Issue no. 20 CAPITAL

iDEAS

January 2019

WWW.TRANSACTIONCAPITAL.CO.ZA

Transaction Capital

CONTENTS

FOREWORD

THE FOCUSSED APPLICATION OF THE GROUP'S STRATEGY OVER THE 2018 FINANCIAL YEAR HAS ENSURED THAT OUR PORTFOLIO CONTINUES TO LEVERAGE ITS DEEP VERTICAL INTEGRATION AND SPECIALISM TO ACHIEVE ORGANIC GROWTH.

Our evolving competencies in data and analytics continue to drive profitable growth by improving our risk management capabilities, supporting management decisioning and control, and providing the insights needed to develop and refine our product offerings to defined customer segments.

Underpinned by a maturing understanding of their social relevance, the divisions continue to innovate in their respective markets, achieving deep vertical integration hence the ability to identify and develop opportunities that expand their total addressable markets to create greater value for all stakeholders.

A material event for SA Taxi was the transformational ownership Transaction with SANTACO.

18 *Details are included in the Q&A with Terry Kier.*

For many decades, South Africa's minibus taxi industry has been a core pillar of the South African economy and is responsible for getting millions of South Africans to their destinations every day. However, due to the historical and political realities that shaped the formation of the sector, the industry has often lacked meaningful partnership opportunities with other industry participants or financial institutions.

It is an entirely black-owned industry, comprised solely of SMEs, which has developed without financial support into the most critical component of the South African integrated public transport system.

At the core of our business model is a commitment to engage deeply in the industries in which we operate, by driving broader participation in industry value chains and investing in initiatives that drive sustainability. As a national body that represents the interests of its members who are individual minibus taxi operators, SANTACO's acquisition of a 25% stake in SA Taxi for R1.7 billion on 19 November 2018 is truly historic and transformational.

The equity transaction is built on a foundation of mutual respect and cooperation between SANTACO and SA Taxi over many years. With a shared vision to enhance the sustainability of the minibus taxi industry, the transaction represents an understanding that by working together, we can achieve more.

In light of the challenging operating environment SA Taxi performed well in the vehicle financing business, demand for new and quality pre-owned vehicles remains strong, especially given the resilience and growth of the minibus taxi industry as the dominant mode of public transport.

SA Taxi's insurance business is the main driver of non-interest revenue and it continues to expand its product offering. The division continues to manage insurance risk effectively, with claims ratios remaining robust.

18 *Details are included in the Q&A with Terry Kier.*

SA Taxi established its own parts procurement and distribution, and vehicle salvage operation in March 2018, called Taxi Auto Parts or TAP. Through TAP, SA Taxi is able to import and locally procure quality parts directly at a lower cost, and distribute these to SA Taxi's own refurbishment centre as well as its network of preferred external autobody repairers. TAP also enables SA Taxi to optimise the salvage value of vehicles repossessed.

SA Taxi's operational, credit and financial performance remains robust with 21% growth in profits to R368 million for the year.

TCRS continues to deliver on growth in acquiring of non-performing loans as a principal.

30 *Details are included in the Q&A with David McAlpin.*

The challenging operating environment is also a feature for TCRS. Key to TCRS' performance in this environment is its diversified business model, which reduces concentration risk. TCRS is diversified by business activity across collection, transactional and value-added services. Within its most significant business activity, collection services, TCRS acts as both a principal in acquiring and then collecting on NPL portfolios, and as an agent on an outsourced contingency or FFS basis. Its business activities are diversified further across various consumer-related sectors, clients and geographies.

TCRS' defensive business model supports performance in different market conditions. The challenging economic climate in South Africa, and TCRS' data, scale and capital position, favour the acquisition of NPL portfolios from risk averse clients who prefer an immediate recovery against their NPLs. Activity in this sector was higher than in the 2017 financial year, with opportunities to purchase loan portfolios emanating from traditional lenders, credit retailers, municipalities and State-owned Enterprises. TCRS grew revenues in this sector organically by 22%.

The difficult consumer credit environment since 2016 has resulted in lower levels of consumer credit extension and a consequent contraction in the volumes of contingency matters handed over for collection in South Africa by banks, credit retailers and specialist lenders. Again, through its strategy to diversify geographically, deepen its penetration in its traditional market segments (banks, retailers and specialist lenders) and grow revenue from adjacent sectors (insurance, telecommunication and public sectors), TCRS has grown its contingency and FFS revenue 19% during the year.

TCRS is continually assessing opportunities for bolt-on acquisitions to enter adjacent sectors and penetrate new product types, cognisant that opportunities for growth remain notwithstanding the challenging market in South Africa.

Through precise implementation of the group's strategy, Transaction Capital will continue to achieve robust organic earnings and dividend growth over the medium term, at least in line with past periods and current performance. Our growth expectations assume that the group's excess capital is not deployed accretively, so further upside potential may become evident over the medium term.

Over the past few years, SA Taxi and TCRS have adjusted to South Africa's challenging economic conditions to become highly efficient. Although both divisions are strong performers in this low growth environment, a sustained economic recovery will support their potential to outperform current performance expectations.

I extend my thanks to the Transaction Capital team and the management and staff across SA Taxi and TCRS. The results from the 2018 financial year are testament to your efforts in implementing our strategy and staying on course in a difficult market. With challenging market conditions likely to persist throughout 2019, we will need to maintain focus and discipline to meet the expectations of our stakeholders. I am confident that Transaction Capital's people are up for the challenge.

DAVID HURWITZ

Transaction Capital

OUR GROUP STRUCTURE

WITH FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR THE FINANCIAL YEAR TO 30 SEPTEMBER 2018 (COMPARED TO FY17)

CEO: David Hurwitz, 13-year group tenure

R682 MILLION
PROFITS
▲ 18%

111.7 CPS
PROFITS
▲ 16%

50 CPS
TOTAL DIVIDEND PER SHARE
▲ 25%

16%
FOREIGN INVESTOR BASE
FY17 6%

2.2 TIMES
DIVIDEND COVER
FY17 2.4 TIMES

R10.8 BILLION
MARKET CAPITALISATION[2]

SA Taxi
driving our nation forward

CEO: Terry Kier, 11-year group tenure

R368 MILLION
PROFITS
▲ 21%

R9.4 BILLION
GROSS LOANS & ADVANCES
▲ 13%

R540 MILLION
NON-INTEREST REVENUE
▲ 26%

17.7%
NON-PERFORMING LOAN RATIO
FY17 17.1%

25.9%
RETURN ON EQUITY
FY17 25.3%

3.3%
CREDIT LOSS RATIO
FY17 3.2%

Transaction Capital Risk Services

CEO: Dave McAlpin, 10-year group tenure

R273 MILLION
PROFITS
▲ 17%

R1.4 BILLION
PURCHASED BOOK DEBTS
▲ 54%

76.8%
COST-TO-INCOME RATIO[3]
FY17 77.3%

R662 MILLION
PRICE OF PURCHASE BOOK DEBTS ACQUIRED
▲ 86%

R1.8 BILLION
NON-INTEREST REVENUE
▲ 24%

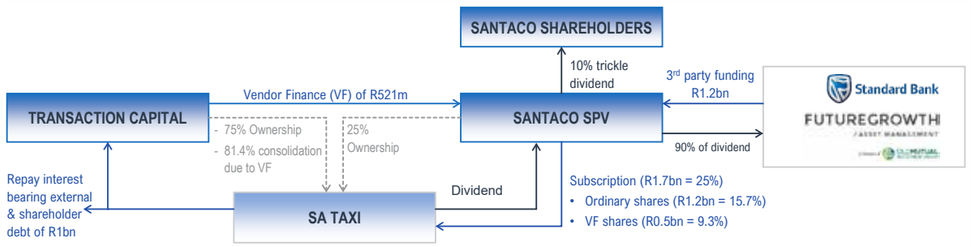
R3.0 BILLION
ESTIMATED REMAINING COLLECTIONS[4]
▲ 60%

Financial ratios and results exclude once-off acquisition costs of R22 million incurred during the FY17 year.
1. Profits attributable to the group. | 2. Market capitalisation as at 30 September 2018. | 3. Excludes the effect of acquisitions. | 4. 120 months.

GROUP STRATEGIC HIGHLIGHTS

SANTACO ACQUIRES 25% STAKE IN SA TAXI FOR R1.7 BILLION

CREATING A MORE SUSTAINABLE MINIBUS TAXI INDUSTRY



DELIVERS POSITIVE SOCIAL IMPACT WHILST ENHANCING COMMERCIAL RETURNS

BENEFITS FOR SANTACO & ITS MEMBERS

Ownership
- Held by SANTACO & a trust representing its broad based provincial structures, ensuring benefits accrue to all levels
- Participation in the value chain achieving sustainable benefits

Dividends
- 90% of dividends applied to debt
- 10% trickle dividend for infrastructure & developmental projects
- Project committee to assess projects
- Strict governance framework to ensure value flows to SANTACO & its members
- Partnerships with local government sought to leverage investment in projects for greater socio-economic impact

EFFECTS FOR TC GROUP: EARNINGS ACCRETIVE

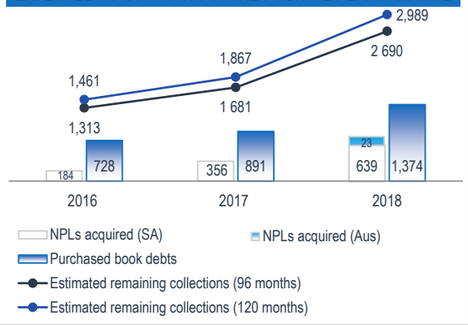
SA Taxi
- Alignment with minibus taxi industry, yielding operational benefits
- Well capitalised balance sheet
  - Settle **R1bn** of debt, yielding interest saving, future growth funded via cheaper senior debt
  - ▲ NAV to **~R3bn** (from **~R1.6bn**)
  - **~ 20%** ROE
- Potential B-BBEE benefits & equity empowerment

Transaction Capital (TC)
- Ungeared & well capitalised balance sheet, R1bn excess cash
- Now consolidating **81.4%** of SA Taxi's earnings (due to vendor finance)
- TC **NAV per share ▲105 cps** after transaction (**FY18: 677.5cps**)
- Expected to be accretive to TC's earnings in the medium-term

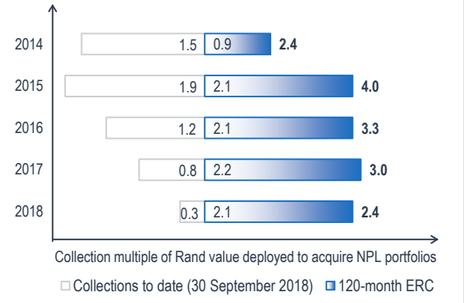
DELIVERING ON GROWTH

Acquisition of non-performing loans as a principal

GROWTH TRAJECTORY
EXPECTED TO SUPPORT FUTURE POSITIVE PERFORMANCE



COLLECTION MULTIPLE VINTAGE PERFORMANCE
AS AT 30 SEPTEMBER 2018



- Current South African economic context favours acquisition of NPL portfolios
- **37** portfolios acquired for **R662m** with a face value of **R13.6bn** (FY17: **29** portfolios for **R356m** with a face value of **R5.2bn)**
- **239** portfolios (including **11** Australian portfolios) owned in total with a face value of **R22.4bn**
- Purchased book debts ▲ **54%** to **R1 374m** (FY17: **R891m**)
- 2018 collection multiple of **2.4 times** (> internal target of **~2.2 times**)
- Estimated remaining collections (**ERC**) ▲ **60%** to **R3.0bn** (120 months)
- Longevity in the yield of principal portfolios on book, expected to support future positive performance
- Revenue from principal collections ▲ **22%**

DELIVERING ON GROWTH CONTINUED

Details about Capital Management are included in the Q&A with Mark Herskovits alongside.

ACCELERATED BOOKBUILD IN MARCH 2018

Evolution beyond foundation phase

- Expanded base of local and specifically international investors
- International shareholding increased to 16% (from 6%)
- Everglen remains the largest shareholder at 29% (from 41%)

Enhanced liquidity and daily trade

- free float increased to 68%
- At 30 September 2018
  - Average daily number of shares traded increased 105% to 468 558 (FY17: 228 804)
  - Average daily value traded increased 142% to USD595 601 (FY17: USD245 767)

DEBT CAPITAL MARKETS

Robust access to the debt capital markets

- SA Taxi raised R4.0 billion in 2018
- SA Taxi fully funded for >12 months
- R1.0 billion Transsec 3 total issuance (initial &tap);
  - >2.6 times oversubscribed
  - >80 basis points cheaper than Transsec 2 total issuance
- 20% international debt and 80% local debt
- USD100 million deal approved with African Development Bank

Credit ratings:

- Transsec 3 senior notes: rated Aaa.za(sf) by Moodys
- Transaction Capital's R2 billion note programme: rated $A_{-(ZA)}$ by GCR

STRATEGIC POSITIONING OF OPERATING DIVISIONS

Six years since listing

- Profits per share compound annual growth rate (CAGR) of 20%
- Total shareholder return FY13 to FY18 (CAGR) of 40%

Delivering robust organic growth

- Highly defensive businesses
- Vertically integrated, diversified, efficient, scalable financial services platforms
- Led by entrepreneurial and innovative management teams
- Leveraging proprietary data and technology to develop new products and expand into new markets
- Delivering both commercial returns and social benefits

UNGEARED AND LIQUID BALANCE SHEET

- Balance sheet remains well capitalised
- Liquid excess capital ~R650 million at 30 September 2018
- Liquid excess capital ~R1 billion post SA Taxi's equity transaction
- Capital adequacy ratio of 30.9%
- Capacity and flexibility to continue investing in organic and acquisitive opportunities
- Dividends growing faster than earnings, CAGR of 33% since FY14
- Total dividend per share increased 25% to 50cps
- Total dividend cover of 2.2 times (FY17: 2.4 times)
- Early adoption of IFRS 9 in 2015 (prior to 2018 deadline)

Q & A WITH MARK HERSKOVITS
EXECUTIVE DIRECTOR: CAPITAL MANAGEMENT

Q: FROM A CAPITAL MANAGEMENT PERSPECTIVE, WHAT ARE THE KEY COMPONENTS OF THE TRANSFORMATIONAL EQUITY DEAL BETWEEN SANTACO AND SA TAXI?

Firstly, the strategic importance of this deal cannot be overstated. It provides SANTACO and its members, who are key stakeholders in the minibus taxi industry, with access to a substantial part of the industry value chain in SA Taxi's business. The 10% trickle dividend income flow into infrastructure and development projects will enhance the sustainability of the industry and stands to improve the experience of commuters. From a commercial perspective, we expect significant financial benefits as a direct result of the transaction, along with operational benefits from an enhanced relationship with SANTACO.

The capital management team's focus for the transaction was raising capital to fund SANTACO's investment. Approaching two of our largest debt funders, Standard Bank of South Africa and Futuregrowth Asset Management, was a natural fit as they understand our business and our ability to manage risk in providing developmental credit in a unique industry. Also, the transformational nature of the equity deal and its importance at a national level made it an attractive proposition for these long-standing funding partners.

Of the R1.7 billion paid for the 25% stake in SA Taxi, Standard Bank and Futuregrowth are co-funding R1.2 billion as the senior funders. SA Taxi is facilitating the transaction by providing subordinated vendor finance of R521 million, which reduces risk for the senior funders. It is important to note that the transaction is based on a full value for SA Taxi, with no discount applied to the shares.

The beneficiary structure will ensure that ownership and associated economic benefits of the investment cascade down to provincial levels as the beneficiaries comprise the broad-based provincial taxi councils.

For Transaction Capital and SA Taxi, it was crucial that SANTACO received independent advice during the negotiations. Accordingly, ENSafrica acted as advisors to SANTACO over the course of the transaction.

The transaction has been structured to account for the unique characteristics of the industry to achieve broad-based benefits, and its scale and potential impact are unmatched. I believe that the deal has challenged conceptual boundaries on transformation in South Africa, and represents the kind of initiative that is required to achieve sustainable shared value in our economy.

Q: WHAT HIGHLIGHTS HAVE THERE BEEN FOR SA TAXI IN CAPITAL MANAGEMENT?

We issued two tranches of Moody's credit rated and JSE-listed debt through the Transsec 3 securitisation programme over the year, with an initial R505 million in November 2017 and a R505 million tap issuance in June 2018. We continue to see strong demand and pricing for SA Taxi debt issuances, with the total Transsec 3 issuance oversubscribed by 2.6 times and more than 80 basis points cheaper than Transsec 2's total issuance.

Also, after the financial year end, we received board approval for USD100 million in debt funding through the African Development Bank in October 2018. The deal is comparable to the funding received last year from the development finance institutions (DFIs) in the United States, in that it shows confidence in our investment proposition. It also recognises SA Taxi's ability to manage the risk of developmental credit in a specialised industry, while delivering measurable social impact. The African Development Bank specifically noted that the loan facility is aligned to its High 5 priorities, which include "Improving the Quality of Life for the People of Africa through improved safety and roadworthiness for commuters", as well as being aligned to its "Private Sector Development Strategy, SME support agenda and the Green Growth Initiative".

Source: African Development Bank Group press release, 22 October 2018, available on https://www.afdb.org/

SA Taxi's funding requirements for the 2019 financial year are secured, with a diversified funding base of 44 distinct debt investors.

Q: ARE TCRS' CAPITAL FUNDING REQUIREMENTS CHANGING?

The funding dynamics for TCRS are different, and traditionally TCRS has not been as capital intensive as SA Taxi. This dynamic will remain going forward; however, with the trend of greater volumes of NPLs being acquired as principal, TCRS will have slightly higher capital requirements than in the past. As a result, the capital management team is working with the division on a revised capital management strategy. As capital was previously raised separately in each of the main balance sheet businesses within TCRS, the new strategy includes changes to the legal and commercial structure by raising capital for the division collectively.

We anticipate that this will achieve better efficiency and cost of capital for TCRS. It will also present an enhanced proposition for investors.

Q: WHAT PROGRESS IS BEING MADE IN THE CAPITAL MANAGEMENT STRATEGY ACROSS THE GROUP?

We continue to focus on investing equity capital, conservatively leveraged with local and international debt, into accurately assessed asset classes to achieve superior risk-adjusted returns. In addition, Transaction Capital is conservatively geared with debt capital accessed through diversified funding structures that are attractive to a broad range of local and international investors who have an in-depth understanding of the underlying businesses and their asset classes.

Due to the dynamics at play in the South African economy, we are seeing lower levels of borrowing by businesses and higher risk aversion to debt being issued, especially by state-owned enterprises who are traditionally the biggest borrowers in the local market. This is resulting in a shortage of quality paper for investors. However, it is good news for companies like Transaction Capital who continue to grow and manage credit risk effectively, as it drives demand for our debt both locally and internationally.

With strong liquidity and approximately R1 billion excess capital on its balance sheet post the SANTACO equity transaction, the group is shifting its focus to optimising capital management from a cost and capital structure perspective. A more disciplined approach to funding, along with demand for our paper, means that we are in a position to be more discerning in the capital we access. As a result, we can manage capital requirements to strike the optimal balance between the right type of funding at the right terms for the right asset classes, according to the unique needs of each division.

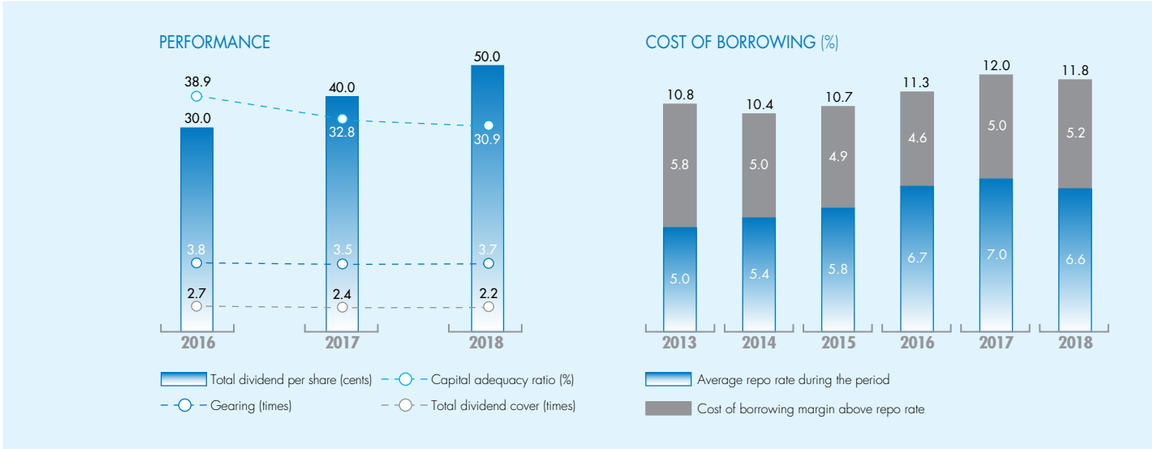
Diversification across debt investors, funding structures and geography remains important. For instance, while the African Development Bank loan has a relatively higher cost of capital (predominantly due to the swap costs and longer duration of the debt), it provides the security of a large quantum of funding over an eight-year period, which is unavailable in the local market. With this type of funding in place, we are in a position to be more selective in accessing other funding.

On the other hand, the Transsec 3 issuance has continued the trend of raising cheaper funding for SA Taxi, which enhances our strategy to lower the cost of capital. However, capital management across the group requires that we balance the quantum and tenor of debt capital that we raise with the optimisation of capital structures according to the specific needs of each business.

The demand dynamics in the market and the group's strong performance have enabled this philosophical shift to optimal capital usage for Transaction Capital. Lowering the cost of capital through enhanced capital management stands to improve the group's margins and benefit its clients through more competitive rates. However, considering the time required to arrange large funding transactions and the tenor of these loans, the capital management team will follow a phased approach over time as we become stricter on our selection.

Despite ongoing pressure in the South African economy, Transaction Capital raised approximately R4.9 billion in 2018 from 45 separate funding transactions and added 10 new investors. Group average cost of borrowing improved to 11.8% (2017: 12.0%), with the margin above the repo rate at 5.2%. The foreign debt component remained stable at 20%, which is fully hedged to the Rand.

Our capital adequacy position remains robust at 30.9%, comprised of 22.9% equity and 8.0% subordinated debt.



Q: HAVE THE CHALLENGING ECONOMIC CONDITIONS IMPACTED THE GROUP'S CREDIT RATINGS?

Our ratings performance remains strong and unchanged from last year; the Transsec 3 senior notes are rated Aaa.za(sf) by Moody's and Transaction Capital's R2 billion note programme is rated A-(za) by Global Credit Ratings Co. (GCR). Subsequent to year end, several ratings of Transsec 1 and 2 were upgraded by S&P Global and Transaction Capital was placed on positive ratings watch by GCR as a result of the announcement of the equity transaction with SANTACO.

Q: WHAT IS THE KEY FACTOR UNDERPINNING THE CAPITAL MANAGEMENT TEAM'S ABILITY TO MAINTAIN ROBUST ACCESS TO CAPITAL MARKETS?

It has been another successful year for capital management and the group. Besides the capital markets dynamics mentioned earlier, where a shortage of quality paper is supporting demand for debt issued by Transaction Capital, the group's ability to sustain performance in a challenging environment is key.

Also, our ability to manage the risks that come with providing developmental credit while delivering real and measurable social impact is critical in attracting funding from DFIs.

As mentioned above, we are now in a privileged position to be more discerning in the debt we access. This is based on the strength of our investment proposition and should allow us to reduce the cost of capital over time.

SA TAXI

A VERTICALLY INTEGRATED MINIBUS TAXI PLATFORM UTILISING SPECIALIST CAPABILITIES, ENRICHED PROPRIETARY DATA AND TECHNOLOGY TO PROVIDE DEVELOPMENTAL FINANCE, INSURANCE AND OTHER SERVICES TO EMPOWER SMEs AND CREATE SHARED-VALUE OPPORTUNITIES, THUS ENABLING THE SUSTAINABILITY OF THE MINIBUS TAXI INDUSTRY.

SOCIAL RELEVANCE

SA Taxi operates on the premise of inclusive growth, utilising developmental or empowerment financing to fill a critical funding gap to support entrepreneurs who would otherwise remain outside the formal economy, thus also contributing to job creation.

SME EMPOWERMENT AND ECONOMIC TRANSFORMATION

- **100%** black-owned SMEs.
- **23%** women-owned SMEs.
- **23%** under the age of 35 years.
- **R3.3 billion** loans originated, creating **7 734 SMEs** in 2018.
- **R21.9 billion** loans originated, creating **72 423 SMEs** since 2008.

SUSTAINABLE JOB CREATION

- **~1.8** direct jobs per minibus taxi.
- **>130 000** direct jobs created by SA Taxi's fleet since 2008.
- **~600 000** indirect jobs enabled by the minibus taxi industry.
- **>13 000** direct jobs created by SA Taxi's fleet in 2018.

DEVELOPING PUBLIC TRANSPORT INFRASTRUCTURE

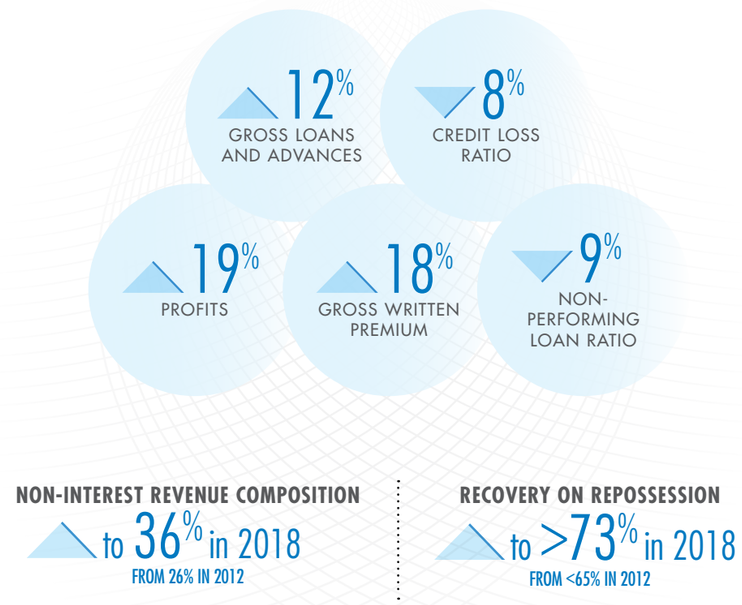
- **7 734** reliable new and pre-owned minibus taxis on the road in 2018.
- Supporting the commuter experience by replacing older minibus taxis with **safer, newer and more reliable** minibus taxis.

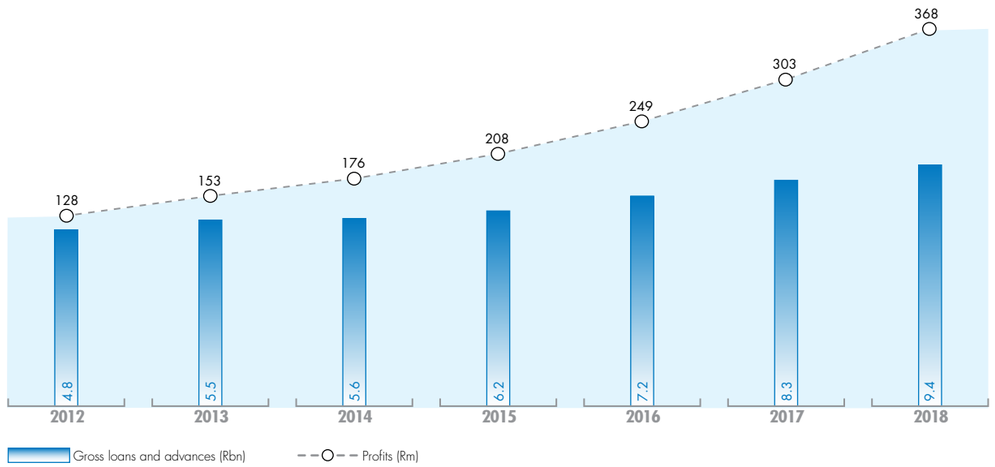
ENVIRONMENTAL SUSTAINABILITY

- SA Taxi enables replacement of aged and less efficient vehicles with **new and reduced-emission vehicles**.
- **9.8%** abatement in carbon emissions.

PERFORMANCE SINCE LISTING

Compound Annual Growth Rate (CAGR) 2012 to 2018





SA TAXI MARKET CONTEXT

Despite South Africa's economic climate, the minibus taxi industry is resilient, defensive and growing

STRUCTURAL ELEMENTS WITHIN THE PUBLIC TRANSPORT SECTOR SUPPORT SA TAXI'S DEFENSIVE BUSINESS MODEL

40% OF SOUTH AFRICANS USE PUBLIC TRANSPORT – with minibus taxis as the dominant form of public transport

BUS

<1 MILLION
COMMUTER TRIPS DAILY

>19 000 registered buses
>100 bus stations
~1 billion kms travelled per year

BUS RAPID TRANSPORT (BRT)

>120 000
COMMUTER TRIPS DAILY

3 metropolitan areas
<700 registered buses
~150 bus stations
<100 routes

Receives 56% of government subsidy

TRAIN

<800 000
COMMUTER TRIPS DAILY
▼22%

~3 100 kms national network
~500 train stations

Receives 44% of government subsidy

MINIBUS TAXIS

>15 MILLION
COMMUTER TRIPS DAILY

>250 000 minibus taxis
>2 600 taxi ranks
~19 billion kms travelled per year

Receives 0% of government subsidy yet the industry remains commercially self-sustainable

MINIBUS TAXI USAGE –

growing at a higher rate than other public transport modes

Minibus taxi usage
INCREASED >25%
since 2013

69% OF ALL HOUSEHOLDS
(being ~9.9 million households) **use minibus taxis** (from 59% in 2003), which also service 76% of all work and educational public transport trips

DRIVEN BY:

- **Population growth** ▲**9%** since 2013
- **Increasing commuter density** due to urbanisation
- **New passenger vehicles sales** ▼**19%** since 2013

As minibus taxis are an essential service, spend on minibus taxi transport is non-discretionary

>250 000
MINIBUS TAXIS
operating nationally

STRUCTURAL ELEMENTS SUPPORTING THE RESILIENCE OF THE MINIBUS TAXI INDUSTRY

Dominant and growing mode of public transport

New passenger vehicle sales ▼**19%** (2013 to 2018)

Commercially self-sustainable

Integrated component of public transport network

Demand for minibus taxi vehicles **exceeds supply**

- Ageing national fleet requiring replacement and recapitalisation
- Driving higher demand for vehicles that are reliable and efficient

THIS IS DRIVING HIGHER DEMAND FOR VEHICLES, FINANCE AND ALLIED SERVICES SUPPLIED BY SA TAXI, RESULTING IN:

Improved credit performance as SA Taxi is selective on credit risk, due to limited supply

Improved recoveries as asset retains value due to demand exceeding supply

Liquid market for high-quality and affordable SA Taxi pre-owned vehicles

SA TAXI MARKET CONTEXT CONTINUED

ENVIRONMENT FOR MINIBUS TAXI OPERATORS –
minibus taxi operators remain resilient in an adverse economic environment

CHALLENGING ENVIRONMENT

VEHICLE PRICES

- to 15% — VAT RATE (2017: 14%)
- R433 300 — TOYOTA SESFIKILE (DIESEL) PRICE ▲ 20% SINCE 2015
- ~R1 900 — IMPACT ON MONTHLY INSTALMENT

INTEREST RATES

- to 6.62% — AVERAGE SOUTH AFRICAN REPO RATE (2017: 6.95%)
- 23.6% — AVERAGE INTEREST RATE AT ORIGINATION SINCE 2015 ▼ 0.2%
- ~R52 — IMPACT ON MONTHLY INSTALMENT

FUEL PRICES

- 12% — PETROL R14.61 PER LITRE
- 16% — DIESEL R12.98 PER LITRE

INDUSTRY RESPONSE
- Fare increases in July 2018
- Better asset utilisation and productivity
- ▲ operator income at origination

SA TAXI'S RESPONSE
- Lower risk loan origination strategy
- Better route selection

EASTERN CAPE
~130 routes selected
AVERAGE FARE INCREASE ▲ 14%

GAUTENG, INCLUDING SOWETO
~240 routes selected
AVERAGE FARE INCREASE ▲ 15%

KWAZULU-NATAL
~250 routes selected
AVERAGE FARE INCREASE ▲ 10%

MPUMALANGA
~80 routes selected
AVERAGE FARE INCREASE ▲ 9%

NORTH WEST
~65 routes selected
AVERAGE FARE INCREASE ▲ 23%

ENVIRONMENT FOR MINIBUS TAXI OPERATORS –
fuel price increases partially absorbed by commuters through fare increases in 2018

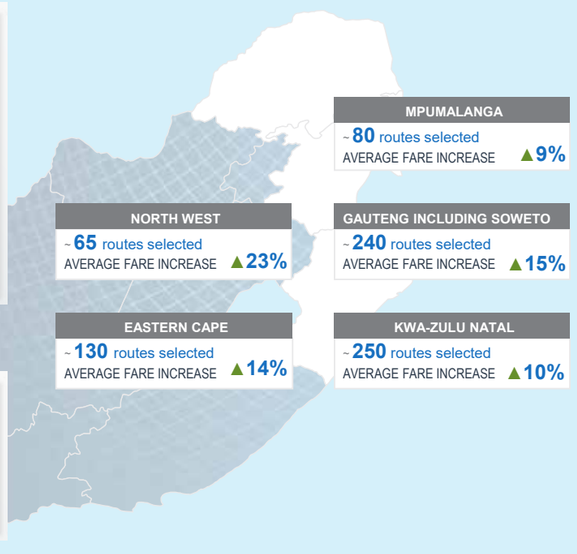
FARES DETERMINED BY EACH ASSOCIATION PER ROUTE
- The industry ensures operators remain profitable
- Demand for minibus taxi services is relatively inelastic

FARE INCREASE CONSIDERATIONS INCLUDE
- Timing & extent of prior increases
- Commuter affordability
- Operator profitability
- Other modes of transport for a particular route

FUEL PRICE INCREASES PARTIALLY ABSORBED BY COMMUTERS THROUGH FARE INCREASES

CHALLENGING OPERATING ENVIRONMENT

Resulted in more frequent fare increases
- Fuel prices high
- Vehicle prices high
- In some regions fares were increased twice in 2018, compared to once a year historically



Source: Industry information

ENVIRONMENT FOR MINIBUS TAXI OPERATORS –
minibus taxi is the preferred mode for public transport due to competitive pricing, accessibility and reliability

SHORT DISTANCE ROUTE | SOWETO TO JOHANNESBURG: 23KM

	Minibus taxi	Train	Bus	BRT
Accessibility	On route	Station & scheduled	Scheduled stops	Scheduled stops
Affordability 2016	R12.00	R8.50	N/A	R13.30
Increase	17%	12%		2%
Affordability 2017	R14.00	R9.50	R14.80	R13.50
Increase	14%	0%	20%	11%
Affordability 2018	R16.00	R9.50	R17.80	R15.00
Reliability	1 association with ~1400 members	Every 10 to 20 minutes Stops at 7pm	A few buses operating on the route	Volume of buses < peak capacity required
Efficiency				

AVERAGE MINIBUS TAXI OPERATOR PROFITABILITY
~R20 000 PER MONTH

LONG DISTANCE ROUTE | JHB TO DURBAN: 595KM

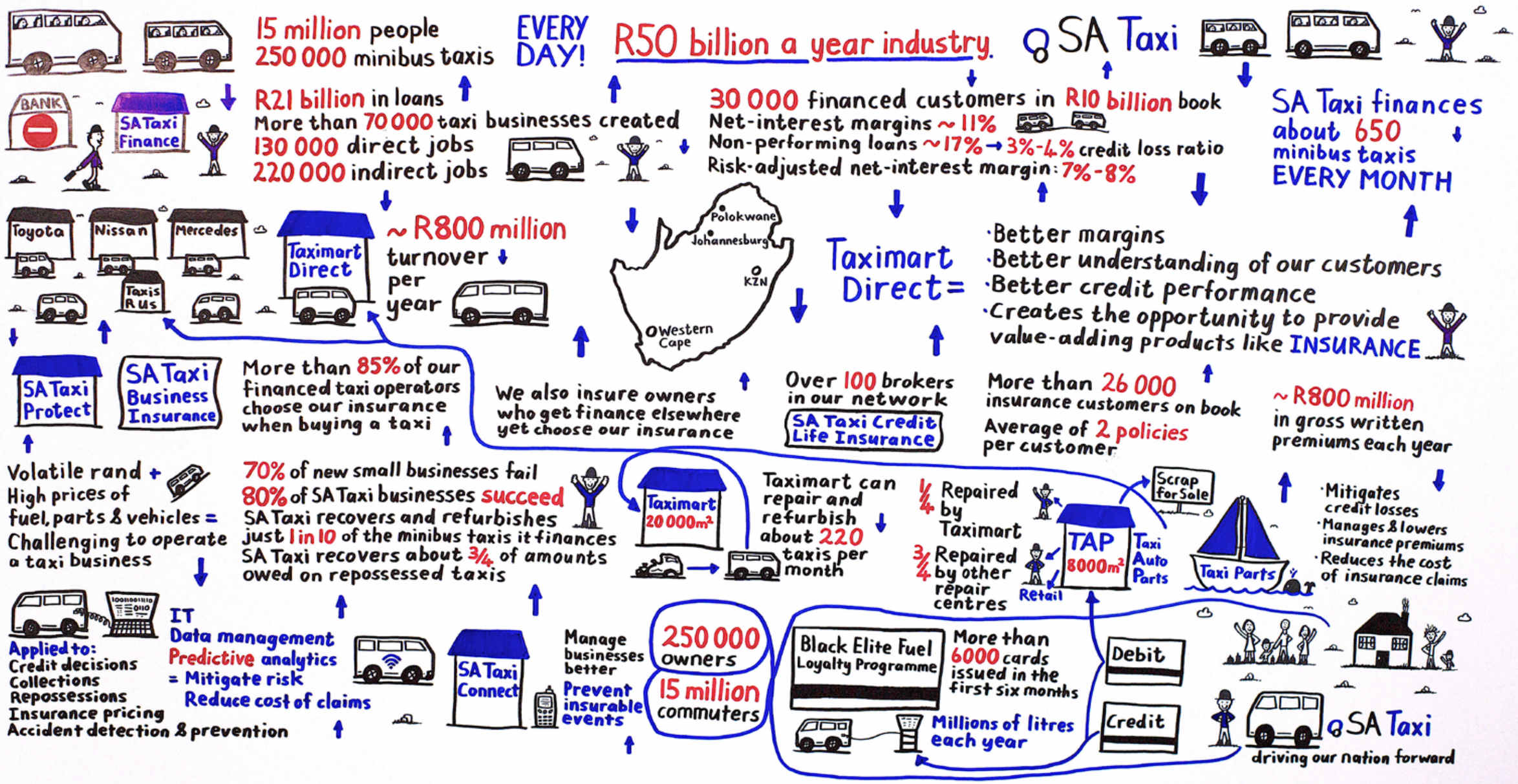
	Minibus taxi	Train	Bus - Eldo	Bus - Greyhound
Accessibility	On route	Station & scheduled	Scheduled stops	Scheduled stops
Affordability 2016	R270.00	N/A	R210.00	R310.00
Increase	7%		14%	26%
Affordability 2017	R290.00	R360.00	R240.00	R390.00
Increase	3%	8%	0%	1%
Affordability 2018	R300.00	R390.00	R240.00	R395.00
Reliability	3 associations with ~690 members	3x per week	7 departures each per day (fewer on a Saturday)	
Efficiency				

AVERAGE MINIBUS TAXI OPERATOR PROFITABILITY
~R35 000 PER MONTH

MARKET POSITIONING

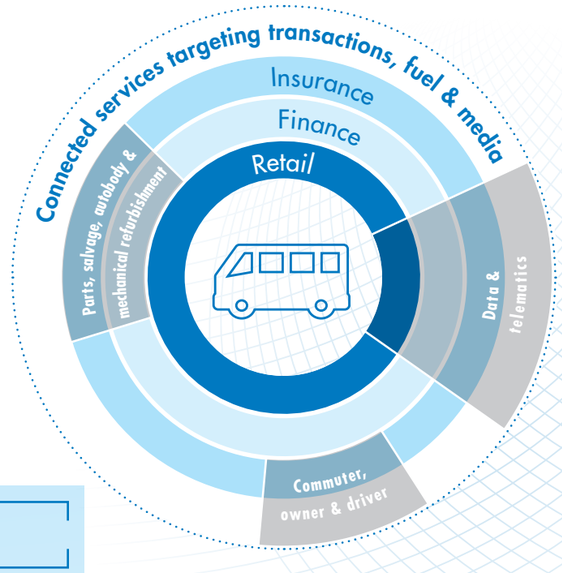
Vertically integrated business model

Watch the vertically integrated business model video on YouTube at
https://www.youtube.com/watch?v=uRJxshsM2Kk&t=2s



SA TAXI BUSINESS ACTIVITIES

A VERTICALLY INTEGRATED BUSINESS MODEL THAT PROVIDES DEVELOPMENTAL FINANCE, INSURANCE AND OTHER ALLIED SERVICES THAT ENABLE THE SUSTAINABILITY OF THE MINIBUS TAXI INDUSTRY.



RETAIL OPERATIONS

TAXIMART DEALERSHIP

SA Taxi originates its loans and allied services through three key distribution channels: affiliated dealers, non-affiliated dealers and SA Taxi's own retail channel.

SA Taxi's retail dealership achieves higher returns and provides a profitable and reliable marketplace for the sale of new and refurbished pre-owned vehicles.

~R800 million VEHICLE TURNOVER IN 2018

~150 VEHICLES SOLD PER MONTH

~8% AVERAGE RETAIL MARGIN PER VEHICLE

GROWTH INITIATIVES

- Better credit performance and insurance take-up.
- Limit unnecessary add-ons, making instalments more affordable for operators.
- Expanding the dealership network:
  - For coverage across Gauteng, Polokwane (opened in October 2018), KwaZulu-Natal and Western Cape.
  - To retail new and refurbished vehicles and spare parts.
  - To distribute parts to SA Taxi's network of preferred external autobody repairers.

CONNECTED SERVICES

A platform to communicate and transact with South Africa's minibus taxi operators, eventually extending to commuters.

Black Elite fuel loyalty programme (LAUNCHED IN APRIL 2018)

>6 300 CARDS DISTRIBUTED

~1.3 million LITRES OF FUEL PURCHASED

GROWTH INITIATIVES

- Broadening SA Taxi's total addressable market.
- Initiation to communicating and transacting with >250 000 minibus taxi operators.
- Migrating to providing financial products and services to the 15 million commuters, or 9.9 million households using minibus taxis.

FINANCING OPERATIONS

Extends developmental credit to taxi operators purchasing new or refurbished pre-owned vehicles.

13% R9.4 BILLION GROSS LOANS AND ADVANCES

7% 30 617 LOANS ON BOOK

11.0% NET INTEREST MARGIN

3.3% CREDIT LOSS RATIO

17.7% NON-PERFORMING LOAN RATIO

GROWTH INITIATIVES

- Continue to enrich SA Taxi's proprietary database.
- Continue investing in technologies that mitigate risk.

INSURANCE OPERATIONS

All financed vehicles are required to have comprehensive insurance. SA Taxi has designed its highly competitive comprehensive insurance products that are sold through its insurance cell captive established in partnership with Guardrisk Insurance Company.

23% R687 MILLION GROSS WRITTEN PREMIUM

>85% FINANCED CLIENTS ALSO INSURED BY SA TAXI

10% ~26 000 INSURANCE CLIENTS

~2.0 PRODUCTS PER CLIENT

GROWTH INITIATIVES

- Broadened client base (financed by SA Taxi and other open market clients).
- Mobilised the broker network with over 100 brokers.
- Broadened the product offering (with credit life and Road Cover).
- Reduced the cost of claim by expanding SA Taxi's combined autobody and mechanical refurbishment facility, and increasing efficiencies.

REFURBISHMENT OPERATIONS

TAXIMART AUTOBODY AND MECHANICAL REFURBISHMENT, PARTS AND SALVAGE

SA Taxi manages credit loss and the cost of insurance claims by reducing refurbishment costs and improving turnaround times and product quality. The efficiencies created through SA Taxi's own facility arise from economies of scale and its focus on specific vehicle types, allowing for specialisation, bulk procurement buying power and time saved by controlling the entire process in-house.

>20 000 m² COMBINED AUTOBODY REPAIR AND MECHANICAL REFURBISHMENT CENTRE

~220 PER MONTH INTERNAL VEHICLE REFURBISHMENT CAPACITY

TAP TAXI AUTO PARTS — LAUNCHED IN MARCH 2018

GROWTH INITIATIVES

- Deeper vertical integration through opening of TAP, a parts and salvage operation, which imports quality parts at a lower cost, optimises the salvage value of vehicles, and retails quality parts to operators.
- TAP distributes parts to SA Taxi's network of preferred external autobody repairers, thus reducing the cost of insurance claims performed by them.

REPOSSESSION AND RESALE

SA Taxi's ability to refurbish and refinance recovered vehicles enables it to participate in the liquid pre-owned market, ensuring retention of asset value.

>73% RECOVERY RATES ON REPOSSESSION, REFURBISHMENT AND RESALE

DATA AND TELEMATICS OPERATIONS

These capabilities underpin SA Taxi's operations and are key to mitigating risk. The division continues to enrich its proprietary database, with data accumulated daily from each minibus taxi and applied to credit decisions, collections, repossessions and insurance activities.

SA TAXI HAS BEEN TRACKING MINIBUS TAXIS FOR → **~11 years**

In addition, SA Taxi continues to invest in information technology, data management and predictive analytics, as well as technologies that improve processing capabilities and extract operational efficiencies.

ON AVERAGE, EACH OF SA TAXI'S VEHICLES TRAVELS → **6 400 kms** PER MONTH

SA TAXI'S VEHICLES OPERATE ON → **~6 500 ROUTES** COVERING ~800 000 kms

Q: AS DETAILED IN THE Q&A WITH DAVID HURWITZ, CEO, SA TAXI'S TRANSFORMATIONAL OWNERSHIP TRANSACTION WITH SANTACO DEMONSTRATES A COMMITMENT TO SHARED VALUE. HOW IMPORTANT IS THIS TRANSACTION FOR SA TAXI AND THE INDUSTRY?

This transaction and the resulting partnership is truly ground-breaking. It provides broad-based participation in the value chain in an entirely black-owned industry, comprised entirely of SMEs. The industry has developed without government subsidy into the most critical component of the South African integrated public transport system.

The transaction augments SA Taxi's social impact, which extends to financial inclusion, job creation, skills development and economic transformation, all of which underpin the sustainability of the industry. More broadly, by enabling taxi operators to replace old vehicles with new, safer and lower emission minibus taxis, SA Taxi assists in improving this critically important component of South Africa's integrated public transport network.

The alignment of interests required to conclude the transaction has formalised the industry ecosystem to an extent not achieved before, providing a framework for wide-reaching initiatives to grow and support the sustainability of the minibus taxi industry at all levels.

For example, SA Taxi continues to work closely with SANTACO leadership on other initiatives designed to deliver sustainable benefits to SA Taxi's clients and the industry as a whole. These include:

- A highly competitive credit life product, launched in October 2017 and developed by SA Taxi in response to a request from SANTACO.
- The Black Elite fuel loyalty programme in partnership with Shell, launched in April 2018. By providing a platform for operators to benefit from their fuel spend, which is a major operating cost in their business, it makes their business more sustainable, which enhances positive payment behaviour. In the future, similar programmes will be considered, including related rewards and benefits.
- Providing over 70 patrol vehicles, worth more than R20 million, to various regional, provincial and national taxi associations to support industry self-regulation and road safety.
- Funding and facilitating Project Refentse, launched in March 2018, to provide certificated skills training for unqualified technicians currently repairing vehicles at taxi ranks.
- Approaching various industry stakeholders, specifically government, regarding subsidies, funding, or increasing scrapping allowances to facilitate the recapitalisation of the national minibus taxi fleet.

For SA Taxi specifically, the capitalisation of its balance sheet increases its net asset value of R1.6 billion at year end to approximately R3 billion. This will reduce gearing significantly and position SA Taxi strongly for its next wave of organic growth, which will be funded predominantly by more efficiently priced senior debt. Despite the capitalisation, accretive earnings growth in the coming financial year will enable SA Taxi to generate a return on equity of about 20%.

Q: THERE IS A REAL SENSE OF EXCITEMENT ABOUT THE TRANSACTION. WHAT BROADER IMPACT DO YOU SEE IT HAVING OVER TIME?

SA Taxi seeks to deliver commercial benefit and social value. I believe that this transaction will truly support economic emancipation, and in doing so, underpin social transformation.

We must remember the historical context of the industry, which was started in response to the dislocation of people who were removed from urban areas and places of economic activity. The minibus taxi industry rose out of an urgent need to transport this disenfranchised population, giving them access to work and opportunity. Without any formal support, this industry managed to grow and succeed.

Over the past decade, we have seen greater formalisation of the industry. The transaction with SANTACO stands as a statement of support for the crucial role of the minibus taxi industry in South Africa's economy, and ensures that there is greater participation both in the revenue streams of the industry and in the broader economy.

In terms of the pressure on the industry, I believe that the transformational nature of the deal will help drive social change. Firstly, with greater economic participation, there will be a longer-term view of creating wealth, which stands to benefit all areas of the industry. For example, we are already seeing instances of associations banning older, unsafe vehicles and training drivers, so formalising and improving the service and experience offered to commuters. The transaction represents substantial support for the members of SANTACO to grow and improve their businesses.

Secondly, as mentioned by David, part of the dividend income will support relevant infrastructure and other developmental projects that will upgrade and improve the operating environment for the industry and the 15 million commuters who use this network. This is vital in an industry that needs to be acknowledged for the role it plays in our economy. Greater investment in infrastructure will also further integrate the industry into the national transport network.

And lastly, the transaction provides a catalyst for formal engagement between the industry and its stakeholders, be it vehicle manufacturers or tyre companies, government or commercial hubs. In enhancing the legitimacy and negotiating power of the industry, it can, for example, extract value from its substantial buying power, lobby for greater support from government, work with local government to improve supporting infrastructure, and sit with property developers and businesses to negotiate for dedicated services to enhance the experience of commuters around their places of work and even malls.

This presents an opportunity to develop an iconic transport network in South Africa. The industry already provides a high level of convenience for commuters, but greater formalisation of and participation in the industry value chain will drive improvements that can transform this essential component of public transport into a public service all South Africans are proud of.

Q: HOW DOES SA TAXI'S INTEGRATED BUSINESS MODEL DRIVE PERFORMANCE AND SUPPORT ITS CLIENT BASE?

The vertical integration of SA Taxi's business model is key to its ability to drive growth while benefitting its clients through competitive pricing and value-added services.

SA Taxi finances approximately 650 minibus taxis per month, with a loan book of R9.4 billion across 30 000 clients. Over the past 10 years, we have invested over R21 billion in loans that have created over 70 000 minibus taxi SMEs. Around 80% of our clients are classified as previously financially excluded, the developmental financing we provide fills a critical funding gap that supports these entrepreneurs who would otherwise remain outside the formal economy.

We finance minibus taxis through a dealership network that includes affiliated Toyota, Nissan and Mercedes dealerships, and non-affiliated specialist dealerships. SA Taxi's own retail dealership, TaxiMart Direct, offers affordable new and pre-owned taxis, and generates turnover of approximately R800 million per year. The loans we originate through SA Taxi's dealership support enhanced product margins and insurance revenue, as well as better credit performance.

SA Taxi is expanding its dealership network, with a dealership opened in Polokwane during October 2018 and additional dealerships under consideration.

Our finance and retail operations continue to perform well due to the demand for new and quality pre-owned vehicles exceeding supply. These operations also create an opportunity for SA Taxi to provide value-adding products and services. This includes vehicle telematics that track vehicle location and mileage and driver behaviour, which is used throughout our value chain to provide critical insights for enhanced decision-making, as well as provide information to operators to help them manage their businesses better. It also includes our insurance offering, and autobody and mechanical refurbishment offered through TaxiMart.

SA Taxi's insurance business is the main driver of non-interest revenue. SA Taxi Protect, established in partnership with Guardrisk, provides affordable comprehensive vehicle cover, including passenger liability insurance and business interruption cover. Over 85% of our financed client base is covered by this offering. We continue to grow the insurance offering, with strong growth in credit life. Additional products are being developed in collaboration with the industry.

We are also growing the base of open market clients who are not financed by SA Taxi. To support this growth, SA Taxi initiated its broker network strategy during 2018, with more than 100 brokers now participating.

Our bespoke insurance offering is designed and tailored for the specific needs of operators and the sector, based on our long-standing participation in the industry. We accumulate extensive data on current clients and historical data on past incidents, which is used to accurately price insurance risk.

Claims ratios improved further during the year as the proportion of insurance claims processed via SA Taxi's combined autobody and mechanical refurbishment centre continued to grow. Also, the average cost to refurbish and repair repossessed or insured vehicles reduced further, underpinned by greater efficiency achieved in SA Taxi's refurbishment centre. Enhancing the value of repossessed vehicles through refurbishment enables SA Taxi to recover more than 73% of loan value on the sale of repossessed vehicles, which supports our ability to manage insurance premiums, reduce excesses and lower shortfalls for taxi operators.

As a new component of our integrated business model, SA Taxi established its own parts, distribution and salvage operation, TAP, in March 2018. Through TAP, the business is importing quality parts at a lower cost and distributing these to SA Taxi's own refurbishment centre as well as its network of preferred external autobody repairers.

Repossessed vehicles, or those involved in accidents that are not economically viable to repair, are passed to TAP's salvage operation, which optimises the salvage value of vehicles. Certain of the working parts are checked and refurbished to be sold through TAP, with others distributed into SA Taxi's own refurbishment centre. Finally, TAP also benefits taxi operators though the retail of well-priced new and refurbished vehicle parts.

Linking back across the business model, refurbished vehicles are sold through Taximart Direct, providing operators a more affordable alternative to purchasing new vehicles.

Wi-Fi in taxis and ranks, SA Taxi's telematics systems and the Black Elite fuel loyalty programme have culminated in SA Taxi's Connected Services division. We have seen strong take-up in the Black Elite programme. As a card-based system, this further enhances the data SA Taxi already provides to subscribed operators, giving them greater control and insight into their businesses.

The growth strategy for Connected Services is to communicate and transact with South Africa's 250 000 minibus taxi operators. SA Taxi is looking to extend the use of the card into transactions, across vehicle spare parts (through TAP) and integrating payments to operators for the channelled media sold through their taxis. Again, with telematics tracking the routes of each taxi, media can be targeted for greater impact for advertisers. We are also investigating expanding the card across the taxi industry ecosystem, for instance in procuring tyres or windscreens through deals with industry stakeholders that benefit operators through reduced pricing. This also stands to benefit SA Taxi by reducing its credit risk, with lower pricing enhancing the ability of operators to service their loans.

In time, Connected Services could also serve as a gateway to provide relevant financial products and services to the 9.9 million households, or 15 million commuters, who use SA Taxi's minibus taxi infrastructure. In effect, the minibus taxi will serve as a distribution channel for these transactions, with benefits accruing to the operators and drivers by sharing in the revenue of each transaction.

SA Taxi's integrated business model ensures that we participate in margins throughout the vertical and increase cash generation by growing non-interest revenue. It also improves our client value proposition by providing an all-encompassing service, and expands our total addressable market. Vertical integration enhances our ability to effectively manage credit and insurance risk.

66

For details on SA Taxi's financial performance for the year, see the Financial director's report in the Integrated Annual Report.

For additional details on SA Taxi's integrated business model, view a YouTube video at https://www.youtube.com/watch?v=uRJxshsM2Kk

Q: WHAT IS THE ROLE OF DATA AND TELEMATICS IN SA TAXI'S BUSINESS MODEL?

Data and telematics underpin SA Taxi's operations and are key to mitigating risk. The business continues to enrich its proprietary database, with data accumulated daily from each minibus taxi and applied to credit decisions, collections, repossessions and insurance activities. In addition, we continue to invest in information technology, data management and predictive analytics specifically designed to reduce risk, prevent insurable events and reduce the cost of insurance claims, as well as technologies that improve processing capabilities and extract operational efficiencies.

SA Taxi is testing a system that will enable live vehicle diagnostics, to further improve its ability to proactively identify issues for taxi operators.

We have also rolled out DreamTech, a technology-enabled system that feeds information on accidents or insurable events into SA Taxi. This allows the repair channel to plan ahead for the necessary refurbishment, enhances the distribution of parts accordingly, and further reduces the cost of repairs. It also creates a record of the insurable event itself, supporting the claims process.

Q: SA TAXI'S STRATEGY IS DELIVERED BY ITS PEOPLE. WHAT MOTIVATES THE TEAM TO ACHIEVE ITS OBJECTIVES?

SA Taxi has an excellent and dedicated team that drives the culture of our business. We have been able to attract and retain great talent to build a team that understands the industry and thrives on its ability to drive real social change – in driving our nation forward. I think it is a hugely motivating factor to be able to go home after a day of work and know that you have helped to create and sustain small businesses.

We have also implemented the SA Taxi Way, which defines the culture of the business and sets the expected behaviours in the context of the work we perform across SA Taxi.

One of the key reasons for SA Taxi's success is the aggregation of ideas across the business. This is the driving force behind its ability to innovate, deepen its relevance in the industry and achieve excellent performance, despite the challenging economy in South Africa.

TRANSACTION CAPITAL RISK SERVICES

A **TECHNOLOGY-LED, DATA-DRIVEN** PROVIDER OF **CUSTOMER MANAGEMENT SOLUTIONS** IN SOUTH AFRICA AND AUSTRALIA THROUGH A **SCALABLE AND BESPOKE FINTECH PLATFORM,** ENABLING ITS **CLIENTS** TO **MITIGATE RISK** THROUGH THEIR CUSTOMER ENGAGEMENT LIFECYCLE.

SOCIAL RELEVANCE

Transaction Capital Risk Services' (TCRS) activities broadly contribute to the efficiency and effectiveness of the South African and Australian credit systems. This includes the acquisition of distressed book debts, which assists clients to strengthen their balance sheets by accelerating cash flow and removing NPLs, thus improving their ability to continue providing debt finance to the consumer market.

TCRS also assists clients to lend responsibly, to identify which consumers to lend to, and to then collect successfully. This supports the affordability of credit by mitigating unnecessary pricing for risk.

In collections, the primary focus is on rehabilitating indebted consumers by helping them understand the importance of repaying their debts as a legal obligation, and structuring payments in a manner they can afford. This enables indebted consumers to remain active in the credit system.

Through Transaction Capital Business Solutions, SMEs that may not otherwise have access to credit gain access to working capital finance.

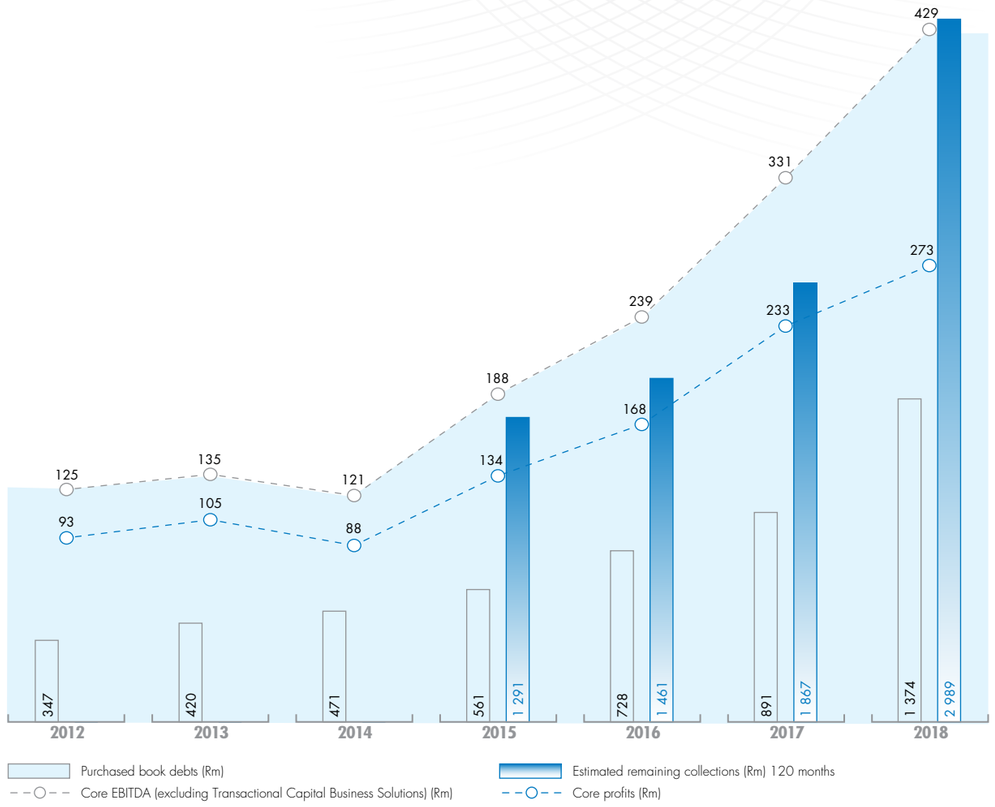
R596 million
LOANS ORIGINATED TO BLACK-OWNED SMEs IN 2018

PERFORMANCE SINCE LISTING

CAGR
2012 TO 2018

20% PROFITS

23% CORE EBITDA



TCRS MARKET CONTEXT

SOUTH AFRICA: MACRO- AND SOCIO-ECONOMIC ENVIRONMENT

A CHALLENGING CONSUMER CREDIT ENVIRONMENT

37 MILLION ADULTS

25 MILLION CREDIT-ACTIVE CONSUMERS

- **9.6 million (~40%)** NON-PERFORMING CREDIT CONSUMERS
- WAGE GROWTH < INCREASING COST OF HOUSEHOLD ESSENTIALS
- HOUSEHOLD DEBT-TO-INCOME AT 71.3% ▼ FROM 72.6% IN 2017
- MARGINALLY LOWER INTEREST RATE ENVIRONMENT AVERAGE REPO RATE AT 6.62% ▼ FROM 6.95% IN 2017
- ELEVATED LEVELS OF UNEMPLOYMENT AT 27.5% IN THIRD QUARTER OF 2018 ▼ FROM 27.7% Q3 2017
- CREDIT EXTENSION RESTRAINED
- ESCALATING COSTS OF HOUSEHOLD ESSENTIALS OVER THE MEDIUM TERM AT 4.9% ▼ FROM 5.1% IN 2017
- IMPROVED POLITICAL BACKDROP (IN THE FIRST QUARTER OF 2018) has not yielded increased credit extension, retail fundamentals or a pick-up in consumption

OUTLOOK FOR SOUTH AFRICAN CONSUMERS

CONSUMER CONFIDENCE WILL REMAIN SUBDUED unless government implements growth-boosting structural reforms

SLOW DELEVERAGE OF THE SOUTH AFRICAN CONSUMER IN THE MEDIUM TERM

EFFECT ON TCRS

Should an improving consumer credit environment materialise, TCRS is expected to further improve performance due to:

- **Higher levels of consumer credit extension.**
- **An increase in the number of matters handed over in agency mandates.**
- **Increasing yield on previously acquired NPL portfolios.**

AUSTRALIA: MACRO- AND DEBT COLLECTION ENVIRONMENT

AUSTRALIA'S CONSUMER EMPLOYED BUT HIGHLY LEVERAGED

- **5.3%** UNEMPLOYMENT (AUGUST 2018)
- **>190%** HOUSEHOLD DEBT-TO-DISPOSABLE INCOME
- **51%** MONTHLY DEBT SERVICING COSTS, EXCLUDING HOME LOANS

DEBT COLLECTION ENVIRONMENT

- Strong levels of credit extension.
- Regulatory environment and legislation more evenly balanced, with no consumer bias.
- High ability to contact and transact through voice and digital channels.
- Moral obligation to repay debt.

SOUTH AFRICA: TRANSACTION CAPITAL'S CONSUMER CREDIT REHABILITATION INDEX

Launched in June 2017

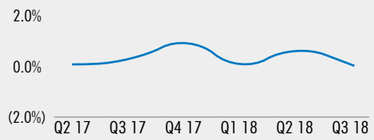
Measures % change in rehabilitation prospects
- Scores propensity to repay debt
- Empirically based with a sample of >5 million South African consumers in credit default

Credit rehabilitation is a crucial element in growing an inclusive economy
- Allows consumers to access credit and re-enter the consumer market
- Allows lenders to maintain cleaner balance sheets to continue extending affordable credit

National rehabilitation prospects for third quarter in 2018

▼ by 0.2% quarter on quarter (Q3 18 vs Q2 18)
▲ by 0.7% year on year (Q3 18 vs Q3 17)

NATIONAL REHABILITATION PROSPECT TRENDS



AUSTRALIA: DEBT COLLECTION ENVIRONMENT

557 MARKET PARTICIPANTS

ACQUISITION OF NPLs AS PRINCIPAL	**62.7%**
CREDIT CORP	16.4%
COLLECTION HOUSE	12.6%
PIONEER CREDIT LIMIT	4.8%
ACM GROUP	4.0%
CONTINGENCY COLLECTIONS	**30.5%**
ILLION (FORMERLY DUN & BRADSTREET)	3.8%
RECOVERIES CORPORATION (TCRS)	3.5%
OTHER COLLECTIONS	**6.8%**

FRAGMENTED MARKET, COMPRISING THE REMAINING

551 MARKET PARTICIPANTS

NPL PORTFOLIOS SOLD PER YEAR[4]

~AUD600 million

VERSUS ~R600 TO R700 MILLION IN SOUTH AFRICA

~AUD500 million

Credit Corp Group · CollectionHouse · pioneer credit · PANTHERA

~AUD100 million

MANY SMALLER PLAYERS IN A FRAGMENTED MARKET

REVENUE OF

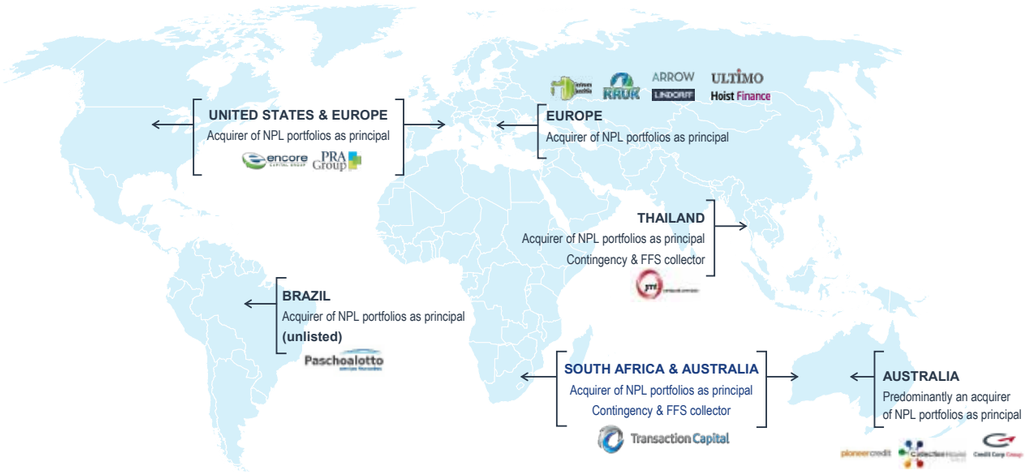
~AUD1.2 BILLION FOR 2018

Presenting an opportunity for the selective purchase of NPL portfolios as principal for Recoveries Corporation

TCRS MARKET POSITIONING
Diversified by geographies

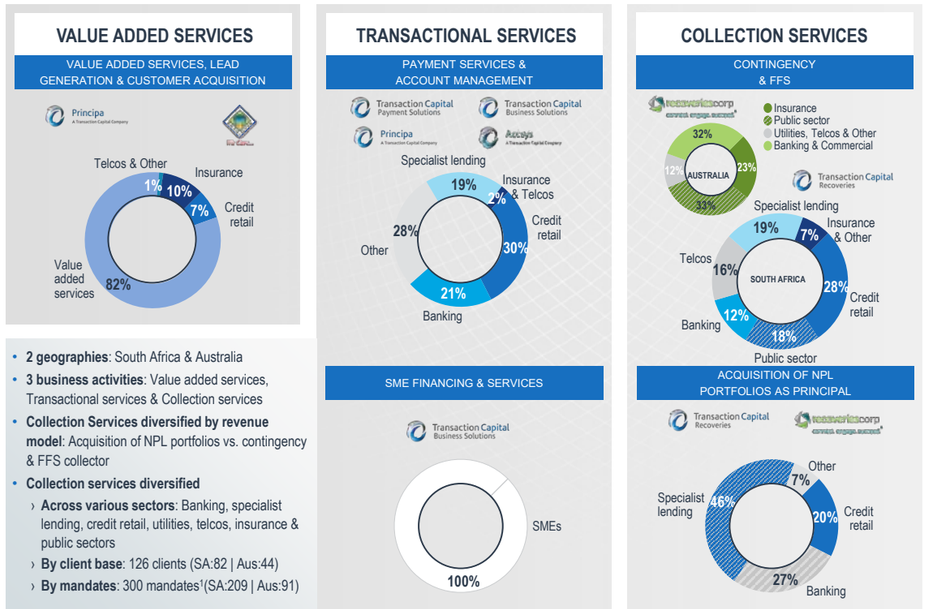
Diversification supports performance in varying market conditions

- Across 2 geographies: South Africa & Australia
- Diverse revenue model: Acquisition of NPL portfolios vs. contingency & FFS collector
- Across various consumer credit sectors: Banking, specialist lending, credit retail, utilities, telcos, insurance & public sectors



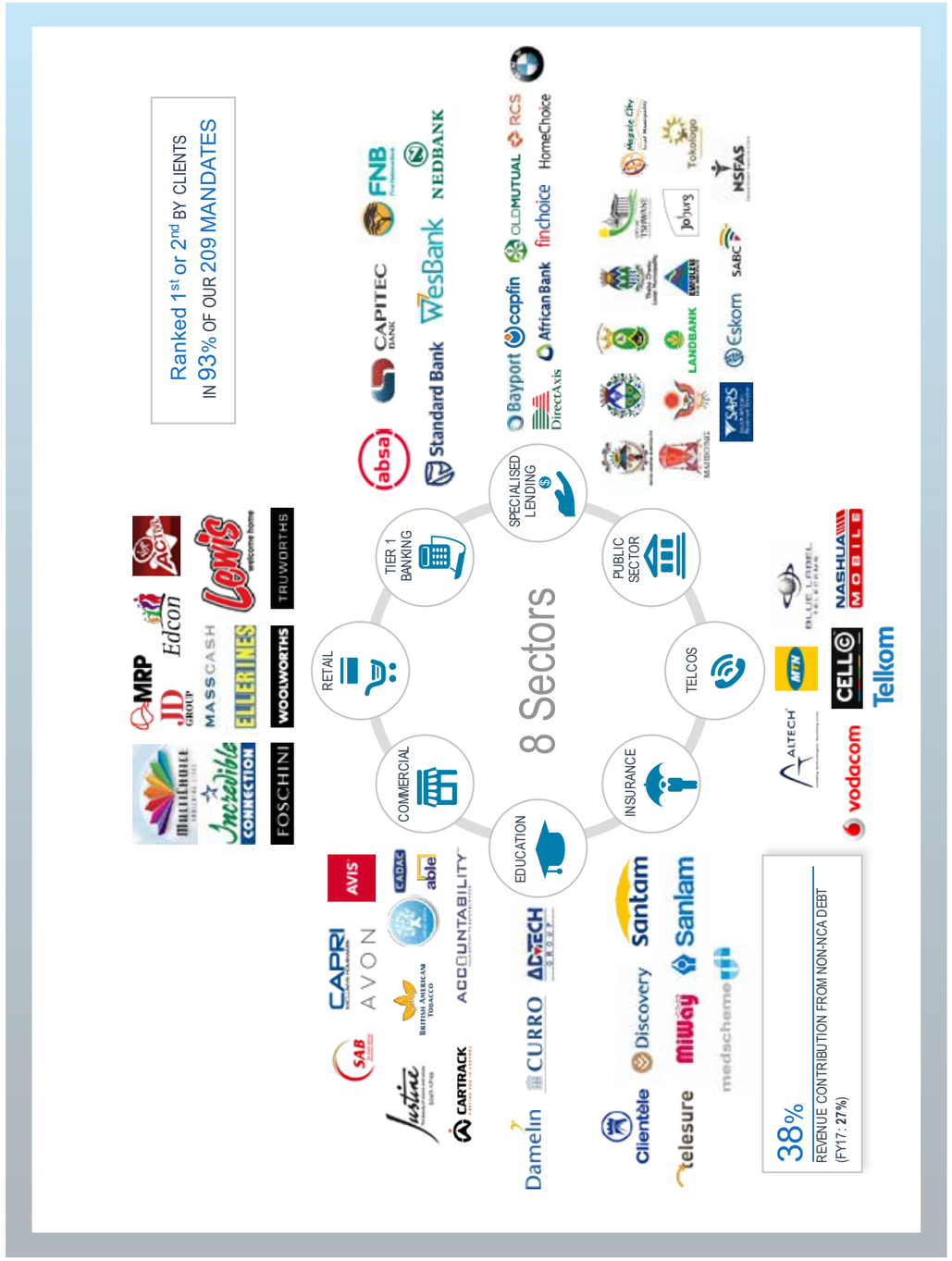
DIVERSIFIED BUSINESS MODEL
Diversified business activity

DIVERSIFICATION SUPPORTS PERFORMANCE IN VARYING MARKET CONDITIONS & REDUCES CONCENTRATION RISK



- **2 geographies**: South Africa & Australia
- **3 business activities**: Value added services, Transactional services & Collection services
- **Collection Services diversified by revenue model**: Acquisition of NPL portfolios vs. contingency & FFS collector
- **Collection services diversified**
  - **Across various sectors**: Banking, specialist lending, credit retail, utilities, telcos, insurance & public sectors
  - **By client base**: 126 clients (SA:82 | Aus:44)
  - **By mandates**: 300 mandates[1](SA:209 | Aus:91)

TCRS MARKET POSITIONING IN SOUTH AFRICA
diversified by sector, client and mandate



COMPETITIVE ADVANTAGES THROUGH TCRS' MARKET POSITIONING

REPUTATION OF PERFORMANCE

- Only local listed industry participant
- Diverse range of local and international stakeholders
- Ranked as best or second best in 93% of mandates in South Africa
- Ranked first or second by clients in 79% of banking, government and commercial mandates in Australia
- Management and business information providing customised insights that add value for clients, allowing TCRS to win more mandates

TCRS' ADVANTAGE

Better performance allows TCRS to either win more mandates or pay more for books, enhancing its ability to buy more books.

TCRS PROPRIETARY DATA

- Database of South Africa's distressed consumers
- Continuously enriched (with collection and ContactAbility results)

TCRS' ADVANTAGE

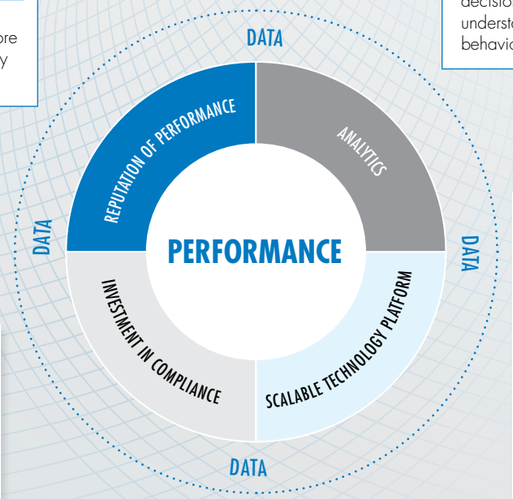
Access to large data volumes enhances TCRS' analytics capabilities, which informs every stage of the collections process, from evaluating and buying books to business optimisation.

ANALYTICS

- Predictive and layered voice analytics to determine:
  - Propensity to pay
  - Right time to call
  - Right day to pay
  - Dynamic matter prioritisation
  - Optimised campaign
  - Veracity of promise to pay

TCRS' ADVANTAGE

Large data volumes and analytics allow TCRS to enhance collection decisions through a thorough understanding of customer behaviour.



SCALABLE TECHNOLOGY PLATFORM

- Dialer enhances scale of ContactAbility
  - Enabled over any omni-channel
  - ~38 million outbound calls per month
  - ~6.1 million voice interactions per month
  - ~650 000 payments received per month
- Workforce management enables
  - Flexible work-hour scheduling
  - ▲ talk time and activations
  - ▼ staff turnover and cost of collection

TCRS' ADVANTAGE

Once collection decisions and campaigns are set, the technology platform allows TCRS to increase volume and reduce average cost per activity, resulting in better performance.

INVESTMENT IN COMPLIANCE

- Fair treatment of our clients' customers
- Compliant with legislation
- Active membership across various professional bodies
- Benchmarking against international best practice

TCRS' ADVANTAGE

Because compliance is a key requirement for clients, a reputation for applying best practice enhances TCRS' ability to win more business.

TCRS' COMPETITIVE ADVANTAGES RESULT IN A VIRTUOUS CYCLE WITH:

- Analytics informing each area of the business.
- Data supporting better collections.
- Technology enhancing efficiency and thus costs.
- Compliance underpins reputation.
- Performance driving book buying, thus increasing the amount of data to further deepen and enhance its analytics capability.

STRATEGIC GROWTH INITIATIVES TO CREATE VALUE

VALUE ADDED SERVICES

VALUE ADDED SERVICES, LEAD GENERATION & CUSTOMER ACQUISITION

- Apply data & analytics skills to Road Cover
- Commercialise TCRS' Master Data Universe (MDU)
  - Direct sales via MDU to leverage off rehabilitated principal customers

INVESTMENT INTO DATA, TECHNOLOGY & ANALYTICS

- Optimisation: Work force management, dialer, propensity to pay scorecards & right time to call
- Implementation of new technologies including artificial intelligence & digital communications
- Expansion & commercialisation of TCRS' MDU
  - >12 million ID numbers
- Expanding TCRS' technology, BI & analytics to RCGL in Australia

TRANSACTIONAL SERVICES

PAYMENT SERVICES & ACCOUNT MANAGEMENT

- Creation of a payment services platform
- Cross sell Transaction Capital Payment Solutions & Road Cover services to Accsys clients

SME FINANCING & SERVICES

- Fintech opportunities
  - Online client portal
  - Technology based originations

COLLECTION SERVICES

CONTINGENCY & FFS

SOUTH AFRICA:

- New sectors: Insurance, education & other
- Bespoke solutions (e.g. early stage collections, debt review & debt administration)
- Increased focus: Telcos & tier 1 banks
- Bolt-on acquisitions (specialist collections & niched mandates)

AUSTRALIA:

- Technology to create operational efficiencies
- Bolt-on acquisitions: Specialist collectors

ACQUISITION OF NPL PORTFOLIOS AS PRINCIPAL

SOUTH AFRICA:

- Capital Solutions with municipalities & SOEs
- Bilateral forward flow & structured transactions
- Alternative assets classes: Mortgage, VAF, debt review, pre write-off portfolios

AUSTRALIA:

- Exploring NPL acquisitions selectively
- Bolt on acquisitions: Specialist NPL acquirers

STRATEGIC GROWTH INITIATIVES TO CREATE VALUE

Niche opportunities to acquire distressed debt internationally

EUROPEAN DISTRESSED DEBT MARKET

- Many large participants (listed & asset managers)
- Access to liquid capital markets
- High levels of competition
- Priced to yield ~ 8% to 12% IRRs
- Participants outsource to or own collection platforms
- Predominantly sold on auction

TCRS TARGET MARKET

- Off-market niche investment opportunities
- Alongside the founders to leverage off their UK & European experience & network
- Partnering & co-investing with regional entrepreneurial platforms/collections
- Target asset classes: Corporate & consumer non-performing loans, distressed debt & speciality finance opportunities
- Selective & cautious approach
- Attractive risk-adjusted returns
- Leveraging of TCRS' SA low cost collection infrastructure & technology

CATALYSTS TO BUILDING A UK & EUROPEAN DISTRESSED DEBT BUSINESS WITHOUT TAKING UNDUE RISK

SOUTH AFRICA & AUSTRALIA

DIVERSIFICATION SUPPORTS PERFORMANCE IN VARYING MARKET CONDITIONS

- Across new geographies
- Additional revenue model: Acquisition of corporate distressed debt
- Revenue in hard currency: **€** in addition to **ZAR** & **A$**

Q: TCRS' BUSINESS MODEL IS DIVERSIFIED TO SUPPORT ITS PERFORMANCE IN DIFFERENT MARKET CONDITIONS. GIVEN THE CHALLENGING ENVIRONMENT IN SOUTH AFRICA, WHAT STRATEGIC CHOICES HAS THE DIVISION MADE TO ACHIEVE GROWTH?

There is no doubt that the environment has toughened quite dramatically, as evident in many of our key indicators across poor GDP growth, unemployment and high household debt-to-income. This is impacting the ability of indebted consumers to service their debts, and the consumer economy is certainly feeling the pressure. With lower levels of consumer credit extension, there is a corresponding contraction in the volumes of contingency or FFS matters handed over for collection in South Africa by banks, credit retailers and specialist lenders – who are traditionally the core of our contingency business.

We are actively deepening penetration in these traditional market segments, with diversification across clients and mandates. Our ranking in South Africa in first or second place by our clients in 93% of 209 mandates supports our performance. This is further enhanced by our ability to leverage technology to drive efficiencies that benefit our clients in better yields earned on their outstanding debts.

Having identified the environmental risks in this segment a few years ago, we moved quickly to target adjacent sectors that are not directly linked to credit extension, particularly the insurance, telecommunications and public sectors. We have made strong progress here, with these sectors now contributing 38% of TCRS' local contingency and FFS revenue, compared to 27% in the prior year.

We continue to diversify in adjacent sectors, including in education, security and other specialist sectors, and are assessing opportunities for bolt-on acquisitions to support our strategy.

While the contingency business remains a key component of the division's earnings and has performed well, with revenue growth of 19% during the year, the highlight for the year has certainly been our successes in the book-buying business – where we acquire NPL portfolios as principal.

In South Africa, the economic climate and TCRS' data, scale and capital position favour the acquisition of NPL portfolios from risk averse clients who prefer an immediate recovery against their NPLs. Activity in this sector was higher than in the 2017 financial year, with opportunities to purchase loan portfolios emanating from traditional lenders, credit retailers and municipalities.

Whereas TCRS historically focussed on acquiring portfolios of written-off unsecured retail debt, we have extended our focus to non-performing consumer portfolios in alternative asset classes such as secured loans, debt review portfolios and consumer debt prior to write-off, with the latter typically not sold on a public auction basis.

TCRS achieved 22% revenue growth from principal collections. Estimated remaining collections (based on 120 months) experienced strong growth of 60% to R3.0 billion, from R1.9 billion a year ago, which will underpin future performance.

Since 2015, when we acquired books for R166 million, we have accelerated growth in this segment, with R184 million in 2016, R356 million in 2017 and R662 million in 2018. Book buying generates dependable cash flows, which translates into higher revenue and profit streams in our business due to our stringent focus on efficiencies, data and analytics, and managing cost structures. Also, given the economic climate, we can price for risk accordingly; should the South African economy improve, with higher collections on these books, we will see even higher returns.

66

For details on TCRS' financial performance, including on books purchased, see the Financial director's report in the Integrated Annual Report..

However, diversification across the revenue models of contingency and acquisition of NPLs as principal ensure that we can weather the current economic environment by focussing on book buying, and be poised for further growth in the contingency business when credit extension recovers.

We also continue to assess additional bolt-on acquisitions to enhance penetration in specialist collection areas and specific mandates.

Q: WHAT PROGRESS HAS BEEN MADE IN RECOVERIES CORPORATION IN AUSTRALIA?

As detailed last year, the acquisition of Recoveries Corporation is part of TCRS' strategy to geographically diversify its earnings in contingency and FFS revenue. For a relatively small initial investment, the acquisition is providing an opportunity to gain a deep understanding of the Australian collections industry and participate in emerging opportunities.

Recoveries Corporation has made excellent progress in driving operational efficiencies by deepening its management competence and overlaying TCRS' technology and business information capabilities, including the dialer and workforce management. We continue to leverage TCRS' access to, and deployment of, leading collections technology to enhance its competitive position and margins.

The business is also diversifying its client base, across the insurance, telecommunications and utilities, banking and commercial, and public sectors. With the operational integration substantially complete, the business is expected to yield an enhanced return on future revenues.

We continue to be cautious as we apply our analytics, pricing expertise and capital raising capabilities to the niche purchase of NPL portfolios in Australia. In Australia's debt collection environment, an estimated AUD600 million is spent annually on acquiring NPL portfolios, which is many times larger than the South African market, and gives an indication of the growth opportunity for TCRS.

55

For details, see Australia's debt collection environment in the Integrated Annual Report..

Considering the size of and competition in Australia's NPL market, we continue to assess bolt-on acquisitions in specialist collectors to build our data, capabilities and scale as we diversify Recoveries Corporation's revenue model.

We are exploring other synergies between Recoveries Corporation in Australia and Transaction Capital Recoveries (TCR), including running a pilot at the start of 2019 to assess the benefits of outsourcing some Recoveries Corporation call centre work to South Africa. We anticipate that this model will be more cost effective and easier to manage.

Q: WHAT STRATEGIC PROGRESS HAS BEEN MADE IN TRANSACTIONAL SERVICES AND VALUE-ADDED SERVICES OVER THE YEAR?

The transactional services segment includes Transaction Capital Payment Solutions and Transaction Capital Business Solutions (TCBS). Considering the tough environment for SMEs in South Africa, TCBS is being disciplined by intentionally curbing book growth to maintain risk tolerance and ensure high-quality earnings from its SME lending activities.

With tighter credit extension from financial institutions in certain specialist areas, we are assessing opportunities to leverage the division's healthy balance sheet and expand into new asset classes. However, given the economic environment, we will remain cautious as we develop opportunities without taking undue credit risk.

TCBS is developing an online client portal and technology-based origination system to enhance its offering to clients.

During the year, we acquired Accsys, which provides flexible human resource and payroll solutions to SMEs. We see synergies between Accsys and our payment solutions business, as a cluster of assets that we can build and grow.

In value-added services, Principa is transforming from purely a consulting business into a product-led and product solutions business with higher potential to generate annuity income. Road Cover has been fully integrated after the group acquired this business in 2016. Through the application of data and analytical skills to augment its offering, we see encouraging growth prospects for Road Cover, especially in direct sales of subscription-based products and insurance.

We continue to assess opportunities to grow the value-added service segment, but are approaching acquisitions and initiatives cautiously in the challenging market.

Q: HOW DOES TECHNOLOGY, DATA AND ANALYTICS, AS WELL AS TCRS' EVOLVING CAPABILITIES IN FINTECH, UNDERPIN YOUR DIFFERENTIATION IN THE MARKET AND ABILITY TO DEVELOP HIGHLY SPECIALISED PRODUCTS IN THE DIFFERENT BUSINESSES?

TCRS continues to invest in technology, data and analytics. In collections specifically, this allows us to collect more efficiently and effectively as we drive down costs and increase revenue. As mentioned last year, this puts us in a strong position in the market as we can buy more books, price them competitively and enhance the revenue per book. Our success here is evident in the increasing volumes of books purchased over the last four years. In the contingency revenue stream, cost control and efficiencies mean that we achieve higher collections for clients.

At a fundamental level in collections, technology, data and analytics are the science behind the business. It drives our ability to have the right people making a call at the right time to the right number, and then influencing the customer's decision to service their debt based on analytics that show how much they can afford and giving them access to convenient payment channels.

In addition, TCRS is expanding and enriching its proprietary database of South African consumers to include performing and non-performing credit-active consumers. We are also investigating commercialising the database to help prospective clients make better decisions across the credit lifecycle. While businesses can access credit bureau data, our data contains valuable additional information such as how much credit-active consumers are paid and when, and their preferred means of communication.

Our data management is overseen by actuaries and data scientists who maintain appropriate protocols and data screening to check its veracity, accuracy and usefulness, including approximately 500 validation checks to ensure data integrity. It is important to note that we will not compete with the bureaus; rather, we aim to provide our data and insights to help clients make better credit decisions.

Internally, the enhanced data set in the MDU will drive product development and targeted sales, especially in the value-added services segment.

In TCBS, data management allows us to accurately manage the book for our clients, even where we may not fund the whole book. Our core skill is in understanding the detail of exactly what is going on with every debtor of our clients, to the extent that we manage risk for our clients, and in so doing, manage TCBS' credit risk. While it is possible to automate risk assessments, TCBS is a niche business with strong capabilities in risk management. Importantly, it is also a business that relies on relationships, something which technology can support but not replace.

In terms of our evolving capabilities in fintech, we are looking to leverage technology, big data and analytics to develop optimised business solutions for South African businesses.

Q: TCR ACHIEVED A LEVEL 2 BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) RATING THIS YEAR. WHAT CONTRIBUTED TO THIS SUCCESS?

Empowerment is important to us and our clients, and reaching level 2 reflects our ongoing focus across all elements of the B-BBEE scorecard. We have made strong progress in all areas, with the exception of ownership.

I am particularly pleased with our progress in employment equity, where we have a strong cohort of high-performing employees in, and moving into, management positions. This also gives us a strong pipeline of talent for senior management positions, supported by our focus on development and training programmes.

We have implemented a new initiative as part of corporate social responsibility, where we are assisting young entrepreneurs to enter the recoveries sector. TCRS is providing an office, system infrastructure and sharing intellectual property to support this entirely black-owned business. For TCRS, it will extend our market into new segments where we have previously not had exposure.

Q: TCRS HAS BEEN FORMALISING ITS EMPLOYEE VALUE PROPOSITION (EVP). WHAT ARE THE KEY BENEFITS FOR THE DIVISION IN DOING SO?

Internally, it is crucial that we define and communicate our EVP in terms of our position as a leading employer in this sector. It includes the benefits for our employees in ongoing training and development, and opportunities for professional growth in what is increasingly an intellectual property, data and technology-based business.

Also, as we augment our capabilities in data and technology, and increasingly in areas like advanced analytics and artificial intelligence, we are looking to increase our specialist skills base with data scientists, actuaries, mathematicians and statisticians, and technologists. We are already seeing good progress in the quality of candidates coming into our businesses, but we will continue to enhance the marketing of our EVP by demonstrating that the underpin of our business is truly data and technology.

We are also targeting good people managers. Our core business of collections is a challenging environment that attracts managers who thrive in delivering effective people practices. And given that adaptability and change is a feature of a technology-enabled company, change management skills are key.

Q: WHAT ARE YOUR PRIORITIES OVER THE NEXT FEW YEARS?

We will continue to implement the goals and plans that underpin our five strategic thrusts, being driving organic growth, providing bespoke capital solutions, targeting strategic acquisitions, leveraging technology, data and analytics, and engendering a high-performance culture in our people.

Australia is set to be a strong growth play for TCRS. We also anticipate great synergistic opportunities in the outsource model between South Africa and Australia.