITAL MANAGEMENT – INSURANCE CONTRACTS

The group is required by Solvency Assessment and Management (SAM) to hold an excess of its assets over its insurance contract liabilities calculated on a regulatory basis. The requirement aims to ensure that the group is able to meet its obligations over the next 12 months. Breaching this requirement – the solvency capital requirements (SCR) – would result in supervisory intervention by the lead regulator and remedial actions designed to restore the SCR level of capital.

The SAM approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the SCR to regulatory capital. The group complied with all externally imposed capital requirements for the period ended March 2020 and the year end ended September 2019.

### 8.4 FAIR VALUE DISCLOSURE continued

#### VALUATION METHODS AND ASSUMPTIONS

Loans and advances for premium vehicles entered into at variable interest rates approximate fair value as the estimated future cash flows are already considered in the expected loss model. The fair value of loans and advances for premium vehicles at fixed interest rates, which is a small component of the loan book, is determined by adjusting the discount rate from the effective interest rate of the contract to a current effective lending rate. Loans and advances for entry-level vehicles are carried at fair value, refer "level disclosure" per note 8.5 for additional information in this regard.

Purchased book debts are held at amortised cost. The balance at year end is calculated based on the expected future cash flows which are adjusted for risk as it takes historical cash flows into account to predict forecasted cash flows. The fair value of purchased book debt would be determined by adjusting the discount rate from the credit-adjusted effective interest rate to a current market related discount rate and adjusting the expected cash flows for risk, therefore the carrying value approximates the fair value.

The fair value of interest-bearing liabilities is calculated based on future cash flows, discounted using a forward rate curve plus a valuation margin. The valuation margin is a consensus margin at which deals with similar remaining cash profiles could be secured in the market at the valuation date.

The carrying value of trade and other receivables, cash and cash equivalents, trade and other payables, bank overdrafts and other short-term borrowings approximates fair value as they are short-term in nature and not subject to material changes in credit risk and fair value.

### 8.4 FAIR VALUE DISCLOSURE

The fair values of financial assets and financial liabilities are disclosed below:

| | 31 March 2020 | | | | | 31 March 2019 | | | | | 30 September 2019 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying value Unaudited Rm | Fair value Unaudited Rm | Level 1 Rm | Level 2 Rm | Level 3 Rm | Carrying value Unaudited Restated* Rm | Fair value Unaudited Restated* Rm | Level 1 Rm | Level 2 Rm | Level 3 Rm | Carrying value Audited Rm | Fair value Audited Rm | Level 1 Rm | Level 2 Rm | Level 3 Rm |
| **ASSETS** | | | | | | | | | | | | | | | |
| Loans and advances** | 10 615 | 10 714 | – | – | 10 714 | 9 895 | 9 374 | – | – | 9 374 | 10 759 | 10 744 | – | – | 10 744 |
| Purchased book debts | 2 775 | 2 775 | – | – | 2 775 | 1 727 | 1 727 | – | – | 1 727 | 2 382 | 2 382 | – | – | 2 382 |
| Other loans receivable | 49 | 49 | – | – | 49 | 39 | 39 | – | – | 39 | 45 | 45 | – | – | 45 |
| Trade and other receivables*** | 1 274 | 1 274 | – | – | 1 274 | 854 | 854 | – | – | 854 | 849 | 849 | – | – | 849 |
| Cash and cash equivalents | 1 055 | 1 055 | 1 055 | – | – | 1 539 | 1 539 | 1 539 | – | – | 919 | 919 | 919 | – | – |
| **TOTAL** | 15 768 | 15 867 | 1 055 | – | 14 812 | 14 054 | 13 533 | 1 539 | – | 11 994 | 14 954 | 14 939 | 919 | – | 14 020 |
| **LIABILITIES** | | | | | | | | | | | | | | | |
| Interest-bearing liabilities**** | 13 014 | 13 090 | – | – | 13 090 | 10 313 | 10 475 | – | – | 10 475 | 10 806 | 11 195 | – | – | 11 195 |
| Fixed rate liabilities | 426 | 428 | – | – | 428 | 242 | 244 | – | – | 244 | 266 | 279 | – | – | 279 |
| Floating rate liabilities | 12 588 | 12 662 | – | – | 12 662 | 10 071 | 10 231 | – | – | 10 231 | 10 540 | 10 916 | – | – | 10 916 |
| Trade and other payables***** | 318 | 318 | – | – | 318 | 369 | 369 | – | – | 369 | 473 | 473 | – | – | 473 |
| Other short-term borrowings | 56 | 56 | – | – | 56 | – | – | – | – | – | 76 | 76 | – | – | 76 |
| Bank overdrafts | 316 | 316 | 316 | – | – | 316 | 316 | 316 | – | – | 381 | 381 | 381 | – | – |
| **TOTAL** | 13 704 | 13 780 | 316 | – | 13 464 | 10 998 | 11 160 | 316 | – | 10 844 | 11 736 | 12 125 | 381 | – | 11 744 |
| **NET EXPOSURE** | 2 064 | 2 087 | 739 | – | 1 348 | 3 056 | 2 373 | 1 223 | – | 1 150 | 3 218 | 2 814 | 538 | – | 2 276 |

* Restated for the adoption of IFRS 17 – Insurance Contracts.
** Loans and advances net of ECL and benefits ceded on insurance contracts to the credit provider. Loans and advances relating to repossessed stock of R74 million (31 March 2019: R109 million; 30 September 2019: R58 million) are not financial assets and therefore have been excluded.
*** Prepayments and VAT receivables are not financial assets and therefore have been excluded from trade and other receivables.
**** Lease liabilities are excluded from the scope of IFRS 13 – Fair value measurement.
***** Revenue received in advance, deferred lease liabilities (prior year), VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 8 FINANCIAL RISK MANAGEMENT continued

### 8.5 LEVEL DISCLOSURE

| 31 March 2020 – Unaudited | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS | | | | |
| Loans and advances: entry-level vehicles | – | – | 20 | 20 |
| Other financial assets | – | – | 130 | 130 |
| Derivatives | – | 11 | – | 11 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | | | | |
| Derivatives | – | 475 | – | 475 |
| **TOTAL FINANCIAL ASSETS** | – | 486 | 150 | 636 |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | | | | |
| Derivatives | <1 | – | – | <1 |
| **TOTAL FINANCIAL LIABILITIES** | <1 | – | – | <1 |

| 31 March 2019 – Unaudited | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS | | | | |
| Loans and advances: entry-level vehicles | – | – | 21 | 21 |
| Other financial assets | – | – | 67 | 67 |
| Derivatives | – | 2 | – | 2 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | | | | |
| Derivatives | – | 152 | – | 152 |
| **TOTAL FINANCIAL ASSETS** | – | 154 | 88 | 242 |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS | | | | |
| Derivatives | – | 1 | – | 1 |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | | | | |
| Derivatives | – | 5 | – | 5 |
| **TOTAL FINANCIAL LIABILITIES** | – | 6 | – | 6 |

| 30 September 2019 – Audited | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
|---|---|---|---|---|
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS | | | | |
| Loans and advances: entry-level vehicles | – | – | 19 | 19 |
| Other financial assets | – | – | 99 | 99 |
| Derivatives | – | 4 | – | 4 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | | | | |
| Derivatives | – | 190 | – | 190 |
| **TOTAL FINANCIAL ASSETS** | – | 194 | 118 | 312 |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS | | | | |
| Derivatives | – | 1 | – | 1 |
| **TOTAL FINANCIAL LIABILITIES** | – | 1 | – | 1 |

Amounts less than R500 000 are reflected as "<1".

## 8.5 LEVEL DISCLOSURE continued

### VALUATION METHODS AND ASSUMPTIONS

The fair value of loans and advances for entry-level vehicles is calculated using an expected income approach (estimating and discounting future cash flows) as well as the average collateral value. These represent the significant unobservable parameters applied in the fair value model. Future cash flows are estimated using a lifetime expected loss model, which is consistent with the IFRS 9 provision methodology. The expected future cash flows are then discounted at the market related discount rate of 25% to yield a fair value of the total loans and advances for entry-level vehicles.

The valuation of other financial assets is based on estimated future cash flows, discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These represent the significant unobservable parameters applied in the fair value model. The group estimates the expected cash flows by considering all the contractual terms of the financial instrument. The discount rate applied to the expected cash flows is based on the current South African prime interest rate and is adjusted for specific risks including government risk, customer concentration risk, limited experience with the customer and small size portfolios (i.e. valuations less than R250 million).

The group enters into derivative financial instruments with respective counterparties. Interest rate swaps and cross currency swaps are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves.

### RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS

| 31 March 2020 – Unaudited | **Fair value through profit or loss Rm** | **Fair value through other comprehensive income Rm** | **Total Rm** |
|---|---|---|---|
| OPENING BALANCE | **118** | **–** | **118** |
| Total gains or losses | | | |
| In profit or loss | **1** | **–** | **1** |
| Other movements* | **31** | **–** | **31** |
| **CLOSING BALANCE OF FAIR VALUE MEASUREMENT** | **150** | **–** | **150** |

| 31 March 2019 – Unaudited | Fair value through profit or loss Rm | Fair value through other comprehensive income Rm | Total Rm |
|---|---|---|---|
| OPENING BALANCE | 72 | – | 72 |
| Total gains or losses | | | |
| In profit or loss | (10) | – | (10) |
| Other movements* | 26 | – | 26 |
| **CLOSING BALANCE OF FAIR VALUE MEASUREMENT** | 88 | – | 88 |

| 30 September 2019 – Audited | Fair value through profit or loss Rm | Fair value through other comprehensive income Rm | Total Rm |
|---|---|---|---|
| OPENING BALANCE | 72 | – | 72 |
| Total gains or losses | | | |
| In profit or loss | (39) | – | (39) |
| Other movements* | 85 | – | 85 |
| **CLOSING BALANCE OF FAIR VALUE MEASUREMENT** | 118 | – | 118 |

* *Other movements include charges on accounts less collections received and write-offs on loans for entry-level vehicles, as well as movements in other financial assets.*

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 8 FINANCIAL RISK MANAGEMENT continued

### 8.5 LEVEL DISCLOSURE continued

**SENSITIVITY ANALYSIS OF VALUATIONS USING UNOBSERVABLE INPUTS**

As part of the group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that are most impacted by this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations. A significant parameter has been deemed to be one which may result in a change in the fair value of the asset or liability of more than 10%. This is demonstrated by the following sensitivity analysis, which includes a reasonable range of possible outcomes.

**MOVEMENT IN FAIR VALUE GIVEN THE 10% CHANGE IN SIGNIFICANT ASSUMPTIONS**

| | **31 March 2020** | | 31 March 2019 | | 30 September 2019 | |
|---|---|---|---|---|---|---|
| | **10% Favourable Unaudited Rm** | **10% Unfavourable Unaudited Rm** | 10% Favourable Unaudited Rm | 10% Unfavourable Unaudited Rm | 10% Favourable Audited Rm | 10% Unfavourable Audited Rm |
| Significant unobservable input and description of assumption | | | | | | |
| Average collateral value | **1** | **(1)** | 1 | (1) | 1 | (1) |
| Discount rate: the rate used to discount projected future cash flows to present value | **1** | **(1)** | 1 | (1) | 1 | (1) |
| **TOTAL** | **2** | **(2)** | 2 | (2) | 2 | (2) |

| | **31 March 2020** | | 31 March 2019 | | 30 September 2019 | |
|---|---|---|---|---|---|---|
| | **10% Favourable Unaudited Rm** | **10% Unfavourable Unaudited Rm** | 10% Favourable Unaudited Rm | 10% Unfavourable Unaudited Rm | 10% Favourable Audited Rm | 10% Unfavourable Audited Rm |
| Significant unobservable input and description of assumption | | | | | | |
| Cash flows: change in the expected revenue | **7** | **(7)** | <1 | <(1) | 4 | (4) |
| Cash flows: change in expected costs | **1** | **(1)** | 1 | (1) | <1 | (<1) |
| Discount rate: the rate used to discount projected future cash flows to present value | **3** | **(3)** | – | – | 2 | (2) |
| **TOTAL** | **11** | **(11)** | 1 | (1) | 6 | (6) |

Amounts less than R500 000 are reflected as "<1".

# 9 BUSINESS COMBINATIONS

## SUBSIDIARY ACQUIRED

| Subsidiary | Acquirer | Principal activity | Date of acquisition | Proportion of voting equity interests acquired % | Consideration transferred Rm |
|---|---|---|---|---|---|
| Net1 Fihrst Holdings (Pty) Ltd (Fihrst) | Transaction Capital Payment Solutions (Pty) Ltd (TCPS) | Third Party Payment Provider (TPPP) | 01/12/2019 | **100** | **175** |

TCPS acquired 100% of the voting equity in Fihrst during the current period. Fihrst is a South African payments solutions company specialising in third party payments. Fihrst has the potential to unlock value through synergies with TCPS to be realised from cost efficiencies and revenue uplift from interest income, gaining access to a client base of approximately 480 clients which are new to the group. Fihrst is a well recognised brand and can be leveraged to win additional clients as well as penetrate the existing client base with TCPS product offerings.

## CONSIDERATION FOR IFRS 3 PURPOSES

| | Rm |
|---|---|
| Cash | **187** |
| **TOTAL CONSIDERATION** | **187** |

## ASSETS ACQUIRED AND LIABILITIES RECOGNISED AT THE DATE OF ACQUISITION

| | Rm |
|---|---|
| Current assets | |
| Cash and cash equivalents | **12** |
| Trade and other receivables | **5** |
| Prepayments | **1** |
| Non-current assets | |
| Property, plant and equipment | **<1** |
| Intangible assets | **<1** |
| Deferred taxation | **<1** |
| Current liabilities | |
| Trade and other payables | **(6)** |
| **NET ASSETS ACQUIRED AND LIABILITIES RECOGNISED** | **13** |

The initial accounting for the acquisition of Fihrst has been provisionally determined at the end of the reporting period. For tax purposes, the tax values of certain Fihrst assets are required to be reset based on market values of the assets at the date of the acquisition. At the date of finalisation of the interim results, the necessary market valuations and other calculations from a tax perspective had not been finalised and have therefore only been provisionally determined based on the directors' best estimate of the likely tax values.

The receivables acquired in this transaction have a fair value of R5 million. The receivables acquired compromise principally of trade receivables with a gross contractual amount of R5 million with no contractual cash flows not expected to be collected.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 9 BUSINESS COMBINATIONS continued

### GOODWILL ARISING ON ACQUISITION

| | Rm |
|---|---|
| Consideration for IFRS 3 purposes | **187** |
| Less: intangible assets identified from business combinations | **(105)** |
| Plus: deferred tax on intangible assets identified from business combinations | **26** |
| Plus: contingent liabilities raised in terms of IFRS 3 | **30** |
| Less: fair value of identifiable net assets recognised | **(13)** |
| **GOODWILL ARISING ON ACQUISITION** | **125** |

The consideration transferred for the business combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development and the assembled workforce of Fihrst. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

### NET CASH OUTFLOW ON ACQUISITION OF SUBSIDIARY

| | Rm |
|---|---|
| Consideration paid in cash | **187** |
| Less: cash and cash equivalents balance acquired | **(12)** |
| **NET CASH OUTFLOW** | **175** |

### IMPACT OF ACQUISITION ON THE RESULTS OF THE GROUP

Included in profit attributable to ordinary shareholders of the group for the period ended 31 March 2020 is R6 million attributable to Fihrst. Revenue for the same period includes R21 million in respect of Fihrst.

Had the business combination been effected at 1 October 2019, revenue for the group would have been R2 767 million, and the profit for the period attributable to ordinary equity holders of the group would have been R300 million. The directors consider these pro forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Amounts less than R500 000 are reflected as "<1".

## 10 SEGMENT REPORT

The group is organised on the basis of products and services and the segments have been identified on this basis as reported to the chief executive officer (considered the chief operating decision maker). The principal business units in the group are as follows:

### SA TAXI

- A vertically integrated taxi platform incorporating a unique blend of vehicle procurement, retail, repossession and refurbishment capabilities with asset-backed developmental finance and insurance competencies for focused vehicle types.
- Revenue is mainly derived from interest earned on financing of vehicles and non-interest revenue streams, including revenue from the sale of vehicles, telematics services and insurance products.

### TRANSACTION CAPITAL RISK SERVICES

- Transaction Capital Risk Services acts both as an agent on an outsourced contingency or fee-for-service (FFS) basis, and as a principal in acquiring and then collecting on credit-impaired loan portfolios.
- Revenue from credit-impaired loans comprises payments received from debtors including amounts in respect of interest and cost recoveries.
- To support the broader working capital life cycle of SMEs Transaction Capital Risk Services also provides payment solutions, payroll-related services and financing solutions.
- Value-added services generate a stable source of subscription income, whilst providing access to greater market depth.

Transaction Capital Business Solutions (TCBS), Principa Decisions (Principa) and Company Unique Finance (CUF) were classified as discontinued operations during the current period. Refer to note 5 for further detail on discontinued operations.

### GROUP EXECUTIVE OFFICE

- The group executive office provides an efficient capital management and treasury function for entities within the group, in addition to administrative and management services.
- Revenue comprises mainly of interest income and management fees from subsidiaries, the majority of which is eliminated on group consolidation.

The composition of reportable segments changed in the current period. TC Global Finance and TC Property Mezz Partners, previously reported as part of Transaction Capital Risk Services, are now reported as part of the Group Executive Office (GEO) segment. Comparative data has been restated accordingly.

Specialised credit, and the related allocation of capital, is considered to be a key long-term strategic initiative of the group. As TC Global Finance and TC Property Mezz Partners continue to gain traction in their markets, the decision has therefore been taken to further nurture these businesses within GEO, where capital deployment remains a vital initiative.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 10 SEGMENT REPORT continued

| | SA Taxi | | | Transaction Capital Risk Services | | | Group executive office**** | | | Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Unaudited Rm | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated** Rm | 30 September 2019 Unaudited Restated** Rm | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated*** Rm | 30 September 2019 Unaudited Restated** Rm | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated*** Rm | 30 September 2019 Unaudited Restated** Rm |
| CONDENSED INCOME STATEMENT FOR THE PERIOD ENDED | | | | | | | | | | | | |
| Net interest income | **677** | 553 | 1 217 | **(69)** | (44) | (97) | **39** | 35 | 75 | **647** | 544 | 1 195 |
| Impairment of loans and advances | **(338)** | (206) | (322) | **–** | – | – | **–** | – | – | **(338)** | (206) | (322) |
| Non-interest revenue | **321** | 309 | 584 | **1 108** | 933 | 2 018 | **–** | – | – | **1 429** | 1 242 | 2 602 |
| Operating costs | **(412)** | (485) | (896) | **(894)** | (712) | (1 512) | **(18)** | (12) | (17) | **(1 324)** | (1 209) | (2 425) |
| Non-operating profit | **–** | – | – | **–** | 8 | 7 | **–** | – | – | **–** | 8 | 7 |
| Equity accounted income/(loss) | **–** | – | – | **5** | – | 3 | **(1)** | – | 1 | **4** | – | 4 |
| **PROFIT BEFORE TAX** | **248** | 171 | 583 | **150** | 185 | 419 | **20** | 23 | 59 | **418** | 379 | 1 061 |
| **PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | **189** | 107 | 419 | **110** | 139 | 312 | **14** | 15 | 42 | **313** | 261 | 773 |
| DISCONTINUED OPERATIONS | | | | | | | | | | | | |
| (Loss)/profit for the period from discontinued operations | **–** | – | – | **(16)** | 6 | 14 | **–** | – | – | **(16)** | 6 | 14 |
| **PROFIT FOR THE PERIOD** | **189** | 107 | 419 | **94** | 145 | 326 | **14** | 15 | 42 | **297** | 267 | 787 |

* Restated for the adoption of IFRS 17 – Insurance Contracts.
** Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and a change in the composition of reportable segments per IFRS 8 – Segment Reporting.
*** Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, a change in the composition of reportable segments per IFRS 8 – Segment Reporting and IFRS 17 – Insurance Contracts.
**** Group executive office numbers are presented net of group consolidation entries.

| | SA Taxi | | | Transaction Capital Risk Services | | | Group executive office*** | | | Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Unaudited Rm | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated** Rm | 30 September 2019 Unaudited Restated** Rm | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated** Rm | 30 September 2019 Unaudited Restated** Rm | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Unaudited Restated Rm |
| CONDENSED STATEMENT OF FINANCIAL POSITION | | | | | | | | | | | | |
| ASSETS | | | | | | | | | | | | |
| Cash and cash equivalents | **760** | 844 | 693 | **99** | 106 | 194 | **196** | 589 | 32 | **1 055** | 1 539 | 919 |
| Trade and other receivables | **1 365** | 748 | 965 | **346** | 400 | 317 | **5** | 1 | 5 | **1 716** | 1 149 | 1 287 |
| Inventories | **973** | 611 | 831 | **2** | – | 1 | **–** | – | – | **975** | 611 | 832 |
| Loans and advances | **10 816** | 9 791 | 10 412 | **–** | 523 | 579 | **–** | – | – | **10 816** | 10 314 | 10 991 |
| Purchased book debts | **–** | – | – | **2 775** | 1 727 | 2 382 | **–** | – | – | **2 775** | 1 727 | 2 382 |
| Equity accounted investments | **–** | – | – | **86** | – | 71 | **174** | 19 | 21 | **260** | 19 | 92 |
| Other assets | **1 043** | 907 | 885 | **2 169** | 1 082 | 1 035 | **38** | 40 | 40 | **3 250** | 2 029 | 1 960 |
| **TOTAL ASSETS** | **14 957** | 12 901 | 13 786 | **5 477** | 3 838 | 4 579 | **413** | 649 | 98 | **20 847** | 17 388 | 18 463 |
| LIABILITIES | | | | | | | | | | | | |
| Bank overdrafts | **175** | 150 | 99 | **141** | 166 | 282 | **–** | – | – | **316** | 316 | 381 |
| Trade and other payables | **196** | 318 | 275 | **219** | 181 | 396 | **22** | 23 | 38 | **437** | 522 | 709 |
| Insurance contract liabilities | **441** | 690 | 537 | **–** | – | – | **–** | – | – | **441** | 690 | 537 |
| Interest-bearing liabilities | **11 220** | 9 145 | 9 929 | **2 839** | 1 568 | 1 801 | **(629)** | (400) | (924) | **13 430** | 10 313 | 10 806 |
| Senior debt | **10 293** | 8 593 | 9 249 | **2 057** | 1 165 | 1 038 | **–** | – | – | **12 350** | 9 758 | 10 287 |
| Subordinated debt | **664** | 552 | 517 | **–** | – | – | **–** | – | – | **664** | 552 | 517 |
| Lease liabilities | **156** | – | – | **260** | 3 | 2 | **–** | – | – | **416** | 3 | 2 |
| Group loans | **107** | – | 163 | **522** | 400 | 761 | **(629)** | (400) | (924) | **–** | – | – |
| Other liabilities | **187** | 63 | 192 | **498** | 375 | 361 | **1** | 3 | 5 | **686** | 441 | 558 |
| **TOTAL LIABILITIES** | **12 219** | 10 366 | 11 032 | **3 697** | 2 290 | 2 840 | **(606)** | (374) | (881) | **15 310** | 12 282 | 12 991 |
| **TOTAL EQUITY** | **2 738** | 2 535 | 2 754 | **1 780** | 1 548 | 1 739 | **1 019** | 1 023 | 979 | **5 537** | 5 106 | 5 472 |

* Restated for the adoption of IFRS 17 – Insurance Contracts.
** Restated for a change in the composition of reportable segments per IFRS 8 – Segment Reporting.
*** Group executive office numbers are presented net of group consolidation entries.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the half year ended 31 March 2020*

## 10 SEGMENT REPORT continued

### GEOGRAPHICAL INFORMATION

The group operated in three principal geographical areas: South Africa, Australia and Europe. The group's total revenue and non-current assets by location are detailed below:

| | Total revenue | | | Non-current assets | | |
|---|---|---|---|---|---|---|
| | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Restated* Rm | 30 September 2019 Unaudited Restated* Rm | **31 March 2020 Unaudited Rm** | 31 March 2019 Unaudited Rm | 30 September 2019 Unaudited Rm |
| South Africa | **2 463** | 2 113 | 4 384 | **15 167** | 13 480 | 14 556 |
| Australia | **294** | 243 | 571 | **812** | 549 | 730 |
| Europe | **–** | – | – | **174** | 19 | 21 |
| **TOTAL** | **2 757** | 2 356 | 4 955 | **16 153** | 14 048 | 15 307 |

* *Restatement for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

## 11 SUBSEQUENT EVENTS

### COVID-19

The group's operations will continue to be affected by the recent and ongoing outbreak of COVID-19, which was declared a pandemic by the World Health Organization in March 2020. South Africa, like many countries around the world, put significant governmental measures in place to control the spread of the virus, which included a national lockdown commencing on 27 March 2020.

The group's balance sheet is well capitalised and liquid at a holding company level, underpinned by our conservative capital strategy. Along with the additional measures implemented to preserve liquidity in response to COVID-19, we have ample liquidity and financial flexibility to support the divisions as the pandemic runs its course and recessionary conditions intensify.

Our capital strategy remains appropriately conservative in the current conditions, with undeployed capital of approximately R800 million (2019: R1 billion) at 31 March 2020. Of this, we have invested R500 million in TCRS to mitigate any short-term operational cashflow disruption from COVID-19. The remaining R300 million, previously allocated to the accelerated acquisition of NPL Portfolios in South Africa, Australia and selected international markets, is immediately available to support both divisions.

At 31 March 2020, the balance sheet at holding company level was ungeared. An undrawn R400 million facility is available to alleviate any short-term cashflow pressures across the group.

In an attempt to minimise the economic impact of the national restrictions imposed on the minibus taxi industry, SA Taxi has provided its clients with loan instalment repayment and insurance premium relief for April 2020, with insurance cover confirmed during this period.

TCRS has also been impacted by COVID-19. March 2020 month-end contingency collection revenues were lower than expectations. Collections of NPL portfolios acquired as a principal performed in line with expectation in March 2020, but were negatively affected during April as TCRS enacted its "work from home" recovery procedures. Future collections over the short term are projected to be lower.

In this unprecedented context of emerging risk to our economy, sectors and businesses, it is difficult to assess the full impact of COVID-19 on Transaction Capital at this time. In understanding, planning for and adapting to the effect of the pandemic, the directors will continue to monitor the progression of the disease and government's response to it, the impact on consumers and on the group's market sectors, and the rate of economic recovery.

### DISPOSAL OF SUBSIDIARIES

On 17 April 2020 Principa was sold to Apex Partners for R40 million.

Transaction Capital

230 JAN SMUTS AVENUE, DUNKELD WEST, JOHANNESBURG, 2196
PO BOX 41888, CRAIGHALL, 2024, REPUBLIC OF SOUTH AFRICA
TEL: +27 (0) 11 049 6700 • FAX: +27 (0) 11 049 6899

www.transactioncapital.co.za