Transaction Capital Limited
(Incorporated in the Republic of South Africa)
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("Transaction Capital" or "the company" or "group")

ANNUAL GENERAL MEETING STATEMENT BY THE GROUP CHIEF EXECUTIVE OFFICER

INTRODUCTION

At the core of Transaction Capital's 2015 three year strategy is the reconstitution of its portfolio of assets into two autonomous and decentralised divisions of scale, being the asset-backed lending and risk services divisions. The combination of the reconstituted divisions, together with their leading and defensive market positioning has enabled robust organic earnings growth for Transaction Capital during the first four months of the 2016 financial year despite South Africa's challenging macro-and socio-economic context.

While both the asset-backed lending and the risk services divisions perform better in a positive economic environment, they are also highly defensive businesses intentionally positioned to withstand difficult economic conditions. Thus, notwithstanding the challenging economic and regulatory environment, it is gratifying that Transaction Capital has made continued progress towards its strategic, operational and financial objectives in the first four months of the 2016 financial year.

DIVISIONAL REVIEW

Each of the divisions is performing in line with expectations regarding growth rates, with the following being the most notable developments.

Asset-backed lending

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

The national minibus taxi fleet of approximately 200 000 privately owned vehicles is responsible for 69% of all South African household commuter trips. SA Taxi estimates that only 70 000 to 80 000 of these taxi vehicles are subject to finance. As at 31 December 2015, SA Taxi's R6.6 billion loans and advances portfolio comprises 25 646 vehicles, and thus accounts for one in every three of the financed national minibus taxi fleet. This under-capitalized and ageing fleet, intensified by the under-supply of premium minibus taxi vehicles in our local market, continues to create a robust demand for the vehicles, finance, short-term comprehensive insurance and related services provided by SA Taxi. In addition, despite the depressed consumer economy, commuters' use of minibus taxis has remained consistently high due to transport spend being non-discretionary and minibus taxis comprising the dominant component of public transport.

The division continues to entrench its dominant market position encompassing the entire value chain within the minibus taxi industry. This is achieved by augmenting its distinctive competencies well beyond credit assessment, collections and capital mobilisation and management. Distinctive competencies now also include vehicle and spare part procurement, direct vehicle sales, vehicle refurbishment, short-term comprehensive insurance and telematics. In line with SA Taxi's strategic objective to achieve deep vertical integration within its market segment, it has established a new panel beating facility to augment its existing mechanical refurbishment capabilities. This panel beating facility commenced operations at the beginning of February 2016 and is designed to repair approximately 200 vehicles per month.

In addition, SA Taxi continues to leverage its distinctive competencies to create defensible positions within identified adjacent market segments, financing asset classes such as "bakkies" and, more recently, point-to-point metered taxis.

Growth in gross loans and advances has stabilized in the low to mid- teens on an annualised basis as credit granting criteria remain consistently conservative. In addition, the supply of new Toyota minibus taxis remained constrained after Toyota closed its local assembly facility for five months during the prior year to enable a full plant rebuild. Supply had not yet fully recovered by the start of the 2016 financial year, but has subsequently normalised. Further, as the recently launched Nissan minibus taxi is still relatively new to the industry, SA Taxi is cautiously tracking the Nissan vehicles' credit performance before growing the portfolio aggressively.

SA Taxi's exposure to Entry-Level vehicles has significantly reduced resulting in improving credit quality for the portfolio. Entry-Level vehicles are now carried at fair value and account for less than 2% of the value of SA Taxi's loan portfolio. Recovery rates have improved slightly to 72%, owing to the nature of the loan which is secured by an asset of value which can be enhanced through the Taximart refurbishment operation. The efficiency of the procurement, repair and resale operations of Taximart, now one of the largest Toyota repair centres in Africa, assists in maintaining low levels of ultimate credit loss.

The non-performing loan ratio continues to improve due to a combination of continued strong collection performance and conservative credit granting criteria, which are continuously enhanced via the analytics applied to SA Taxi's telematics data. This data is accumulated daily from each minibus taxi and applied to credit score cards, route profitability assessments, collection strategies and insurance pricing.

SA Taxi continues to uplift, diversify and enhance its non-interest revenue via the procurement and direct sales of new and refurbished vehicles and its short-term comprehensive vehicle insurance product, where almost 80% of the financed portfolio is insured directly through SA Taxi.

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

Transaction Capital Risk services (TCRS)

The TCRS division (comprising MBD, Principa and Rand Trust) is a provider of a comprehensive range of structured credit risk management, debtor management, data management, collection, customer engagement, call centre and capital solutions to South Africa's largest credit providers, focusing predominantly on the consumer credit life cycle as well as commercial solutions for SMEs.

The depressed consumer economy provides substantial opportunity for TCRS to take advantage of its strong market position and reputation as its client base displays increased demand for structured and complex credit risk management and capital solutions to better manage credit and operational risks, reduce costs, simplify processes, raise capital and improve working capital cash flow. TCRS has thus made solid progress in the first four months of the 2016 financial year.

This strong performance has been driven by high volume of matters handed over and robust agency collections. The outsourced collection of outstanding claims in the insurance and telecommunication sector has been identified as an adjacent market segment where competencies could be applied for growth. In addition, the provision of business process outsourcing (BPO) services to TCRS's traditional clients whereby all or parts of the collection process is outsourced, has been identified as an opportunity to achieve deep vertical integration within our chosen market segments and clients.

TCRS aims to apply its excess capital to pioneer innovative and bespoke capital solutions to deliver superior risk adjusted returns. In this regard, TCRS has initiated exclusive negotiations for the structured and on-going sales of portfolios with various of its larger clients. MBD currently owns 157 principal book portfolios, with 3 new distressed debt portfolios purchased during the first quarter of the 2016 financial year for R25 million.

TCRS continues to make cautious progress in the municipal sector, as most municipalities are in financial distress.

Rand Trust and Principa, however, face headwinds as a result of the weak economy, and management remains focused on generating new business and reducing the cost base in these businesses. The TCRS cost-to-income ratio improved as management continues to target cost control as part of its strategy.

FUNDING, CAPITAL ADEQUACY AND EXCESS CAPITAL

Transaction Capital's equity and debt capital position is robust. Capital adequacy levels at 31 December 2015 remain high at 42% and the group is well positioned to take advantage of and fund organic and acquisitive growth opportunities.

The local funding market is characterised by constrained liquidity and issuers paying a premium for access to a reduced funding pool. Although local investors have been more cautious in their approach, Transaction Capital has enjoyed uninterrupted access to both local and international funding pools. The expected increase in the cost of borrowings, exacerbated by the cost of foreign exchange swap pricing on foreign currency denominated debt, is offset in part by a limited pass through to customers on new business originated by the asset-backed lending division.

Transaction Capital continues to search for and identify acquisition targets that meet its stringent investment criteria. However, against the backdrop of a low growth South African economy with many challenges and the attractive risk adjusted returns being achieved organically from Transaction Capital's established businesses with highly defensible market positions, management remains particularly circumspect and cautious in its acquisitive search. Furthermore, management has a conservative approach in selecting assets for acquisition and favour a narrow focus on assets whose competitiveness and value can be enhanced by active management within our existing divisions.

OUTLOOK

Transaction Capital is focused on deploying its capital and resources to drive organic and acquisitive growth, thus enhancing the scale and entrenching the leading market positions of its divisions.

Shareholders are advised that the financial information on which this trading update is based has not been reviewed and reported on by the group's external auditors. Transaction Capital's financial results for the six months to 31 March 2016 are expected to be released on the Stock Exchange News Service of the JSE Limited on Tuesday 10 May 2016.

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