Transaction Capital Limited
(Incorporated in the Republic of South Africa)
Registration number: 2002/031730/06
JSE share code: TCP
ISIN: ZAE000167391
Tax reference number: 9466/298/15/6
("Transaction Capital" or "group" or "company")

ANCILLARY STATEMENT TO TRANSACTION CAPITAL'S TRADING STATEMENT PUBLISHED EARLIER TODAY, 18 NOVEMBER 2015

EARLY ADOPTION OF IFRS 9 FINANCIAL INSTRUMENTS (REPLACEMENT OF IAS 39)

Note that the effect of the adoption of IFRS 9: *Financial Instruments – classification and measurement* ("IFRS 9") has already been incorporated in the guidance provided on the expected earnings per share and headline earnings per share for the year ended 30 September 2015 in the Transaction Capital trading statement released on the Stock Exchange News Service of the JSE Limited ("SENS") earlier today.

The information presents the effects of the adoption of IFRS 9 to the opening retained income balance and guidance on certain key performance indicators for the year ended 30 September 2015.

BACKGROUND

The International Accounting Standards Board ("IASB") issued IFRS 9 in July 2014, replacing IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 is effective for years beginning 1 January 2018 with early adoption permitted. Transaction Capital, together with all of its subsidiaries has decided to early adopt IFRS 9 in the 2015 financial year.

The measurement of financial assets under IFRS 9 closely reflects the business model in which they are managed and their cash flow characteristics. Embedded within this framework is a forward-looking expected credit loss model that will result in earlier recognition of expected credit losses. The financial crisis of 2007-2008 highlighted the importance of recognising impairment losses on a timely basis and emphasised the need for an expected loss impairment model that is aligned to the realities of managing financial asset portfolios. The adoption of an expected loss impairment model is inherently more conservative as it results in higher provisions, earlier suspension of interest and therefore healthier provision coverage over the loan portfolio.

KEY DIFFERENCES BETWEEN IAS 39 AND IFRS 9 THAT IMPACT TRANSACTION CAPITAL

Classification

Classification determines how financial assets are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The classification of financial assets under IFRS 9 is dependent on the group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding'. Based on the above, financial assets are classified as being measured at either: amortised cost, fair value through profit or loss or fair value through other comprehensive income. This replaces the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

The most significant change in classification resulting from the implementation of IFRS 9 for the group is that Entry-level vehicle loans (Chinese manufactured vehicle loans in the SA Taxi portfolio) are now classified at fair value through profit or loss rather than being classified at amortised cost. This asset category is managed on a fair value basis rather than collecting contractual cash flows. This is different from the other financial assets in the group including premium vehicle loans which are held to collect contractual cash flows (thus classified at amortised cost) and not to realise value through sale.

Measurement

Financial assets at amortised cost are carried net of impairment provisions. IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model.

The expected loss impairment model under IFRS 9 is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

Furthermore, when credit losses were measured in accordance with IAS 39, considerations of losses were limited to those that arose from past events and current conditions. The effects of possible future credit loss events were not considered, even when they were expected.

The requirements in IFRS 9 broaden the information that the group is required to consider when determining its expectations of credit losses. Specifically, IFRS 9 requires the group to base its measurement of expected credit losses on reasonable and supportable information that is available, and that includes historical, current and forecast information.

The amount of expected credit losses that are recognised would depend on the change in credit quality since initial recognition to reflect the link between expected credit losses and the pricing of the financial asset. For those assets that are considered to be specifically impaired, interest income is recognised on the net carrying amount of financial assets after deducting impairment provisions. Discounting of cash flows is performed at the original effective interest rate of the financial asset.

Fair value goes one step further and requires discounting of expected cash flows using market related rates. It does not require consideration of the credit quality. Financial assets measured at fair value are recognised after incorporating all risks including credit risk and accordingly no provision is required for these assets (it is effectively already net of such provisions). Discount rates and cash flows thus incorporate margins for risk not considered under the expected loss model (thereby reducing the value of the financial asset).

RATIONALE FOR THE EARLY ADOPTION OF IFRS 9

The early adoption of IFRS 9 results in the following benefits for the group:

- Accounting policies are more closely aligned to the group's operational and risk management policies and strategic intentions;
- Increased provisions result in lower balance sheet risk, an approach favoured by management, especially in challenging economic conditions; and
- Removes future uncertainty relating to the implementation of IFRS 9 on financial results, ratios and the availability of capital to support the implementation of the standard.

In addition to the general benefits explained above, there are two specific benefits of early adoption for SA Taxi and MBD:

- SA Taxi: The compulsory reclassification of Entry-level vehicle loans to fair value under IFRS 9 requires the business to consider all forward-looking information and risks in the measurement of the asset class at market related discount rates rather than applying information arising from past events as required by IAS 39. This forward-looking methodology results in lower fair values for this category of assets under IFRS 9 than the net carrying value (after provisions) as calculated according to IAS 39 and it allows management to accelerate its strategy of operating an exclusive Premium vehicle business.
- MBD: The application of IFRS 9 results in a better alignment of the amortisation profile of purchased book debts with the expected collections profile.

IMPACT OF EARLY ADOPTION OF IFRS 9

- The adoption of IFRS 9 has no impact on the commercial and credit risk of the group's asset portfolios as there is no change in the expected cash flows from these assets as a result of the change in the provision methodology. It is purely a more conservative accounting methodology which takes into account of forward-looking estimates;
- Excess capital held since the sale of two of its subsidiaries, Bayport Financial Services and Paycorp Holdings in the 2014 financial year, resulted in the group being well positioned to absorb the one-off equity adjustment emanating from the adoption of IFRS 9, ending the 2014 financial year with a capital adequacy ratio of 46% (49.5% under IAS 39);
- The impact of IFRS 9 is reflected through an adjustment to opening retained income in 2015 whilst the 2014 results are presented under IAS 39;
- Entry-level financial assets are now measured at fair value through the income statement, better reflecting management's strategy to discontinue this line of business. This reclassification impact is shown in note 1 of the table that follows "*Financial effect of IFRS 9 on opening retained income*";

- The provision on gross loans and advances excluding Entry-level vehicles has increased in line with the expected loss model. This measurement impact is shown in note one of the table that follows "*Financial effect of IFRS 9 on opening retained income*"; and
- There is minimal impact of the adoption of IFRS 9 on Principa and Rand Trust.

FINANCIAL EFFECT OF IFRS 9 ON OPENING RETAINED INCOME

The initial adoption of IFRS 9 results in a one-off adjustment to the opening retained income balance for the financial year ended 30 September 2015. This is required in order to account for the cumulative effect of IFRS 9 treatment in prior years. The following table reflects the reconciliation of the opening retained income balance pre and post IFRS 9 adoption.

	R million	**Note**
Retained earnings opening balance under IAS 39	2 384	
Decrease in gross loans and advances	(648)	1
De-recognition of written off book	(32)	2
Increase in provision	(166)	1
Decrease in trade and other receivables	(3)	
Decrease in purchased book debts	(81)	3
Deferred tax impact on the above	258	4
Retained earnings opening balance under IFRS 9	1 712	

Notes

1) The movements in gross loans and advances and the impairment provision are further analysed as follows:

	Opening balance IAS 39	IFRS 9 initial application	Revised opening balance IFRS 9
	R million	**R million**	**R million**
Net loans and advances	6 386	(846)	5 540
Reclassification impact			
Net loans and advances – Entry-level vehicles	656	(462)	194
Gross loans and advances – Entry-level vehicles	807	(613)	194
Impairment provision – Entry-level vehicles	(151)	151	-
Measurement impact			
Net loans and advances - excluding Entry-level vehicles	5 698	(352)	5 346
Gross loans and advances - excluding Entry-level vehicles	5 930	(35)	5 895
Impairment provision - excluding Entry-level vehicles	(232)	(317)	(549)
Carrying value of written off book	32	(32)	-

The decrease in gross loans and advances excluding Entry-level vehicles results from interest being suspended in line with IFRS 9.

2) The full balance of the written off book has been de-recognised in line with the expected credit loss model requirements of IFRS 9.

3) The decrease in the purchased book debts is a result of the change to an expected loss model, resulting in shorter amortisation profiles for purchased book debts.

4) Total tax impact of the initial application adjustments.

The following table provides guidance on certain key performance indicators for the year ended 30 September 2015 within ranges which are derived from the ranges set out in the trading statement issued on 18 November 2015:

		2015 IFRS 9	**2014 IAS 39**
Consolidated income statement			
Headline earnings	**R million**	389 - 406	330
Performance indicators			
Provision coverage	**%**	8.0 - 8.5	5.7
Non-performing loan ratio	**%**	16.5 - 17.5	25.7
Non-performing loan coverage	**%**	43.5 - 53.5	22.1
Non-performing loans	**R million**	1 088 - 1 188	1 731
Capital adequacy ratio	**%**	41.0 - 46.0	49.5
Credit loss ratio	**%**	3.3 - 4.0	5.2

CONCLUSION

Management believes that the early adoption of IFRS 9 is an important milestone in the evolution of the group. The key impact of the adoption is to ensure that financial asset portfolios within the group are more conservatively provided for while the core business operations continue to perform strongly and in line with expectations. The divisions are well positioned for growth off a stable platform of a conservatively provided and capitalised balance sheet.

Further information on the early adoption, including pro forma 2014 financial effects, will be provided when Transaction Capital's results for the year ended 30 September 2015 are released on SENS on Tuesday, 24 November 2015.

The financial information contained in this announcement is the responsibility of the directors of the Company and has not been reviewed or reported on by the Company's external auditors.

Sandton
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