

TRANSACTION CAPITAL

AUDITED RESULTS
AND CASH DIVIDEND
DECLARATION

2019

FOR THE
YEAR ENDED
30 SEPTEMBER



Transaction Capital

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COMMENTARY

HIGHLIGHTS

↑ 18%
CORE HEADLINE
EARNINGS PER SHARE¹
131.3 cents
2018: 111.7 CENTS

↑ 22%
TOTAL DIVIDEND
PER SHARE
61.0 cents
2018: 50.0 CENTS

CORE HEADLINE
EARNINGS
attributable to the group¹TRANSACTION CAPITAL
GROUP²

↑ 18%
R803 million
2018: R682 MILLION

TRANSACTION CAPITAL
RISK SERVICES

↑ 15%
R313 million
2018: R273 MILLION

SA TAXI³

↑ 21%
R446 million
2018: R368 MILLION

INTRODUCTION

Transaction Capital is an active investor in and operator of credit-orientated alternative assets including distressed debt, specialty credit and other alternative assets. Central to our business model is to identify value assets; to apply our specialist expertise to assess, price, underwrite and mitigate the inherent credit risk of these assets; and to fund their growth with an optimal balance of equity appropriately leveraged with debt according to our well-regarded capital management approach.

Our strong decentralised divisional management teams manage these assets within well-governed, efficient operational platforms. Transaction Capital Risk Services (TCRS) and SA Taxi operate in specialised, underserved segments of the South African and Australian financial services markets. They are strategically well positioned in their markets and are defensive, delivering shared value through good commercial returns and meaningful social impact, even in low-growth environments.

To drive sustainable future earnings growth, we continue to leverage our intellectual property (IP), leading technologies and low-cost scalable platforms into alternative credit-orientated asset classes in adjacent market segments and selected larger geographic markets.

Our track record for generating attractive risk-adjusted returns from credit-orientated assets, enhanced by capital appreciation in the value of our operating platforms, has been proven over nearly two decades.

1. Transaction Capital's core financial ratios exclude once-off costs of R84 million attributable to the group relating to SA Taxi's ownership transaction with the South African National Taxi Council (SANTACO), which arose in the first half of the 2019 financial year. R81 million of these costs are non-cash and in accordance with IFRS 2. A further R3 million relates to early debt settlement costs.
2. Transaction Capital's group core headline earnings includes R44 million from the group executive office, R313 million from TCRS and R446 million from SA Taxi.
3. SA Taxi's total core headline earnings increased by 38%, with Transaction Capital's attributable portion of SA Taxi's core headline earnings increasing 21% in 2019. Transaction Capital's attributable portion of SA Taxi's headline earnings is calculated as follows: For the period 6 February 2019 (effective date of ownership transaction with SANTACO) to 30 September 2019, Transaction Capital consolidated 81.4% of SA Taxi's headline earnings. Prior to 6 February 2019, Transaction Capital consolidated 98.5% of SA Taxi's headline earnings.

2018 balances have been restated for the early adoption of IFRS 17 – Insurance Contracts which has no material impact on headline earnings.

RESULTS OVERVIEW

The group has achieved compound annual growth in core headline earnings per share of 20% over the past five years.

In the 2019 financial year, despite the economic deterioration in South Africa, Transaction Capital delivered excellent organic growth. Both core headline earnings and core headline earnings per share increased 18% to R803 million and 131.3 cents, respectively this year. TCRS grew headline earnings 15% to R313 million, and SA Taxi grew core headline earnings 38% resulting in the group's attributable portion of SA Taxi's core headline earnings growing by 21% to R446 million.

Divisional management's focus on delivering their strategies underpinned this result. With support from the group executive office, they have refined their competitive value propositions, diversified their revenue streams within existing markets and expanded their total addressable markets. Investments in best-of-breed technology and processing capabilities continue to support operational effectiveness.

The balance sheet is ungeared and liquid at a holding company level. Our capital strategy remains conservative and appropriate in the current economic conditions, with undeployed capital of more than R950 million. The majority of this capital has been allocated towards strategic organic growth initiatives, detailed later in this announcement. The remainder is surplus to the capital adequacy requirements of our well capitalised divisions, making earnings upside possible in the medium term when deployed. SANTACO's acquisition of a 25% equity stake in SA Taxi for R1.7 billion further bolsters SA Taxi's balance sheet. SA Taxi's funding requirements for 2020 are met.

Over the past five years, dividends per share have grown faster than earnings growth at 31% per year. This year, the total dividend per share was 22% higher at 61 cents per share, supported by high-quality earnings and healthy cash conversion rates.

TRADING ENVIRONMENT

Macro-economic conditions have deteriorated slightly since the first half of 2019. South Africa's gross domestic product (GDP) growth has averaged below 1% per year for the past four years, compared to global GDP growth of approximately 3% per year over the same period. Growth is likely to remain below 1% for 2019, constrained by low consumer and business confidence, and high household debt. Despite a benign inflation outlook (reported at 4.1% in September 2019), economic constraints are being exacerbated by wage growth remaining below inflation together with a volatile Rand.

Lower fuel prices since October 2018 may have alleviated some pressure on household spending and debt burdens, but the relief was short-lived. Higher fuel levies in April 2019 have contributed to current prices being only 6% below the record highs set in 2018.

Against this backdrop, unemployment is at record highs (reaching 29.1% in the third quarter of 2019) and many consumers remain over-indebted. It is questionable whether the recently reported increases in unsecured credit extension¹ will benefit South Africa's economic growth. Instead, as the pressure on consumers intensifies, they are expected to struggle to reduce debt over the medium term.

In Australia, GDP growth slowed to 1.8% in the second half of the year, reflecting a slowdown in household consumption and declining home prices, with unemployment levels remaining steady at 5.3% as at October 2019. The Reserve Bank of Australia is forecasting GDP growth of 2.3% for the year to December 2019. Despite persistently high levels of household debt to income at approximately 190%, credit extension is being slightly moderated by lower interest rates (reported at 0.75% in September 2019) and greater leniency in debt affordability assessments.

Economic growth in the Eurozone continues to decelerate. The European Union reported a 1.1% GDP increase year-on-year in the third quarter of 2019. With European regulators continuing to pressure banks to dispose of their non-performing loans earlier, the European distressed debt market reached its peak in 2018 with non-performing loan disposals totaling €205.1 billion in gross book value.

Transaction Capital does not intend pursuing the larger concentrated segment of this market, which is characterised by high levels of competition from sizable market participants with access to cheap capital and leverage to be deployed for moderate returns. To achieve attractive risk-adjusted returns TCRS is targeting niche higher-yielding credit-orientated alternative assets in the European distressed debt and specialised credit market directly through bilateral transactions and indirectly via co-investments in partnership with its network of specialist credit managers.

Despite these trends, TCRS and SA Taxi continue to demonstrate resilience as highly defensive businesses able to deliver good commercial returns in poor economic conditions.

1. The National Credit Regulator reported a year-on-year increase of 11.1% in the unsecured credit gross debtors book (which includes unsecured credit and credit facilities) in June 2019. The BA900 regulatory returns reported a year-on-year increase of 10.2% in banks' unsecured retail credit gross loans and advances in July 2019.

TRANSACTION CAPITAL RISK SERVICES

		For the year ended 30 September		
		2019	2018	Movement
FINANCIAL PERFORMANCE				
Headline earnings attributable to the group	Rm	313	273	15%
Non-interest revenue	Rm	2 104	1 837	15%
PURCHASED BOOK DEBTS				
Cost price of purchased book debts acquired	Rm	1 186	662	79%
Carrying value of purchased book debts	Rm	2 382	1 374	73%
Estimated remaining collections – 120 months	Rm	4 480	2 989	50%

MARKET POSITIONING AND OPERATING CONTEXT

SOUTH AFRICA

Of the 25.1 million credit-active South African consumers at June 2019, more than 40% (10.2 million) had impaired credit records. Transaction Capital's Consumer Credit Rehabilitation Index (CCRI) reflects a distressed consumer credit environment, with consumers' propensity to repay debt at 30 September 2019 unchanged compared to the prior year.

The National Credit Amendment Act (known as the Debt Relief Bill) was signed into law in August 2019. A study commissioned by the National Treasury in October 2017 estimates that only 1.5 million consumers are found to be persistently over-indebted, defined as being nine months or more in arrears. A further study commissioned by the Department of Trade and Industry estimated that only around 177 000 consumers could benefit from the Debt Relief Bill. It is apparent that there is disagreement between various stakeholders on the number of consumers likely to benefit from the Bill. To date, practical implementation of the Bill remains uncertain with no effective date and no guidelines set for how eligible consumers may apply for debt intervention.

TCRS has a detailed understanding of all individual debtors in its portfolio. Irrespective of the new regulations, consumers identified by TCRS as likely to apply for debt intervention are typically assigned a low propensity to repay score; as such, they would not be selected for collection or factored into the valuation of estimated remaining collections. The Debt Relief Bill, therefore, will have little impact on TCRS's contingency collection activities, or on the value of non-performing consumer loan portfolios (NPL Portfolios) acquired as a principal.

AUSTRALIA

The outlook for debt collection in Australia remains positive, and we expect TCRS's continued investment in technology initiatives and resource optimisation frameworks to improve returns. Also, robust employment levels and the positive response of consumers to non-voice and digital channels is contributing to higher levels of right party contact and technology-based payments.

COLLECTION SERVICES

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

TCRS's collection services business delivered organic revenue growth of 21%, driven by an increase of more than 20% from our South African collection activities. Excellent revenue growth in the collection of NPL Portfolios acquired as a principal performed ahead of expectations and has positively offset the impact of the expected slowdown in contingency and FFS collections in South Africa. The Australian collections business performed ahead of expectations with revenue in Australia growing by low double digits during the year.

ACQUISITION OF NPL PORTFOLIOS AS PRINCIPAL

TCRS invested R1 064 million in South African NPL Portfolios and a further R122 million into Australian NPL Portfolios. At 30 September 2019, TCRS owned 273 NPL Portfolios with a face value of R23 795 million. Valued at R2 382 million (an increase of 73% from R1 374 million a year ago), this asset will support strong and predictable annuity revenue (estimated at R4 480 million, an increase of 50% from R2 989 million a year ago) over the medium term.

In South Africa, the market for acquiring NPL Portfolios is underdeveloped and growing. TCRS continues to expand this market through broadening the category of NPL Portfolios traded. Historically the division focused on acquiring NPL Portfolios of written-off unsecured retail debt via an auction process. TCRS has now extended its total addressable market to include NPL Portfolios prior to write-off, those collected via legal process and those sold on a bilateral or recurring contractual basis. Typically these portfolios are characterised by stronger cash flows attracting a higher purchase price. Furthermore, TCRS continues to lead in the development of this market by educating clients of the mutual benefits of selling their NPL Portfolios. These initiatives provide a meaningful growth opportunity for TCRS.

The Australian collections market is significantly larger than the South African market and predominantly comprised of unsecured consumer loan portfolios, an asset class where TCRS has almost 20 years of experience in South Africa. TCRS is following a cautious and selective approach in entering this market. Underpinned by our growing Australian database and TCRS's analytics and pricing expertise, a small position in this market provides a significant growth opportunity for TCRS over the medium term.

We expect the acquisition of NPL Portfolios in the 2020 financial year to be at least in line with that of 2019. The increases in credit extension reported by the NCR in South Africa, the economic climate which favours the acquisition of NPL Portfolios, and TCRS's active involvement in developing and broadening this sector should support this expectation in South Africa, as will our strategy to establish a more meaningful position in the larger Australian market. A portion of our undeployed capital has been allocated towards this strategic organic growth initiative.

CONTINGENCY AND FEE-FOR-SERVICE REVENUE

Recoveries Corporation in Australia posted a robust performance, growing revenue organically in low double digits by gaining new mandates from existing clients and winning new clients. Operating costs were kept stable, achieving significant operational leverage. Greater management depth, investment in data and analytics, the deployment of technologies proven in South Africa into our Australia operations, and implementing business information, payment automation and collection technologies supported this pleasing result.

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

TRANSACTIONAL SERVICES AND VALUE-ADDED SERVICES

Transaction Capital Payment Solutions and Road Cover, as services-orientated businesses, have been impacted by the persistently challenging operating environment in South Africa. Notwithstanding this, both contributed positively to the earnings growth of TCRS.

TRANSACTION CAPITAL SPECIALISED CREDIT (TCSC)

TC GLOBAL FINANCE

TC Global Finance was established in 2019 to pursue growth opportunities in select international markets. The fragmented European specialised credit market, which is many times larger than the South African and Australian markets, presents an attractive growth opportunity. TCRS is targeting niche higher-yielding credit-orientated alternative assets in this market directly through bilateral transactions and indirectly via co-investments in partnership with its network of specialist credit managers.

This strategy will provide Transaction Capital with unique access to niche European specialist credit managers, without concentration risk to any particular portfolio, asset class, asset originator, collection platform or geographic market. This strategy serves to diversify TCRS's earnings base further and we expect it to deliver low double-digit hard currency returns.

TCRS has invested €2.7 million to date, with €1.4 million thereof invested after 30 September 2019. Initial returns are in line with our communicated expectations. A portion of our undeployed capital has been allocated towards this strategic organic growth initiative.

In time we intend to replicate Transaction Capital's business model by investing into niche credit orientated asset portfolios, building scalable servicing platforms to manage these assets leveraging TCRS's IP, technologies and low-cost South African infrastructure, and partnering entrepreneurial owners and management teams.

TRANSACTION CAPITAL BUSINESS SOLUTIONS (TCBS) – SOUTH AFRICA

Cognisant of the higher risk in the small- and medium-sized enterprises (SME) sector, TCBS has proactively curbed gross loans and advances growth to this sector since the second half of 2018.

CONCLUSION

TCRS grew headline earnings by 15% to R313 million, with excellent growth in revenue from the collection of NPL Portfolios acquired as a principal and a robust performance from our Australian collections business. Outsourcing certain functions from Australia to our South African low-cost centre of excellence, currently in pilot phase, could support future efficiencies and enable additional organic growth. TCRS's cost-to-income ratio improved to 78.9% (2018: 80.0%), driven by our continued investment in technology. TCRS continues to deploy technologies proven in South Africa into its Australia operations, resulting in higher productivity, effectiveness and efficiency, and lower operating costs per activity. The division continues to explore the benefits of new technologies, including artificial intelligence.

SA TAXI

		For the year ended 30 September		
		2019	2018 Restated	Movement
FINANCIAL PERFORMANCE				
Core headline earnings	Rm	519	376	38%
Core headline earnings attributable to the group	Rm	446	368	21%
Non-interest revenue	Rm	584	498	17%
Net interest income	Rm	1 217	979	24%
Net interest margin	%	12.2	11.2	
Core cost-to-income ratio	%	44.2	45.6	
CREDIT PERFORMANCE				
Gross loans and advances	Rm	10 753	9 264	16%
Non-performing loan (NPL) ratio	%	17.9	17.5	
Credit loss ratio	%	3.2	3.5	

MARKET POSITIONING AND OPERATING CONTEXT

The minibus taxi industry is the most vital and largest service in South Africa's integrated public transport network, providing more than 15 million commuter trips a day. Medium-term population growth and intensifying commuter density due to urbanisation drives demand for minibus taxi services. More commuters choose minibus taxis over bus or rail due to competitive pricing, convenience and accessibility. Spend on minibus taxi transport is non-discretionary spend for most South Africans; rendering the minibus taxi industry defensive and growing, with operators remaining resilient in a challenging environment.

Difficult economic conditions in recent years combined with high taxi vehicle and fuel prices have placed strain on the minibus taxi industry. Minibus taxi prices have risen 4.2% since September 2018, bringing the recommended retail price of a Toyota HiAce diesel vehicle to R451 600, compared to about R345 000 five years ago. During the year, average petrol and diesel prices rose 6% and 10% respectively. Despite strong demand for minibus taxi services, the industry has been mindful of the economic hardship faced by commuters and kept fare increases muted in 2019.

SANTACO OWNERSHIP TRANSACTION AND INDUSTRY INITIATIVES

The ownership transaction between SA Taxi and SANTACO was finalised on 6 February 2019 (refer to the SENS announcements on 19 November 2018 and 6 February 2019, available at www.transactioncapital.co.za/SENS.php). Of the R1.2 billion net proceeds from the transaction, SA Taxi settled about R1.0 billion of interest-bearing debt, with the remainder retained to fund growth. The immediate financial benefit of the transaction (improved net interest margins from lower leverage and interest expense savings), and the operational benefits of a stronger relationship with SANTACO, have been accretive to SA Taxi's and Transaction Capital's earnings. We expect these benefits to support earnings growth over the medium term.

The transaction has also augmented SA Taxi's social impact, which extends to financial inclusion, job creation, skills development and economic transformation. Since 2008, SA Taxi has provided developmental credit of more than R25.7 billion to taxi operators, supporting the creation of over 81 000 SMEs, and more than 145 000 direct and 243 000 indirect jobs. More broadly, by enabling taxi operators to replace old vehicles with new, safer and lower emission minibus taxis, SA Taxi assists in improving the quality of this critical component of South Africa's integrated public transport network. SANTACO received its first trickle dividend in June 2019, of which the majority was invested into a road safety campaign.

SA TAXI FINANCE AND SA TAXI AUTO REPAIRS (INCLUDING AUTOBODY REPAIR AND MECHANICAL REFURBISHMENT)

In the last five years, SA Taxi's loans and advances portfolio has shown a relatively stable compound annual growth rate of about 12%. This year, the portfolio grew 16% to R10.8 billion comprising 32 441 loans, with the number of loans originated increasing 11%. Higher vehicle retail prices, Toyota's increased production of minibus taxis, SA Taxi's launch of a lower interest rate product for better quality customers and higher loan origination volumes on Nissan vehicles supported this growth. Strong momentum in the sale and finance of its fully refurbished pre-owned minibus taxis also contributed to growth as operators seek a more affordable but reliable alternative to buying a new minibus taxi in a challenging economic environment.

Net interest income grew 24% to R1.2 billion, with the net interest margin improving to 12.2% (2018: 11.2%). This was mainly due to the settlement of interest-bearing debt of about R1.0 billion in February 2019. A robust risk-adjusted net interest margin of 9.0% was attributable to SA Taxi's higher net interest margin and slightly better credit metrics. The NPL ratio of 17.9% has remained in line with our expectations of about 18% (2018: 17.5%). Our consistently conservative credit granting criteria and strong collection performance was offset marginally by the difficult economic conditions.

Improved recoveries on repossessed vehicles supported an improved credit loss ratio of 3.2%, at the bottom end of our risk tolerance of 3% to 4%. This was partially attributable to a lower average cost to refurbish vehicles due to efficiencies in SA Taxi Auto Repairs, together with SA Taxi Auto Parts' cost-efficient procurement of parts. SA Taxi Auto Parts and SA Taxi Auto Repairs are instrumental in reducing the cost of refurbishment, lowering our credit losses in the event of default and repossession. Rebuilding high-quality income generating pre-owned minibus taxis enhances the value of repossessed vehicles, enabling SA Taxi to recover more than 75% of the loan value on the sale of repossessed vehicles. At 4.8%, provision coverage at year end remains adequate.

SA Taxi raised R5.5 billion in debt facilities during 2019 and its funding requirements into the 2020 financial year are already secured. The business continues to balance its cost of debt against the benefit of committed facilities and longer duration debt from a diversified funding base of approximately 35 distinct local and international debt investors. SA Taxi is exploring opportunities with local developmental finance institutions to lower its cost of debt.

During the year SA Taxi issued R1.7 billion of Moody's credit rated and JSE-listed debt via its Transsec 4 securitisation programme. These debt issuances were priced at a weighted average cost of 173 basis points above three-month JIBAR, the lowest priced Transsec issuances to date.

SA TAXI DIRECT

SA Taxi's dealership sells new and pre-owned minibus taxis, which provide operators with a reliable and affordable alternative to buying new vehicles. Loans originated through its dealerships are more profitable than loans originated through external channels due to product margin earned, higher take up of insurance products and improved credit performance.

SA Taxi's retail dealerships in Midrand and Polokwane showed strong momentum in 2019. The number of minibus taxis sold grew by 14% on last year, generating gross revenue of about R900 million. New dealerships are being considered in the medium term.

SA TAXI PROTECT

SA Taxi's insurance business is the main component of non-interest revenue, with gross written premiums growing 20% to R823 million driven by new customer acquisition. The business broadened its client base via its broker network, specifically targeting open market clients (i.e. insurance clients not financed by SA Taxi Finance). Penetration of SA Taxi's financed customer base remained stable, with the majority of SA Taxi Finance's clients choosing to be insured through SA Taxi Protect.

On average, individual insurance premiums remained stable. SA Taxi Protect's competitive advantage is its ability to reduce its cost of claim through efficiencies in SA Taxi Auto Repairs and SA Taxi Auto Parts, which supports a competitively priced insurance premium.

A small proportion of SA Taxi Protect's insurance claims are processed by SA Taxi Auto Repairs, with the majority outsourced to approved autobody repairers. An initiative to expand SA Taxi's refurbishment capacity specifically dedicated to SA Taxi Protect is set for 2020, with additional premises already secured. This will increase the proportion of SA Taxi Protect insurance claims processed internally by SA Taxi, further improving claims ratios. SA Taxi Protect's new insurance claims administration system, which went live in 2019 in line with expected timeframes and costs, is expected to enhance SA Taxi Protect's customer value proposition.

SA Taxi Protect is also broadening its product offering (currently comprising comprehensive vehicle cover, passenger liability, instalment protection and credit life cover) with SA Taxi's insurance clients now holding more than two insurance products per client. New products are being developed in collaboration with SANTACO.

SA Taxi has elected to adopt International Financial Reporting Standard (IFRS) 17 relating to insurance contracts earlier than required. As the new accounting standard replacing IFRS 4, IFRS 17 aligns insurance provisioning policies to IFRS 9, in that provisions are based on a forward-looking expected loss model rather than an incurred loss model. The resulting increase in provisions has no material impact on headline earnings but does result in a more robust balance sheet.

SA TAXI AUTO PARTS

SA Taxi Auto Parts imports and locally procures new minibus taxi parts directly from source. In addition, its salvage operation recovers and refurbishes used parts from vehicles that are not economically viable to repair. This contributes to a reduced vehicle refurbishment cost. In 2019, SA Taxi Auto Parts supplied parts to the value of approximately R6 million per month to SA Taxi Auto Repairs and has recently started distributing to its network of preferred external autobody repairers as well.

SA Taxi Auto Parts also retails well-priced new and pre-owned auto parts to taxi operators via its parts retail facility in Midrand, targeting existing clients of SA Taxi, as well as other operators in the open market. With the majority of these retail customers not previously being SA Taxi clients, this initiative exposes SA Taxi's brand and services to a wider market, presenting potential for cross sell organic revenue growth opportunities. Retail sales have exceeded initial expectations, achieving revenue of approximately R3 million per month in 2019.

SA TAXI REWARDS

SA Taxi Rewards is an example of the direct benefits resulting from the ownership transaction between SA Taxi and SANTACO. In close collaboration with the minibus taxi industry, SA Taxi Rewards was established in 2018 to leverage the industry's purchasing power to negotiate better pricing to benefit minibus taxi operators, associations and ultimately the entire industry.

In October 2019, SA Taxi Rewards partnered with Bridgestone to launch its tyre programme. This offers operators with a tyre at a lower cost and of higher quality, with a safety specification designed specifically for minibus taxis. Operators who are members of SA Taxi Rewards accrue additional rewards.

Initial programmes provide rewards based on fuel and tyre spend, regardless of whether the operator is a client of SA Taxi or not. Further rewards programmes aimed at parts procurement are under consideration.

SA Taxi is using its telematics and other data accumulated from its rewards programmes to proactively drive behavioural changes in the minibus taxi industry. This has a positive social impact in enhancing commuter safety.

CONCLUSION

Despite the challenging environment, SA Taxi recorded a strong operational, credit and financial performance for 2019. This is evident in accelerated gross loans and advances growth of 16%, higher net interest margins at 12.2% and 17% growth in non-interest revenue. SA Taxi is continually assessing opportunities and investing into adjacent and vertically integrated sectors of the minibus taxi industry supporting future organic growth. This investment is offset by new revenue lines and investment into technology to drive operational efficiencies. The cost-to-income ratio improved to 44.2%.

SA Taxi's organic growth lifted core headline earnings by 38%, resulting in the group's attributable portion of SA Taxi's core headline earnings growing by 21% to R446 million. From February 2019, 81.4% of SA Taxi's earnings are consolidated, compared to 98.5% previously.

GROUP EXECUTIVE OFFICE

The executive office added R44 million to the group's headline earnings for the year, from efficient management of its capital.

This result is net of central costs incurred by the group executive office and includes cost recoveries from SA Taxi and TCRS.

The Transaction Capital holding company balance sheet is strong and debt free, with undeployed capital of R950 million.

This provides Transaction Capital with ample capacity to fund organic and acquisitive growth.

DIRECTOR APPOINTMENTS

Kuben Pillay was appointed as the lead independent non-executive director from 15 July 2019. Mr Pillay has been a director of Transaction Capital since August 2016 and serves as the chairman of the remuneration committee and as a member of the nominations and social and ethics committees.

PROSPECTS AND STRATEGY

Transaction Capital's entrepreneurial management teams will continue to innovate new opportunities and implement their growth strategies with discipline and focus. We expect this to achieve organic earnings and dividend growth over the medium term, at least in line with the group's past performance. Transaction Capital is set to maintain its dividend policy at 2 to 2.5 times cover.

The group's strong balance sheet provides the capacity and flexibility to fund further organic and acquisitive growth opportunities. However, our growth expectations assume no accretive investment of the group's excess capital, making further upside in earnings possible in the medium term. Further, as we have not factored any prospect of an economic upturn in South Africa into our guidance, there could be upside potential for our growth expectations over the next three to five years.

The main driver of organic growth for TCRS will be accelerated NPL Portfolio acquisitions. In South Africa this will be driven by macro factors and TCRS's active involvement in developing and broadening this sector. In Australia we aim to take a more meaningful position in this sizeable collections market. Future performance will be underpinned by TCRS's existing NPL Portfolio which supports growing and predictable annuity revenue growth.

Expanding and enriching its database, and ongoing investment in new technologies should enable TCRS to deliver even higher productivity and operational efficiencies, particularly in our Australian operations. The successful deployment of technologies proven in South Africa into our Australian operations demonstrates our ability to transport these capabilities to other geographies. The pilot to outsource certain functions to our South African low-cost centre of excellence continues. This could support further efficiencies and revenue growth in addition to providing a scalable platform for third party offshoring solutions.

In the medium term, establishing TC Global Finance will complement TCRS's organic growth opportunities in the fragmented segment of the European specialised credit market. To date approximately €6.0 million has been committed for investment. We will continue to deploy capital patiently and cautiously, in identifying our niche in this market, the pace and progression of which is dependent on the risk-adjusted returns achieved on the initial investments we make.

With its strong balance sheet, TCRS is continually assessing opportunities for adjacent, vertically integrated and complementary bolt-on acquisitions in both South Africa and Australia.

In SA Taxi, we expect SA Taxi Finance to sustain mid-teen growth in gross loans and advances, supported by a continuation of the trends seen in 2019. Toyota increasing minibus taxi production, growing uptake of SA Taxi's lower interest rate product and strong momentum in the sale and finance of its pre-owned minibus taxis is expected. SA Taxi continues to develop its strategy of vertical integration to support Nissan's minibus taxi initiative, as it has done with other minibus taxi vehicle models in the past.

SA Taxi Protect will continue to grow gross written premiums by broadening its product offering as well as expanding its client base through its broker network. There is still scope to improve the insurance claims ratio and credit losses via technology, data management and predictive analytics, along with procurement and operational efficiencies in SA Taxi Auto Repairs and SA Taxi Auto Parts. Retailing well-priced parts by SA Taxi Auto Parts is set to boost non-interest revenue.

SA Taxi will expand its tailored rewards programmes within the minibus taxi ecosystem. Ultimately, the division intends to leverage its telematics and rewards programmes data to connect to South Africa's 250 000 minibus taxi operators, selling existing (finance and insurance) and new products and services suited to the needs of minibus taxi operators.

SA Taxi is continually assessing new opportunities and investing into adjacent and vertically integrated sectors of the minibus taxi industry supporting future organic growth. This investment is offset by new revenue lines and investment into technology to drive operational efficiencies.

With SANTACO as a shareholder, SA Taxi aims to leverage its unique position to drive growth over the medium term, to the benefit of taxi operators and the broader industry. This will include identifying commercial opportunities such as accessing cheaper funding, expanding its market share through a finance product for low-risk customers and designing bespoke minibus taxi insurance products.

DIVIDEND DECLARATION

Following the interim dividend of 27 cents per share (2018: 21 cents per share), and in line with our stated dividend policy of 2 to 2.5 times, the board of directors has declared a final gross cash dividend of 34 cents per share (2018: 29 cents per share) for the six months ended 30 September 2019 to those members on the record date below. The dividend has been declared out of income reserves. A dividend withholding tax of 20% will be applicable to the dividend for all shareholders that are not exempt from the dividend withholding tax, resulting in a net dividend of 27.2 cents per share.

The salient features applicable to the final dividend are as follows:

Issued shares as at declaration date	612 398 686
Declaration date	Tuesday 26 November 2019
Last day to trade cum dividend	Tuesday 10 December 2019
Ex-dividend	Wednesday 11 December 2019
Record date	Friday 13 December 2019
Payment date	Tuesday 17 December 2019

Tax reference number: 9466/298/15/6

Share certificates may not be dematerialised or rematerialised between Wednesday 11 December 2019 and Friday 13 December 2019, both dates inclusive.

The cash dividend will be electronically transferred to the bank accounts of all certificated shareholders, where this facility is available, on Tuesday 17 December 2019. Where electronic fund transfer is not available or desired, cheques dated 17 December 2019 will be posted on that date. Shareholders who have dematerialised their share certificates will have their accounts at their CSDP or broker credited on Tuesday 17 December 2019.

BASIS FOR PREPARATION

The auditors, Deloitte & Touche, have issued their opinions on the consolidated financial statements and the summarised consolidated financial statements for the year ended 30 September 2019. The audit was conducted in accordance with International Standards on Auditing. They have issued unmodified audit opinions.

The consolidated financial statements and summarised consolidated financial statements have been prepared under the supervision of Sean Doherty (CA)SA. These results represent a summary of the complete set of audited consolidated financial statements of Transaction Capital approved on 26 November 2019. The directors take full responsibility and confirm that this information has been correctly extracted from the consolidated financial statements. The complete set of consolidated financial statements is available for inspection at Transaction Capital's registered office.

The summarised consolidated financial statements have been prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, and the requirements on the Companies Act of South Africa, 71 of 2008, applicable to summary financial statements. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Council) and to also as a minimum contain the information required by IAS 34: Interim Financial Reporting.

The accounting policies applied in the preparation of these summarised consolidated financial statements are in terms of IFRS and are consistent, in all material respects, with those details in Transaction Capital's prior year annual consolidated financial statements, except for the adoption of IFRS 17 – Insurance Contracts and IFRS 15 – Revenue from Contracts with Customers.

The auditor's report does not necessarily report on all the information contained in this announcement. Shareholders are therefore advised that to obtain a full understanding of the nature of the auditor's engagement, they should read the unmodified International Standards on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements audit report included in these summarised consolidated financial statements.

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

APPROVAL BY THE BOARD OF DIRECTORS

Signed on behalf of the board of directors:

David Hurwitz

Chief executive officer

Sean Doherty

Chief financial officer

Dunkeld West

26 November 2019

Enquiries: Investor Relations

Telephone: +27 (0) 11 049 6700

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

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARISED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF TRANSACTION CAPITAL LIMITED

OPINION

The summarised consolidated financial statements of Transaction Capital Limited, which comprise the summarised consolidated statement of financial position as at 30 September 2019, the summarised consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Transaction Capital Limited for the year ended 30 September 2019.

In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of Transaction Capital Limited, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, set out in the Basis for Preparation to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

OTHER MATTER

We have not audited future financial performance and expectations by management included in the accompanying summarised consolidated financial statements and accordingly do not express any opinion thereon.

SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

The summarised consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summarised consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of Transaction Capital Limited and the auditor's report thereon.

THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 26 November 2019.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summarised consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, set out in the Basis for Preparation to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and to also, as a minimum, contain the information required by IAS 34, *Interim Financial Reporting*.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summarised consolidated financial statements are consistent, in all material respects, with the consolidated audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Deloitte & Touche

Registered Auditors

Per: Paul Stedall

Partner

26 November 2019

Deloitte Place

The Woodlands

Woodlands Drive

Woodmead

Sandton

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September

	2019 Audited Rm	2018 Audited Restated* Rm
ASSETS		
Cash and cash equivalents	919	900
Tax receivables	26	17
Trade and other receivables	1 287	1 126
Inventories	832	478
Loans and advances	10 991	9 592
Purchased book debts	2 382	1 374
Other loans receivable	45	39
Equity accounted investments	92	–
Intangible assets	294	283
Property and equipment	172	167
Goodwill	1 152	1 142
Deferred tax assets	271	368
TOTAL ASSETS	18 463	15 486
LIABILITIES		
Bank overdrafts	381	116
Other short-term borrowings	76	–
Tax payables	16	5
Trade and other payables	709	737
Provisions	53	55
Insurance contract liabilities	537	607
Benefits ceded on insurance contracts relating to inventories	54	61
Benefits ceded on insurance contracts relating to loans and advances	174	204
Benefits accruing to insurance contract holders	309	342
Interest-bearing liabilities	10 806	9 817
Senior debt	10 287	8 753
Subordinated debt	517	1 060
Finance lease liabilities	2	4
Deferred tax liabilities	413	326
TOTAL LIABILITIES	12 991	11 663
EQUITY		
Ordinary share capital	1 103	1 056
Reserves	179	52
Retained earnings	3 614	2 656
EQUITY ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	4 896	3 764
Non-controlling interests	576	59
TOTAL EQUITY	5 472	3 823
TOTAL EQUITY AND LIABILITIES	18 463	15 486

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

SUMMARISED CONSOLIDATED INCOME STATEMENT

For the year ended 30 September

	2019 Audited Rm	2018 Audited Restated* Rm
Interest income	2 472	2 154
Interest expense	(1 193)	(1 054)
NET INTEREST INCOME	1 279	1 100
Impairment of loans and advances	(336)	(321)
RISK-ADJUSTED NET INTEREST INCOME	943	779
Non-interest revenue	2 688	2 335
Net insurance result	364	301
Insurance revenue	823	685
Insurance service expense	(455)	(385)
Insurance finance (expense)/income	(4)	1
Other non-interest revenue	2 324	2 034
Operating costs	(2 562)	(2 195)
Non-operating profit/(loss)	7	(3)
Equity accounted income	4	–
PROFIT BEFORE TAX	1 080	916
Income tax expense	(293)	(218)
PROFIT FOR THE YEAR	787	698
PROFIT FOR THE YEAR ATTRIBUTABLE TO:		
Ordinary equity holders of the parent	727	682
Non-controlling interests	60	16
EARNINGS PER SHARE (CENTS)		
Basic earnings per share	118.8	111.7
Diluted basic earnings per share	117.4	110.6

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

Transaction Capital's income statement presented above includes once-off costs of R84 million attributable to the group relating to SA Taxi's ownership transaction with SANTACO, which arose in the first half of the 2019 financial year. R81 million of these costs are non-cash and in accordance with IFRS 2. A further R3 million relates to early debt settlement costs. Refer to the group data sheet for core results and ratios, which exclude these once-off transaction costs, as well as the headline earnings reconciliation presented on the next page.

SUMMARISED CONSOLIDATED HEADLINE EARNINGS RECONCILIATION

For the year ended 30 September

	2019 Audited Rm	2018 Audited Restated* Rm
BASIC EARNINGS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	727	682
Headline earnings adjustments:		
Profit on disposal of subsidiary	(8)	–
HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	719	682
Core headline earnings adjustments:		
Once-off transaction costs	84	–
CORE HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	803	682
HEADLINE EARNINGS PER SHARE (CENTS)		
Basic headline earnings per share	117.5	111.7
Diluted basic headline earnings per share	116.1	110.6

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September

	2019 Audited Rm	2018 Audited Restated* Rm
PROFIT FOR THE YEAR	787	698
OTHER COMPREHENSIVE INCOME		
Movement in cash flow hedging reserve	1	2
Fair value gain arising during the year	1	3
Deferred tax	–	(1)
Exchange gain/(loss) on translation of foreign operations	5	(14)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	793	686
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Ordinary equity holders of the parent	733	670
Non-controlling interests	60	16

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

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September

	Share capital Audited Rm	Reserves Audited Rm	Retained earnings Audited Rm	Ordinary equity holders of the parent Audited Rm	Non-controlling interests Audited Rm	Total equity Audited Rm
BALANCE AT 30 SEPTEMBER 2017 AS PREVIOUSLY REPORTED	1 056	34	2 628	3 718	54	3 772
Adjustment on initial adoption of IFRS 17	–	–	(370)	(370)	–	(370)
RESTATED BALANCE AT 1 OCTOBER 2017	1 056	34	2 258	3 348	54	3 402
Total comprehensive (loss)/income	–	(12)	682	670	16	686
Profit for the year	–	–	682	682	16	698
Other comprehensive loss	–	(12)	–	(12)	–	(12)
Grant of share appreciation rights and conditional share plans	–	31	–	31	–	31
Settlement of share appreciation rights	–	(1)	(4)	(5)	–	(5)
Dividends paid	–	–	(280)	(280)	(11)	(291)
Issue of shares	9	–	–	9	–	9
Repurchase of shares	(9)	–	–	(9)	–	(9)
RESTATED BALANCE AT 30 SEPTEMBER 2018	1 056	52	2 656	3 764	59	3 823
Adjustment on initial adoption of IFRS 15*	–	–	(9)	(9)	–	(9)
RESTATED BALANCE AT 1 OCTOBER 2018	1 056	52	2 647	3 755	59	3 814
Total comprehensive income	–	6	727	733	60	793
Profit for the year	–	–	727	727	60	787
Other comprehensive income	–	6	–	6	–	6
Disposal of subsidiary	–	–	–	–	(3)	(3)
Transactions with non-controlling interests	–	100	610	710	497	1 207
Grant of share appreciation rights and conditional share plans	–	45	–	45	–	45
Settlement of share appreciation rights and conditional share plans	–	(24)	(27)	(51)	–	(51)
Dividends paid	–	–	(343)	(343)	(37)	(380)
Issue of shares	58	–	–	58	–	58
Repurchase of shares	(11)	–	–	(11)	–	(11)
BALANCE AT 30 SEPTEMBER 2019	1 103	179	3 614	4 896	576	5 472

* The group adopted IFRS 15 – Revenue from Contracts with Customers during the 2019 financial year. In accordance with the transitional provisions of IFRS 15, the group adopted this standard retrospectively, with the cumulative effect of initial adoption reported as an adjustment to the opening balance of retained earnings.

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

	2019 Audited Rm	2018 Audited Restated* Rm
CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated by operations	1 731	1 464
Income taxes paid	(108)	(87)
Dividends paid	(380)	(291)
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND WORKING CAPITAL	1 243	1 086
INCREASE IN OPERATING ASSETS	(2 908)	(2 057)
Loans and advances	(1 741)	(1 457)
Purchased book debts	(1 167)	(600)
CHANGES IN WORKING CAPITAL	(553)	(520)
Increase in inventories	(354)	(265)
Increase in trade and other receivables	(167)	(430)
(Increase)/decrease in other loans receivable	(6)	2
(Decrease)/increase in trade and other payables	(26)	173
NET CASH UTILISED BY OPERATING ACTIVITIES	(2 218)	(1 491)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(48)	(59)
Proceeds on disposal of property and equipment	3	5
Acquisition of intangible assets	(57)	(60)
Acquisition of equity accounted investment	(87)	–
Business combinations	(7)	(35)
Proceeds on disposal of subsidiary	8	–
NET CASH UTILISED BY INVESTING ACTIVITIES	(188)	(149)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from interest-bearing liabilities	9 088	5 946
Settlement of interest-bearing liabilities	(8 101)	(4 320)
Increase in other short-term borrowings	76	–
Additional interest acquired in subsidiary	(28)	–
Net proceeds on issue of shares by subsidiary to non-controlling interests	1 135	–
Repurchase of shares	(11)	(9)
NET CASH GENERATED BY FINANCING ACTIVITIES	2 159	1 617
NET DECREASE IN CASH AND CASH EQUIVALENTS	(247)	(23)
Cash and cash equivalents at the beginning of the year**	784	808
Effects of exchange rate changes on the balance of cash held in foreign currencies	1	(1)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR**	538	784

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

** Cash and cash equivalents are presented net of bank overdrafts.

SUMMARISED CONSOLIDATED SEGMENT REPORT

	SA Taxi		Transaction Capital Risk Services		Group executive office**		Group	
	2019 Audited Rm	2018 Audited Restated* Rm	2019 Audited Rm	2018 Audited Rm	2019 Audited Rm	2018 Audited Rm	2019 Audited Rm	2018 Audited Restated* Rm
SUMMARISED INCOME STATEMENT								
<i>For the year ended 30 September</i>								
Net interest income	1 217	979	(13)	51	75	70	1 279	1 100
Impairment of loans and advances	(322)	(306)	(14)	(15)	–	–	(336)	(321)
Non-interest revenue	584	498	2 104	1 837	–	–	2 688	2 335
Operating costs	(896)	(674)	(1 650)	(1 510)	(16)	(11)	(2 562)	(2 195)
Non-operating profit/(loss)	–	–	7	(3)	–	–	7	(3)
Equity accounted income	–	–	4	–	–	–	4	–
PROFIT BEFORE TAX	583	497	438	360	59	59	1 080	916
Profit attributable to ordinary equity holders of parent	365	368	321	273	41	41	727	682
Headline earnings adjustments	–	–	(8)	–	–	–	(8)	–
Once-off transaction costs***	81	–	–	–	3	–	84	–
CORE HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	446	368	313	273	44	41	803	682
SUMMARISED STATEMENT OF FINANCIAL POSITION								
<i>At 30 September</i>								
ASSETS								
Cash and cash equivalents	693	677	194	168	32	55	919	900
Trade and other receivables	965	769	317	360	5	(3)	1 287	1 126
Inventories	831	478	1	–	–	–	832	478
Loans and advances	10 412	9 026	579	566	–	–	10 991	9 592
Purchased book debts	–	–	2 382	1 374	–	–	2 382	1 374
Equity accounted investment	–	–	92	–	–	–	92	–
Other assets	885	933	1 035	1 066	40	17	1 960	2 016
TOTAL ASSETS	13 786	11 883	4 600	3 534	77	69	18 463	15 486
LIABILITIES								
Bank overdrafts	99	116	282	–	–	–	381	116
Trade and other payables	275	333	396	368	38	36	709	737
Insurance contract liabilities	537	607	–	–	–	–	537	607
Interest-bearing liabilities	9 929	9 503	1 821	1 345	(944)	(1 031)	10 806	9 817
Senior debt	9 249	7 650	1 038	1 103	–	–	10 287	8 753
Subordinated debt	517	683	–	–	–	377	517	1 060
Finance leases	–	–	2	4	–	–	2	4
Group loans	163	1 170	781	238	(944)	(1 408)	–	–
Other liabilities	192	56	361	330	5	–	558	386
TOTAL LIABILITIES	11 032	10 615	2 860	2 043	(901)	(995)	12 991	11 663
TOTAL EQUITY	2 754	1 268	1 740	1 491	978	1 064	5 472	3 823

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

** Group executive office numbers are presented net of group consolidation entries.

*** Transaction Capital's core financial ratios exclude once-off costs of R84 million attributable to the group relating to SA Taxi's ownership transaction with the South African National Taxi Council (SANTACO), which arose in the first half of the 2019 financial year. R81 million of these costs are non-cash and in accordance with IFRS 2. A further R3 million relates to early debt settlement costs.

NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September

FAIR VALUE DISCLOSURE

	Carrying value 2019 Audited Rm	Fair value 2019 Audited Rm	Carrying value 2018 Restated Audited Rm	Fair value 2018 Restated Audited Rm
ASSETS				
Loans and advances*	10 759	10 744	9 251	9 246
Purchased book debts	2 382	2 382	1 374	1 374
Other loans receivable	45	45	39	39
Trade and other receivables**	849	849	860	860
Cash and cash equivalents	919	919	900	900
TOTAL	14 954	14 939	12 424	12 419
LIABILITIES				
Interest-bearing liabilities	10 806	11 195	9 817	9 870
Fixed rate liabilities	266	279	240	247
Floating rate liabilities	10 540	10 916	9 577	9 623
Trade and other payables***	473	473	510	510
Other short-term borrowings	76	76	–	–
Bank overdrafts	381	381	116	116
TOTAL	11 736	12 125	10 443	10 496
NET EXPOSURE	3 218	2 814	1 981	1 923

* Loans and advances net of expected credit losses (ECL) and benefits ceded on insurance contracts to the credit provider. Loans and advances relating to repossessed stock of R58 million (2018: R137 million) are not financial assets and therefore have been excluded from loans and advances.

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

*** Revenue received in advance, deferred lease liabilities, VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables.

VALUATION METHODS AND ASSUMPTIONS:

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

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

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

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

NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September

LEVEL DISCLOSURE

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

2018 – Audited	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS				
Loans and advances: entry-level vehicles	–	–	23	23
Other financial assets	–	–	49	49
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				
Derivatives	–	124	–	124
TOTAL FINANCIAL ASSETS	–	124	72	196
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS				
Derivatives	–	4	–	4
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				
Derivatives	–	1	–	1
TOTAL FINANCIAL LIABILITIES	–	5	–	5

VALUATION METHODS AND ASSUMPTIONS:

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

Other financial assets: The valuation of other financial assets is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These represent the significant unobservable parameters applied in the fair value model. The group estimates the expected cash flows by considering all the contractual terms of the financial instrument. The discount rate applied to the expected future cash flows reflects specific risk premiums relating to the asset. This includes government risk, single project customer, no previous experience with client and small stock premium for valuations less than R250 million. The discount rate applied to the additional purchase price is based on the current South African prime interest rate.

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

LEVEL DISCLOSURE *continued*

RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS

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

	Fair value through profit or loss Rm	Fair value through other comprehensive income Rm	Total Rm
2018 – Audited			
Opening balance	88	–	88
Total gains or losses			
In profit or loss	(3)	–	(3)
Other movements*	(13)	–	(13)
CLOSING BALANCE OF FAIR VALUE MEASUREMENT	72	–	72

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

SENSITIVITY ANALYSIS OF VALUATIONS USING UNOBSERVABLE INPUTS

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

NOTES TO THE AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 September

LEVEL DISCLOSURE *continued*

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

	2019 Audited		2018 Audited	
	10% Favourable Rm	10% Unfavourable Rm	10% Favourable Rm	10% Unfavourable Rm
Loans and advances: entry-level vehicles				
SIGNIFICANT UNOBSERVABLE INPUT AND DESCRIPTION OF ASSUMPTION				
Average collateral value	1	(1)	1	(1)
Discount rate: the rate used to discount projected future cash flows to present value	1	(1)	1	(1)
TOTAL	2	(2)	2	(2)

	2019 Audited		2018 Audited	
	10% Favourable Rm	10% Unfavourable Rm	10% Favourable Rm	10% Unfavourable Rm
Other financial assets				
SIGNIFICANT UNOBSERVABLE INPUT AND DESCRIPTION OF ASSUMPTION				
Cash flows: change in the expected revenue	4	(4)	1	(1)
Cash flows: change in expected costs	<1	(<1)	<1	(<1)
Discount rate: the rate used to discount projected future cash flows to present value	2	(2)	1	(1)
TOTAL	6	(6)	2	(2)

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

NON-INTEREST REVENUE

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

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

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

	2019 Rm	2018 Restated* Rm
Non-interest revenue		
NON-INTEREST REVENUE COMPRISES:		
Net insurance result	364	301
Revenue from purchased book debts	902	562
Other non-interest revenue	1 422	1 472
Fee-for-service revenue	912	939
Commission income	75	69
Fee income	300	298
Revenue from sale of goods	74	73
Other income	61	93
TOTAL NON-INTEREST REVENUE	2 688	2 335

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



Transaction Capital

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