



# INCA TIMES

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INCA STAYS TRUE TO ITS COMMITMENTS

## FINANCIAL HIGHLIGHTS

### Chairman's report

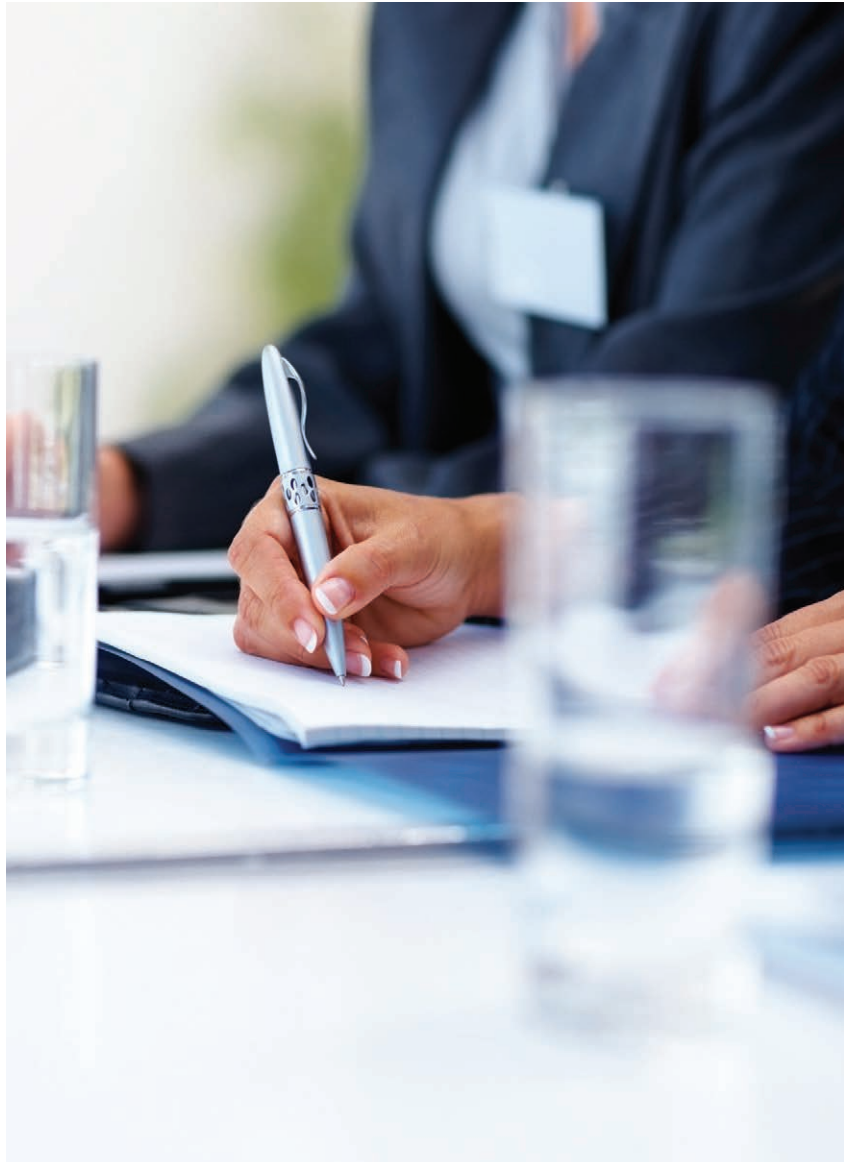
CORPORATE  
GOVERNANCE

DIRECTORATE

REPORT BY PORTFOLIO  
MANAGER

**2011**  
**FINANCIAL**  
**STATEMENTS**

# INCA successfully redeems R2,5 billion INO3 Bond

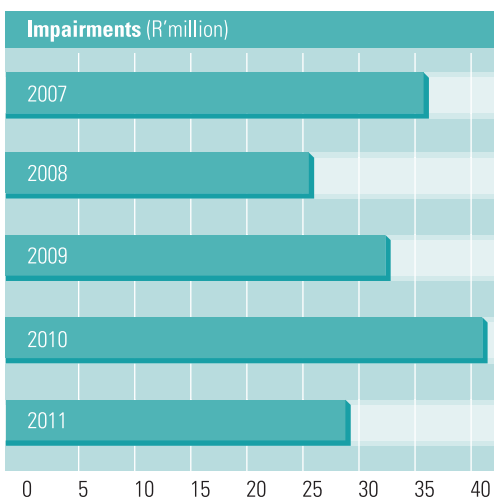
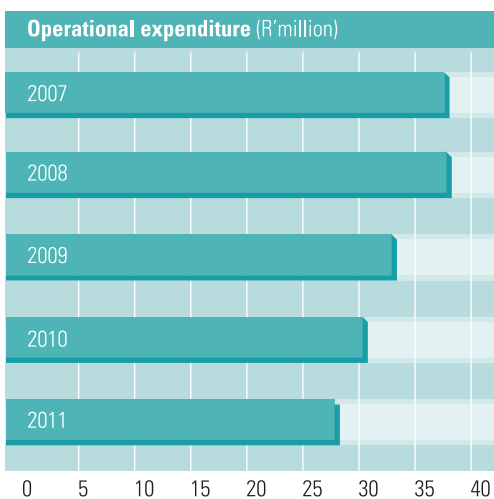
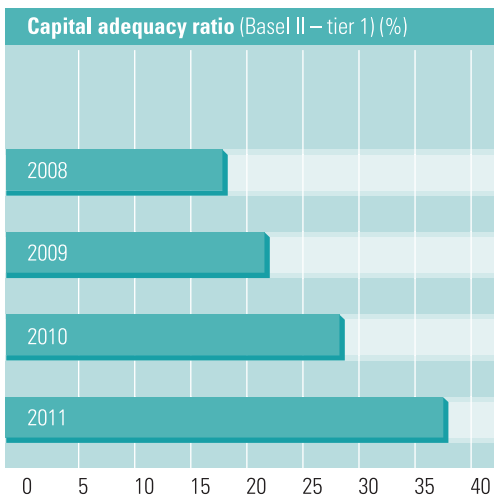


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- Outside back cover* Administration.

## FINANCIAL highlights

## Key figures and ratios



	Group Audited 12 months June 2011	Group Audited 12 months June 2010
<b>PERFORMANCE</b>		
Profit/(loss) for the period (R'000)	(34 558)	71 676
Profit for the period (excluding unrealised fair value adjustment) (R'000)	6 885	48 323
Earnings/(loss) per share (cents)	(4 431)	8 887
<b>SELECTED RETURNS</b>		
Return on weighted average shareholders' funds (per cent)	(6,71)	15,98
<b>CAPITAL ADEQUACY</b>		
Advances (R'000)	1 676 514	3 472 946
Total equity (R'000)	455 886	517 153
Total subordinated debt (R'000)	262 538	262 198
Risk weighted assets – Basel II (R'000)	1 169 390	1 621 692
Tier 1 capital – Basel II (R'000)	438 531	458 355
Capital adequacy ratio (equity and subordinated debt/advances) (percent)	42,85	22,44
Capital adequacy ratio (Basel II – tier 1) (percent)	37,50	28,26
<b>OFFICIAL RATINGS</b>		
Official credit rating – senior debt (Moody's)	Baa2.za	Baa1.za
– short term (Moody's)	P-2.za	P-2.za
<b>VALUE</b>		
Net asset value per share (R)	606	641

## Our operational activities

The Group's operational activities during the year focused primarily on:

- \* R2 515 million INO3 Bond was fully redeemed and all short term borrowings were repaid, resulting in a 54% decrease in borrowed funds to R1 832 million.
- \* Capital adequacy ratio showed a marked improvement with equity/total assets of 16,9% and equity and subordinated debt/advances reaching 42,9%.
- \* Although the net interest income declined 54% to R36 million, cash generated by operations was still a healthy R62 million.
- \* Operational expenditure decreased by a further 8,0% to R28 million.
- \* Impairments increased by R9 million resulting in total impairments of R30 million.

## DIRECTORATE

**JHDV Botha**<sup>#†</sup>

Director  
Independent

**AC Canter**<sup>\*■</sup>

Director  
Futuregrowth

**RW de Korte**<sup>†</sup>

Director  
Independent

**JF Howard**<sup>#</sup>

Director  
Futuregrowth

**R Kalaichelvan**

Director  
Kagiso

**H van Wyk**<sup>#\*■</sup>

Chairman  
Kagiso

**G McKenzie**<sup>#</sup>

Director  
FirstRand

**PGM Truyens**<sup>†\*■</sup>

Director  
Independent

**L Scholtz**

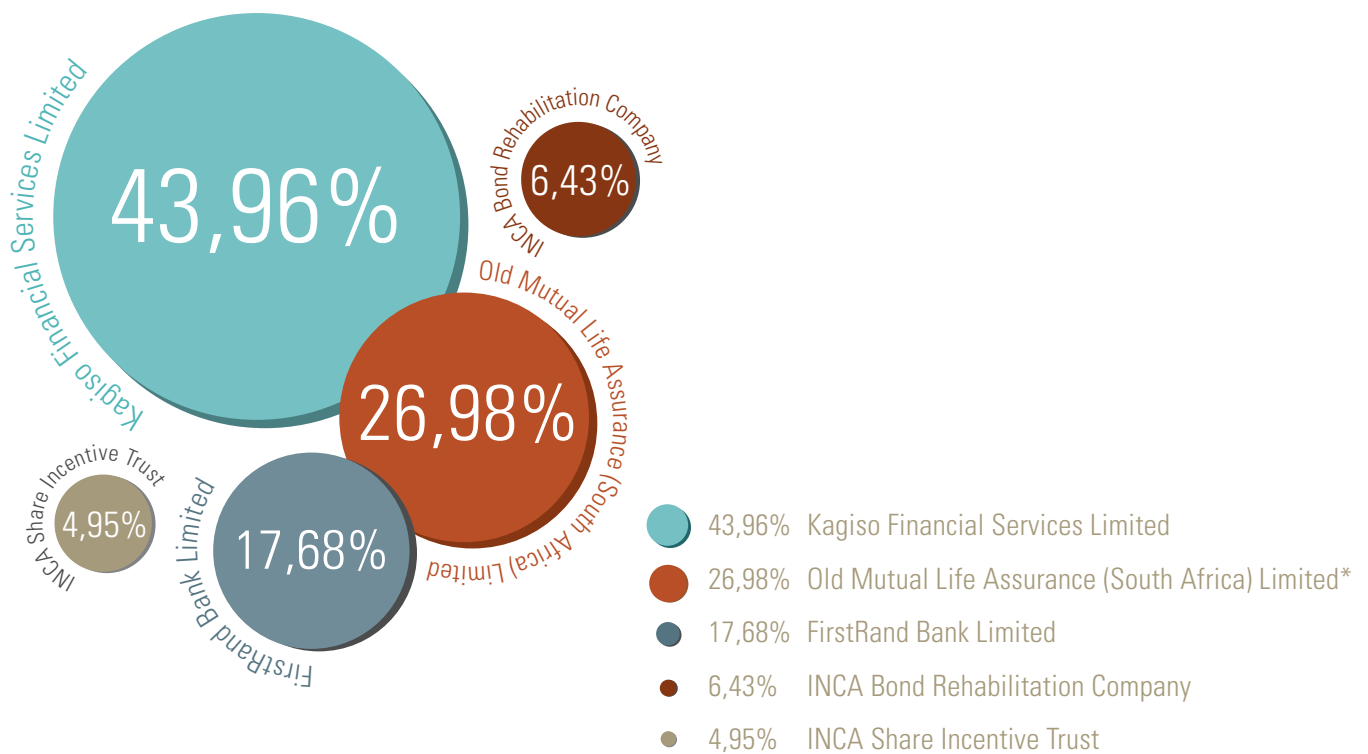
Director  
FirstRand

**P Rackstraw**  
Alternate Director  
Futuregrowth

**W Oudenhoven**  
Alternate Director  
FirstRand

Member of Investment and Review Committee #  
Member of Audit, Risk and Compliance Committee †  
Member of Asset Liability Committee \*  
Member of Market Value Verification Committee ■

## Shareholders



\* Held by Futuregrowth (Pty) Ltd

CHAIRMAN'S *statement*

# We implemented the strategy as promised



The Board and I remain committed to maintaining INCA's overall risk profile and financial robustness.

INCA's annual financial statements for the year ending 30 June 2011 reflect the effect of the decision by the Board of Directors and the shareholders to manage the portfolio down. Total assets decreased by 46% to R2 703 million, while total borrowed funds at year end stood at R1 832 million (R4 001 million: 2010).

I am pleased to report that INCA redeemed in full the R2 515 million INO3 Bond issue that matured on 30 June 2011, and we have also repaid all short term borrowings. Cash generated from operations, notwithstanding a much reduced portfolio, was R61,6 million and operational expenditure was curtailed at R27,8 million.

The Board and I remain committed to maintaining INCA's overall risk profile and financial robustness. In this respect I believe that when financial analysts and current investors in INCA Bonds study this report, they will concur that the dramatic improvement in the capital adequacy ratio is going a long way to achieve this.

From 1 July 2010, INCA Portfolio Managers (Pty) Ltd ("IPM") have been managing the portfolio of assets and liabilities, which is proving to work well. My thanks go to the IPM team who have ensured that INCA continues to maintain fiscal discipline and excellence. It made my task of Chairman, stepping into the shoes of our previous Chairperson, Joyce Matlala, a pleasure.

I would also like to thank my colleagues on the Board of Directors, and especially the independent directors, for their guidance and the role they have played over the past year. Together with the IPM team, we have succeeded in protecting the interest of all our stakeholders while maintaining high levels of corporate governance.

H van Wyk  
Chairman

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## CORPORATE *governance*

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### INTRODUCTION

The directors of INCA – which include non-executive shareholder representatives and independent non-executive directors – have endorsed the King Code of Corporate Practices and Governance (“the Code”) as set out in the first, second and third King Reports.

The high level of corporate discipline and transparency for which INCA is known was maintained during the 2010/11 financial year.

### FINANCIAL STATEMENTS

It is the directors’ responsibility to prepare financial statements that fairly present the financial position of the Group, its operations and cash flows. The external auditors are responsible for independently reviewing and reporting on these financial statements.

The annual financial statements set out in this report have been prepared by INCA Portfolio Managers (Pty) Ltd (“IPM”), who are contracted by the INCA Board of Directors to manage the Company, in accordance with International Financial Reporting Standards (“IFRS”). IPM has consistently applied appropriate accounting policies supported by reasonable and prudent judgments and estimates in preparing the financial statements.

### BOARD OF DIRECTORS

The Board of Directors retains full and effective control over the Group, monitors IPM and ensures material matters are subject to Board approval. IPM have reported to the Board and its main sub-committees on a quarterly basis.

All directors are entitled to access the services and advice of the Company Secretary. In addition, directors are entitled to seek independent professional advice about the Group’s affairs at the expense of the Company.

The Company has appointed three independent non-executive directors to provide a measure of balance and independence on the Board. In line with the new Companies Act, the Audit Committee consists only of independent directors.

Details of executive and non-executive directors are provided on pages 2 and 13 of this report.

### AUDIT, RISK AND COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee is composed of independent directors. IPM also attends all Audit, Risk and Compliance Committee meetings as do the external auditors. External audit provides comment on the fair presentation of the financial statements, the application of accounting policies, the effectiveness of risk management processes, management information systems and other systems of internal control.

The auditors are appointed each year by the shareholders based on the recommendations of the Audit, Risk and Compliance Committee.

### INVESTMENT AND REVIEW COMMITTEE

The primary responsibility of the Investment and Review Committee is to control the extent of credit exposure to any entity or related group of entities and considers on an ongoing basis the recommended credit quality of the entities in the portfolio. This committee meets a minimum of four times a year. The Investment and Review Committee consists of four non-executive directors, one of whom is the chairperson.

### ASSET LIABILITY COMMITTEE (“ALCO”)

ALCO meets quarterly and is chaired by a non-executive director, with one further non-executive director and one independent director serving on the committee. IPM attends all ALCO meetings.

The mandate of the committee is to ensure that liquidity risks, interest rate risks and currency risks for the Group are identified, measured, managed and appropriately reported on in a prudent manner. The Company’s detailed cash management process and funding strategy is also tabled at the quarterly ALCO meetings.

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## MARKET VALUE VERIFICATION COMMITTEE

The committee addresses market valuation issues emanating from the implementation of AC133. The committee consists of two non-executive directors and one independent director. IPM also attends the meetings. A member is drawn from each of the Investment and Review Committee; Audit, Risk and Compliance Committee; and ALCO Committee.

The committee meets twice a year before the finalisation of interim and annual financial statements.

The committee is mandated to:

- Review and approve IPM's procedure of generating discount rates for use in determining fair values of non-listed assets and liabilities;
- Ensure that the abovementioned procedure is properly documented and applied consistently;
- Ensure that any changes required to the procedures (due to changes in market conventions, benchmarks, the "passing of time", the use of new instruments, etc) has been considered and implemented appropriately;
- Ensure that any subjectivity within the procedure is kept to a minimum; and
- Ensure that the application of the procedure, as approved, has been audited by the external auditors. The external auditors review the procedure independently to determine fair values of non-listed assets and liabilities.

## HUMAN RESOURCES COMMITTEE

Due to IPM managing the Company, there are no longer any employees in INCA and the HR Committee stood down.

## INTERNAL CONTROL

The directors are responsible for maintaining an effective system of internal control, which provides reasonable assurance of effective and efficient operations and sound financial management.

Risk management is dealt with in an integrated way by the Chief Executive Officer and the executive team of IPM, and are reported on and discussed at each Audit, Risk and Compliance Committee meeting and by the Board of Directors.

## GOING CONCERN

The annual financial statements are prepared on a going concern basis. During the year nothing has come to the attention of the Board to indicate that the Company or its subsidiaries are not a going concern or will not remain a going concern during the next financial year.

PORTFOLIO *Manager's report*

# Building down the portfolio resulted in a SHARP INCREASE in capital adequacy



A carefully managed action plan – to buy back bonds issued to the market and to build up the required liquidity levels – enabled us to redeem in full the INO3 Bond (R2 515 million) when it matured on 30 June 2011.

## AJ van Zyl

Chief Executive Officer

This report reflects the financial performance of INCA and specifically the results flowing from the strategic decision by the Board of Directors and shareholders of INCA to manage the portfolio down.

A contract was entered into between the INCA Board of Directors and the previous staff of INCA (who have established an independent portfolio management and advisory services company – INCA Portfolio Managers (Pty) Ltd, trading as IPM) to manage the portfolio of INCA, based on the following key objectives:

- Maintain the overall risk profile of INCA;
- Serve the interest of all stakeholders (shareholders and investors);
- Where the opportunity exists, to accelerate the natural run-off of the portfolio; and
- Remove the asset and liability duration mismatches in the portfolio, especially as it relates to the detailed cash flow needs, while maintaining sufficient liquidity levels to meet all commitments.

As portfolio managers, we are pleased to report that, at the end of the first year, major progress was made in achieving the task set for us.

The INCA portfolio of assets decreased by 46% to R2 703 million, due to a significant number of advances and investments that matured and also as a result of the disposal of long dated advances to settle short dated liabilities.

A carefully managed action plan – to buy back bonds issued to the market and to build up the required liquidity levels – enabled us to redeem in full the INO3 bond (R2 515 million) when it matured on 30 June 2011. After successfully redeeming this bond, and having repaid all short term borrowings outstanding during the year, the cash and cash equivalent in the INCA portfolio was R245 million at year end.

The size of the INCA portfolio has changed dramatically during the year. While the total assets decreased by 46% as mentioned above, the advances during the year decreased by 52% to R1 677 million. On the liability side of the portfolio, we decreased the borrowed funds by 54% to R1 832 million.

Despite a very challenging economic climate and the knock-on effect that the recession had on household income and indeed on that of municipalities, the INCA advance book performed exceptionally well during the year. Impairment charges of R9 million are therefore comparable to those in the prior year, resulting in total cumulative impairments of R30 million.

Using the standard credit assessment methodology applied by INCA over the years, more than 85% of the borrowers in the portfolio were rated by IPM as above investment grade, while category 1 and 2 borrowers (reflecting an assessed credit risk of A- and higher) accounted for 54% of the advance book. The table on the next page reflects the changes in the risk composition of the portfolio over the past year.

Risk category	Fair value (in R'm)	% as at 30 June 2011	% as at 30 June 2010
Category 1 (AA- to AAA)	553,3	32	28
Category 2 (A- to A+)	370,3	22	39
Category 3 (BBB- to BBB+)	551,5	32	30
Below BBB- (Non-investment grade)	237,7	14	3
	1 712,8	100	100

The sharp increase in the non-investment grade category of the portfolio was due to IPM's assessment and recommendation to change one loan, valued at R206,0 million, to a non-investment grade quality. After planned financial restructuring, the credit quality of this loan is expected to improve to investment grade again.

The run-off of the portfolio has also resulted in exposure to fewer entities, and at year end the number of entities to which INCA is exposed has reduced to 52. As a consequence, the top 30 exposures in the term loan book represented 97% of the portfolio by value (see top 30 exposures table on pages 8 to 9).

At 30 June 2011 the face value of the top five municipal exposures came to R708,2 million, being 40% of the advance book. As detailed in note 5.2 to the financial statements, of the total advances of R1 676 million, R1 220 million matures after five years while R271 million matures within the next two years. The value of the rental and lease discount portfolio at year end was R82,1 million, with almost all of this portfolio maturing within the next two years.

Given the strategy to manage the portfolio down and the decrease in the advance book, it is to be expected that the net interest turn will decrease; so the reduction from R78,0 million in 2010 to R 35,9 million in 2011 was not unexpected. Despite this, cash generated from operations for the year came to R61,6 million (2010: R107,1 million) which was most pleasing. Included in this was R7,3 million fee and other income, which resulted mainly from the settlement of a lease discount transaction.

Operational expenditure was well curtailed at R27,8 million (2010: R30,4 million). In terms of the management contract entered into with IPM, these costs are expected to decrease further – especially in 2013.

INCA's liquidity policy requires that cash and near cash should be held to cover:

- Operational expenditure for six months;
- Plus interest and capital payable over the next six months;
- Minus interest and capital received over the next six months of:
  - Capital secured by zero coupon bonds;
  - 100% of category 1 assets;
  - 82% of category 2 assets;
  - 70% of category 3 assets;
  - 50% of category 4 assets; and
  - 0% of category 5 assets.

Throughout the year, the available liquidity has far outstripped the minimum requirement. The liquidity requirement has also dropped significantly since the INO3 Bond was redeemed and is calculated not to rise above R60 million for the next financial year. To the best of IPM's knowledge, available liquidity during the year will more than adequately cover the requirements during the next financial year.

During the year dividends paid (net of those to group companies and share trusts) amounted to R8,9 million. The group has also bought all the shares from two minority shareholders (Chanson Investment Holdings (Pty) Limited – 2%; Dexia Credit Local – 4,42%) for a total consideration of R17,8 million. These capital outflows, together with the comprehensive losses for the year, resulted in a decrease in the total equity of 12% to R456 million.

This relatively small decrease in equity, combined with the large decreases in total assets (46%) and the advance book (52%), resulted in a sharp improvement in INCA's capital adequacy ratio. Equity as a percentage of total assets increased to 16,9% (2010: 10,3%) and equity plus subordinated debt as a percentage of advances increased to 42,9% (2010: 22,4%). Notwithstanding the much improved capital adequacy ratios, the Board and shareholders resolved to only declare a dividend to be paid at the end of October 2011 on a par with the dividend distributed in the previous year. This resolution reflects the Board and shareholders' commitment to run the portfolio down in an orderly fashion and to ensure that INCA will at all times be in a position to meet its external obligations.

## PORTFOLIO *Manager's report continued*

Looking to the future, as the managers of INCA's portfolio, IPM is comfortable that the portfolio can continue to be managed down in a way that the interest of all stakeholders will be looked after. We are also committed, if and when the opportunity presents itself, to accelerate the run-down of the portfolio and to do that during the remaining two years of the fixed term contract (ending 30 June 2013) between INCA and IPM.

Importantly, we are pleased to be able to report that the level of corporate governance during the past year was maintained at a high level in INCA. As managers of the portfolio, IPM are also committed to continue managing the INCA business with the same dedication shown when we were employed full time by INCA and we will ensure that the required capacity is maintained.

We would like to express our appreciation to the INCA Board for the opportunity to continue managing the INCA portfolio, while we start to market our services to other infrastructure investors and borrowers.

### TOP 30 EXPOSURES

Counterparty	Senior/ subordinated	Security
Neotel (Pty) Ltd	Senior	Security package
Ethekwini MM	Senior	None
Netcare Consortium	Senior & debt	Security package
Tshwane MM	Senior	None
Johannesburg MM Group	Senior	None
City of Cape Town MM	Senior	None
Ekurhuleni MM	Senior	None
		2nd mortgage
South African Airways	Sub debt	on aircraft
		Guarantee by
SADC	Senior	Botswana Gov
Umhlathuze LM	Senior	None
Steve Tshwete LM	Senior	None
Moses Kotane LM	Senior	None
KZN Growth Fund	Senior & debt	Security package
Transnet Limited	Senior	None
Witwatersrand Technikon	Senior	None
Uthungulu DM	Senior	ZCB
Westonaria LM	Senior	None
Nkangala DM	Senior	None
Knysna LM	Senior	None
Greater Tzaneen Municipality	Senior	None
Sanral	Senior	None
Ventersdorp LM	Senior	None
Mafikeng	Senior	None
Msunduzi LM	Senior	None
Kwadukuza LM	Senior	ZCB
Sabre Homes Projects (Pty) Ltd	Senior	None
Belabela LM	Senior	None
Kouga LM	Senior	None
Thaba Chweu LM	Senior	ZCB
Free State University	Senior	None

#### Sub-total

#### Total book (excl rentals)

Official rating	Credit rating	30 June 2011		30 June 2010	
		Face value	% of total book	Face value	% of total book
	4	206 079 545,45	12	206 079 545,45	7
AA- GCR 2009	1	188 652 136,00	11	201 443 029,00	7
A- GCR 2010	3	179 139 945,93	10	193 222 696,47	6
Aa3 Moody's 2010	2	167 538 086,84	10	262 614 626,76	9
Aa3 Moody's 2010	1	113 770 324,48	7	164 220 660,94	5
Aa2 Moody's 2010	1	106 796 947,22	6	128 452 652,35	4
Aa2 Moody's 2011	1	93 454 267,48	5	296 490 383,96	10
	3	80 626 332,38	5	216 235 180,75	7
	3	54 132 268,00	3	64 542 522,21	2
	2	37 928 905,02	2	53 662 434,27	2
BBB+ GCR 2010	2	36 863 446,59	2	42 538 303 08	1
	3	34 391 374,20	2	36 149 969,40	1
	3	32 533 177,12	2	11 800 802,48	0
Aa3 Moody's 2010	1	31 654 767,23	2	46 270 889,70	2
	2	31 265 265,24	2	31 771 086,73	1
A- GCR 2009	2	26 526 098,66	2	26 726 601,86	1
Baa2 Moody's 2010	3	25 141 547,85	1	35 512 887,64	1
AA- Fitch 2010	2	24 290 245,89	1	26 181 316,80	1
Baa2 Moody's 2010	3	20 058 093,17	1	25 340 522,11	1
Baa2 Moody's 2010	3	19 829 408,06	1	21 357 971,15	1
Aa2 Moody's 2010	1	19 000 000,00	1	19 000 000,00	1
	4	17 533 192,66	1	18 109 427,23	1
	3	17 128 404,76	1	18 611 733,96	1
BBB GCR 2010	3	15 045 842,29	1	31 419 115,30	1
A3 Moody's 2010	2	14 472 145,85	1	35 344 084,30	1
	2	13 931 014,37	1	15 000 000,00	0
	3	13 127 529,94	1	14 363 942,50	0
A3 Moody's 2010	3	11 275 085,44	1	33 392 787,22	1
	4	10 233 275,33	1	10 719 075,71	0
	2	10 027 501,88	1	11 099 650,69	0
		<b>1 652 446 175,33</b>	<b>97</b>	2 297 673 900,02	75
		<b>1 713 074 628,46</b>	<b>100</b>	3 030 019 257,27	100



# Audited Annual Financial Statements

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Prepared by:  
Andries C Jansen van Vuuren CA(SA)

## DIRECTORS' *responsibility statement*

The directors are responsible for the preparation and fair presentation of the Company and Group annual financial statements, comprising the statements of financial position at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

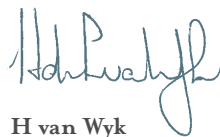
The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the Company and Group's ability to continue as a going concern and have no reason to believe the businesses will not be a going concern for the foreseeable future.

The external auditor is responsible for reporting on whether the Company and Group annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

### APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The Company and Group annual financial statements set out on pages 15 to 51 were considered by the Audit, Risk and Compliance Committee on 14 September 2011 and subsequently approved by the Board of Directors on 15 September 2011 and are signed on its behalf by:



**H van Wyk**  
Chairperson: Board of Directors



**P Truyens**  
Chairperson: Audit, Risk and  
Compliance Committee

## CERTIFICATION *by the company secretary*

**INCA**  
manages  
to settle  
R1,5 billion  
short term debt

In terms of section 88(2)(e) of the Companies Act, 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies, for the financial year ended 30 June 2011, all such returns as are required by a public company in terms of the Companies Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.



**JM Poulter**  
15 September 2011

## INDEPENDENT *auditor's report*

### *To the shareholders of Infrastructure Finance Corporation*

We have audited the Group annual financial statements and annual financial statements of Infrastructure Finance Corporation Limited, which comprise the consolidated and separate statements of financial position at 30 June 2011, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 15 to 51.

#### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### OPINION

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Infrastructure Finance Corporation Limited as at 30 June 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



#### Deloitte & Touche

Per: Paul Stedall  
Partner

22 September 2011

Deloitte & Touche  
Registered Auditors

Financial Services Team – FIST

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National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit DL Kennedy Risk Advisory & Legal Services NB Kader Tax L Geeringh Consulting L Bam Corporate Finance JK Mazzocco Human Resources CR Beukman Finance TJ Brown Chairman of the Board MJ Comber Deputy Chairman of the Board.

A full list of partners is available on request.

B-BBEE rating: level two contributor / AAA (certified by Empowerdex) Member of Deloitte & Touche Tohmatsu Limited

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## DIRECTORS' report

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### NATURE OF BUSINESS

The main business of Infrastructure Finance Corporation Limited ("INCA" or "the Company") remains that of providing largely unsecured debt finance to infrastructure providers.

### OPERATING RESULTS

The INCA Group (inclusive of subsidiaries listed in note 4) reflected a loss after tax of R35 million (2010: R72 million profit) and the Company reported a loss after tax of R38 million (2010: R67 million profit) for the financial year under review. Excluding unrealised fair value adjustments the Group reflected a profit after tax of R7 million (2010: R48 million profit) and the Company reported a loss after tax of R0,2 million (2010: R42 million profit).

### AUTHORISED AND ISSUED SHARE CAPITAL

The Company's authorised and issued share capital remained unchanged in the year under review (2010 – no change).

Treasury shares held by INCA Bond Rehabilitation Company (Proprietary) Limited ("IBRC") and the INCA Share Incentive Trust ("the Trust") are cancelled on consolidation. During the year under review IBRC increased its treasury shares in INCA to 54 571 shares (2010: 100 shares), while the Trust did not purchase or dispose of any of its shares.

### SUBORDINATED LIABILITIES

The fair value of total subordinated liabilities in issue at financial year end amounted to R262 million (2010: R262 million) and the maturity date of these subordinated liabilities are 2011 and 2015.

### DIVIDENDS

A dividend of R10 million (2010: R15 million) was declared, of which R8,9 million (2010: R14,3 million) (net of dividend to Group companies and the Trust) was distributed to shareholders in March 2011.

### DIRECTORS

The following changes to the Board of Directors occurred during the year under review and up to the date of publishing of this report:

- P Rackstraw was appointed as alternative director on 8 June 2010.
- W Oudenhoven was appointed as alternative director on 8 June 2010.
- J Stals resigned as director on 16 September 2010.
- J Matlala resigned as director on 16 September 2010.
- I Ayob resigned as director on 18 November 2010.
- JF Pouchous resigned as director on 3 March 2011.
- R Boqo resigned as director on 13 May 2011.
- D du Pont-Bouma resigned as director on 13 May 2011.
- L Gcwabe resigned as director on 13 May 2011.
- A van Zyl resigned as director on 13 May 2011.
- D Botha was appointed as a director on 1 August 2011.

### SECRETARY AND REGISTERED OFFICE

The address of the Company Secretary, JM Poulter, and of the registered office of the Company is recorded on the outside back cover of this report.

### SUBSIDIARY COMPANIES

INCA's 100% holding of the issued shares in INCA Bond Rehabilitation Company (Proprietary) Limited, INCA Asset Finance (Proprietary) Limited and Infrastructure Finance Corporation Africa (Proprietary) Limited did not change during the year under review. Details relating to INCA's subsidiary companies are reflected in note 4 of the annual financial statements. The interest of INCA in the after tax profits of its subsidiary companies for the year is R5 million (2010: R5 million). This profit was derived from Inca Bond Rehabilitation Company (Proprietary) Limited ("IBRC") as all other subsidiaries are dormant.

## DIRECTORS' *report continued*

### OWNERSHIP OF COMPANY

	Percentage holding	
	June 2011	June 2010
Chanson Investment Holdings (Proprietary) Limited	–	2,00
Dexia Credit Local	–	4,42
FirstRand Bank Limited	17,68	17,68
INCA Bond Rehabilitation Company (Proprietary) Limited	6,43	0,01
INCA Share Incentive Trust*	4,95	4,95
Old Mutual Life Assurance Company (South Africa) Limited (Futuregrowth Portfolio)	26,98	26,98
Kagiso Financial Services Limited	43,96	43,96
	<b>100,00</b>	100,00

### \*INCA SHARE INCENTIVE TRUST

The Trust was formed for the purpose of the share incentive scheme. The details of the staff incentive scheme are disclosed in note 11.1. A total of 42 007 (2010: 42 007) INCA ordinary shares are currently held by the INCA Share Incentive Trust.

### BORROWING POWERS

The Company has unlimited borrowing powers.

### SUBSEQUENT EVENTS

There were no other events subsequent to year end which would impact on the reported figures.

### COUNTRY OF INCORPORATION

Republic of South Africa.

## AUDIT, RISK AND COMPLIANCE *committee report*

The Committee is satisfied that the external auditors are independent of Infrastructure Finance Corporation Limited ("INCA") and its subsidiaries and confirms that it has carried out those functions and responsibilities required in terms of the Companies Act of South Africa as set out below. The Committee concurs with and accepts the external auditors' conclusion on the annual financial statements and has recommended the approval thereof to the Board of Directors. The Board has subsequently approved these annual financial statements.

### THE KEY FUNCTIONS AND RESPONSIBILITIES OF THE COMMITTEE ARE TO:

- Assist the Board of Directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and monitoring processes applied within the Group in the day-to-day management of its business;
- Facilitate and promote communication between the Board, management and the external auditors;
- Introduce such measures as in the Committee's opinion may serve to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the Group;
- Nominate for appointment as auditors of the Company and its subsidiaries registered auditors who, in the opinion of the committee, are independent of the Group;
- Determine the fees to be paid to the auditors and the auditors' terms of engagement;
- Ensure that the appointment of the auditors complies with the Companies Act and any other legislation relating to the appointment of auditors;
- Determine the nature and extent of any non-audit services that the auditors may provide to the Group and confirm their independence;
- Review and discuss the audited annual financial statements included in the annual report with the external auditors and INCA Portfolio Managers (Pty) Limited (IPM); and
- Review significant adjustments resulting from external audit queries and accept immaterial unadjusted audit differences.

**Chairperson: Audit, Risk and Compliance Committee**

15 September 2011

## CONSOLIDATED *statements of financial position*

at 30 June 2011

Notes	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>ASSETS</b>				
Cash and cash equivalents	245 249	640 346	245 239	637 421
Other assets	31 733	68 919	31 707	68 822
South African Revenue Services	3 271	–	4 776	–
Investments	741 628	818 831	713 300	852 045
Derivative financial instruments	4 082	33 565	4 082	33 565
Advances	1 676 514	3 472 946	1 666 376	3 414 944
Property, plant and equipment	619	3 281	619	3 281
<b>Total assets</b>	<b>2 703 096</b>	<b>5 037 888</b>	<b>2 666 099</b>	<b>5 010 078</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	752	807	849	849
Share premium	92 241	99 045	105 988	105 988
Unrealised fair value reserve	17 355	58 798	8 741	47 114
Retained earnings	345 538	358 503	304 990	315 006
Total equity	455 886	517 153	420 568	468 957
<b>Liabilities</b>				
Subordinated borrowed funds	262 538	262 198	262 538	262 198
Borrowed funds	1 832 162	4 001 462	1 832 162	4 001 462
Trade and other payables	51 912	96 509	51 341	120 815
Taxation payable	–	26 450	–	24 807
Derivative financial instruments	82 981	119 699	82 981	119 699
Deferred taxation	17 617	14 417	16 509	12 140
Total liabilities	2 247 210	4 520 735	2 245 531	4 541 121
<b>Total equity and liabilities</b>	<b>2 703 096</b>	<b>5 037 888</b>	<b>2 666 099</b>	<b>5 010 078</b>
Approximate rates of exchange ruling at the end of the year:				
USD	6,7430	7,6650		
EUR	9,7796	9,3784		
GBP	10,8182	11,4557		

## CONSOLIDATED *statements of comprehensive income*

for the year ended 30 June 2011

	Notes	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
Interest and similar income	13	607 935	941 166	597 111	930 356
Interest expense and similar charges	14	(571 994)	(863 103)	(571 908)	(863 103)
<b>Net interest income</b>		<b>35 941</b>	<b>78 063</b>	<b>25 203</b>	<b>67 253</b>
Impairment on other debtors	3	(786)	–	(786)	–
Impairment on lease receivables and advances	5.8	(8 013)	(8 619)	(8 013)	(8 619)
<b>Net interest income after impairment</b>		<b>27 142</b>	<b>69 444</b>	<b>16 404</b>	<b>58 634</b>
Fair value adjustment – realised	15.1	462	24 080	456	24 080
– unrealised	15.2	(57 560)	32 434	(53 296)	35 298
Fee and other income	16	7 339	841	8 067	1 817
<b>Net (loss)/income before operating expenditure</b>		<b>(22 617)</b>	<b>126 799</b>	<b>(28 369)</b>	<b>119 829</b>
Operating expenditure	17	(27 861)	(30 406)	(27 736)	(30 288)
<b>(Loss)/profit before taxation</b>		<b>(50 478)</b>	<b>96 393</b>	<b>(56 105)</b>	<b>89 541</b>
Taxation	18.1	15 920	(24 717)	17 716	(22 592)
<b>(Loss)/profit for the year</b>		<b>(34 558)</b>	<b>71 676</b>	<b>(38 389)</b>	<b>66 949</b>
Other comprehensive income		–	–	–	–
<b>Total comprehensive (loss)/income for the year</b>		<b>(34 558)</b>	<b>71 676</b>	<b>(38 389)</b>	<b>66 949</b>

## CONSOLIDATED *statements of changes in equity*

for the year ended 30 June 2011

Group	Share capital R'000	Share premium R'000	Unrealised fair value reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 30 June 2009	807	99 045	35 446	324 436	459 734
Dividend paid for 2009 net of dividend to Group companies and Share Trust	–	–	–	(14 257)	(14 257)
Total comprehensive income for the year	–	–	23 352	48 324	71 676
<b>Balance at 30 June 2010</b>	<b>807</b>	<b>99 045</b>	<b>58 798</b>	<b>358 503</b>	<b>517 153</b>
Treasury shares acquired	(55)	(6 804)	–	(10 988)	(17 847)
Dividend paid for 2010 net of dividend to Group companies and Share Trust	–	–	–	(8 862)	(8 862)
Total comprehensive loss for the year	–	–	(41 443)	6 885	(34 558)
<b>Balance at 30 June 2011</b>	<b>752</b>	<b>92 241</b>	<b>17 355</b>	<b>345 538</b>	<b>455 886</b>

Company	Share capital R'000	Share premium R'000	Unrealised fair value reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 30 June 2009	849	105 988	21 699	288 472	417 008
Dividend paid for 2009	–	–	–	(15 000)	(15 000)
Total comprehensive income for the year	–	–	25 415	41 534	66 949
<b>Balance at 30 June 2010</b>	<b>849</b>	<b>105 988</b>	<b>47 114</b>	<b>315 006</b>	<b>468 957</b>
Dividend paid for 2010	–	–	–	(10 000)	(10 000)
Total comprehensive loss for the year	–	–	(38 373)	(16)	(38 389)
<b>Balance at 30 June 2011</b>	<b>849</b>	<b>105 988</b>	<b>8 741</b>	<b>304 990</b>	<b>420 568</b>

## CONSOLIDATED *cash flow statements*

for the year ended 30 June 2011

	Notes	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from borrowers and customers	A.1	351 228	575 934	343 877	568 314
Cash paid to lenders, employees and suppliers	A.2	(540 818)	(850 933)	(540 607)	(850 815)
Cash receipts from investments and cash balances	A.3	251 193	382 138	249 716	380 505
Cash generated from operations	A.6	61 603	107 139	52 986	98 004
Normal taxation paid	A.4	(10 601)	(22 452)	(7 498)	(17 519)
Dividends paid		(8 862)	(14 257)	(10 000)	(15 000)
<b>CHANGES IN OPERATING FUNDS</b>					
Decrease in income earning assets	A.6	1 837 146	1 473 041	1 853 814	1 474 701
Decrease in non-income earning assets	A.7	36 400	58 555	36 329	58 495
Decrease in borrowings, derivatives and other payables	A.8	(2 299 253)	(1 573 157)	(2 324 130)	(1 569 802)
Net change in operating funds		(425 707)	(41 561)	(433 987)	(36 606)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(383 567)</b>	<b>28 869</b>	<b>(398 499)</b>	<b>28 879</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payments for property, plant and equipment		(183)	(229)	(183)	(229)
Proceeds from disposal of property, plant and equipment		6 500	3	6 500	3
<b>Net cash inflow/(outflow) from investing activities</b>		<b>6 317</b>	<b>(226)</b>	<b>6 317</b>	<b>(226)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Purchase of minority shareholders' shares (treasury shares)		(17 847)	–	–	–
<b>Net cash outflow from financing activities</b>		<b>(17 847)</b>	<b>–</b>	<b>–</b>	<b>–</b>
(Decrease)/increase in cash and cash equivalents		(395 097)	28 643	(392 182)	28 653
Cash and cash equivalents at the beginning of the year		640 346	611 703	637 421	608 768
<b>Cash and cash equivalents at the end of the year</b>		<b>245 249</b>	<b>640 346</b>	<b>245 239</b>	<b>637 421</b>

## NOTES to the consolidated cash flow statements

for the year ended 30 June 2011

	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>A. CASH FLOW INFORMATION</b>				
<b>A.1 Cash receipts from borrowers and customers</b>				
Interest income	349 764	538 851	340 417	529 674
Realised (losses)/gains on advances	(141)	37 119	(147)	37 119
Fee and other income	3 335	841	4 063	1 817
Deduct amortisation of discount income	(1 730)	(877)	(456)	(296)
Total cash receipts from borrowers and customers	351 228	575 934	343 877	568 314
<b>A.2 Cash paid to lenders, employees and suppliers</b>				
Interest expense	(571 994)	(863 103)	(571 908)	(863 103)
Realised gains on long term liabilities	–	548	–	548
Add amortisation of discount expense	58 688	41 693	58 688	41 693
	(513 306)	(820 862)	(513 220)	(820 862)
Operating expenses excluding depreciation	(27 512)	(30 071)	(27 387)	(29 953)
Total cash paid to lenders, employees and suppliers	(540 818)	(850 933)	(540 607)	(850 815)
<b>A.3 Cash receipts from investments and cash balances</b>				
Interest income	254 428	397 123	252 951	395 493
Preference and ordinary dividends	3 743	5 192	3 743	5 189
Realised profits/(losses) on investments and derivatives	603	(13 587)	603	(13 587)
Deduct amortisation of discount income	(7 581)	(6 590)	(7 581)	(6 590)
Total cash receipts from investments and cash balances	251 193	382 138	249 716	380 505
<b>A.4 Normal taxation paid</b>				
Amounts payable at the beginning of the year	(26 450)	(27 840)	(24 807)	(24 217)
Statement of comprehensive income charge	19 120	(21 062)	22 085	(18 109)
Amounts (receivable)/payable at the end of the year	(3 271)	26 450	(4 776)	24 807
Normal tax paid	(10 601)	(22 452)	(7 498)	(17 519)
<b>A.5 Reconciliation of (loss)/profit before taxation to cash generated from operations</b>				
(Loss)/profit before taxation	(50 478)	96 393	(56 105)	89 541
Non-cash charges:				
Depreciation	349	335	349	335
(Profit)/loss on disposal of plant and equipment	(4 004)	83	(4 004)	83
Impairment on lease receivables and advances	8 013	8 619	8 013	8 619
Impairment on other assets	786	–	786	–
Amortisation of discount income	(9 311)	(7 467)	(8 037)	(6 886)
Amortisation of discount expense	58 688	41 693	58 688	41 693
Revaluation of investments and advances	37 787	41 192	33 523	38 328
Revaluation of subordinated debt and long term borrowings	21 903	(73 918)	21 903	(73 918)
Revaluation currency translation gains and losses	(2 130)	209	(2 130)	209
Cash generated from operations	61 603	107 139	52 986	98 004

## NOTES to the consolidated cash flow statements continued

for the year ended 30 June 2011

	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>A.6 Decrease in income earning assets</b>				
Investments	77 203	259 881	138 745	263 809
Advances	1 796 432	1 255 504	1 748 568	1 250 953
Add: amortisation of discount income	9 311	7 467	8 037	6 886
Revaluation of advances and investments	(37 787)	(41 192)	(33 523)	(38 328)
Impairment on advances	(8 013)	(8 619)	(8 013)	(8 619)
Net decrease in income earning assets	1 837 146	1 473 041	1 853 814	1 474 701
<b>A.7 Decrease in non-income earning assets</b>				
Accrued interest	32 529	58 692	32 504	58 632
Decrease/(increase) in other debtors	3 871	(137)	3 825	(137)
Net decrease in non-income earning assets	36 400	58 555	36 329	58 495
<b>A.8 Decrease in borrowings, derivatives and other payables</b>				
Decrease in borrowed funds and derivative financial instruments	(2 176 535)	(1 091 119)	(2 176 535)	(1 091 119)
Add amortisation of discount expense	(58 688)	(41 693)	(58 688)	(41 693)
Revaluation of borrowed funds and derivatives	(19 434)	72 863	(19 434)	72 863
Increase in subordinated borrowed funds	340	159 154	340	159 154
Revaluation of subordinated borrowed funds	(339)	846	(339)	846
Decrease in trade and other payables	(44 597)	(673 208)	(69 474)	(669 853)
Net decrease in borrowings, derivatives and other payables	(2 299 253)	(1 573 157)	(2 324 130)	(1 569 802)

# NOTES to the consolidated annual financial statements

for the year ended 30 June 2011

## 1 ACCOUNTING POLICIES

The Group adopts the following accounting policies in preparing its consolidated annual financial statements.

### Adoption of new and revised Standards

#### *Standards and Interpretations effective in the current period*

The following new and revised Standards and Interpretations have been adopted in the current period. Their adoption did not have any significant impact on the amounts reported and were more focused on the presentation and disclosure made in these annual financial statements.

- IFRS 3, Business Combinations – Revised May 2010 – Effective for annual periods beginning on or after 1 July 2010.
- IAS 1, Presentation of Financial Statements – Revised April 2009 – Effective for annual periods beginning on or after 1 January 2010.
- IAS 7, Statements of Cash flow – Revised April 2009 – Effective for annual periods beginning on or after 1 January 2010.
- IAS 17, Leases – Revised April 2009 – Effective for annual periods beginning on or after 1 January 2010.
- IAS 27, Consolidated and Separate Financial statements – Revised May 2010 – Effective for annual periods beginning on or after 1 July 2010.
- IAS 32, Financial instruments presentation – Revised 2009 – Effective for annual periods beginning on or after 1 February 2010.
- IAS 36, Impairments of Assets – Revised April 2009 – Effective for annual periods beginning on or after 1 January 2010.
- IAS 39, Financial instruments: Recognition and Measurement – Revised April 2009 – Effective for annual periods beginning on or after 1 January 2010.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments – Issued November 2009 – Effective for annual periods beginning on or after 1 July 2010.

#### *Standards and Interpretations in issue not yet adopted*

At the date of authorisation of these annual financial statements, the following relevant Standards were in issue but not yet effective:

- IFRS 7, Financial Instruments: Disclosures – Revised October 2010 – Effective for annual periods beginning on or after 1 July 2011.
- IFRS 9, Financial Instruments: Classification and measurement – Issued November 2009 – Effective for annual periods beginning on or after 1 January 2013.
- IFRS 10, Consolidated Financial Statements – Issued May 2011 – Effective for annual periods beginning on or after 1 January 2013.
- IFRS 11, Joint arrangements – Issued May 2011 – Effective for annual periods beginning on or after 1 January 2013.
- IFRS 12, Disclosure of Interests in Other Entities – Issued May 2011 – Effective for annual periods beginning on or after 1 January 2013.
- IFRS 13, Fair Value Measurement – Issued May 2011 – Effective for annual periods beginning on or after 1 January 2013.
- IAS 1, Presentation of Financial Statements – Revised June 2011 – Effective for annual periods beginning on or after 1 January 2012.
- IAS 12, Income Taxes – Revised December 2010 – Effective for annual periods beginning on or after 1 January 2012.
- IAS 19, Employee Benefits – Amended June 2011 – Effective for annual periods beginning on or after 1 January 2013.
- IAS 24, Related Party Disclosures – Revised November 2009 – Effective for annual periods beginning on or after 1 January 2011.
- IAS 27, Consolidated and Separate Financial Statements – Revised May 2011 – Effective for annual periods beginning on or after 1 January 2013.
- IAS 34, Interim Financial Reporting – Revised May 2010 – Effective for annual periods beginning on or after 1 January 2011.
- IFRIC 14, Prepayments of Minimum Funding Requirement – Revised November 2009 – Effective for annual periods beginning on or after 1 January 2011.

The directors anticipate that the adoption of these Standards in future years will have no material impact on the annual financial statements of the Group, other than significant disclosure and additional effort and resources.

### 1.1 Basis of presentation

The Group's consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, and the requirements of the Companies Act of South Africa.

The consolidated annual financial statements are prepared on the historical cost basis, except for the following assets and liabilities that are stated at fair value:

- Derivative financial instruments; and
- Financial assets and financial liabilities designated at fair value through profit or loss.

### 1.2 Consolidation

The consolidated annual financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Group, directly or indirectly, has a long term interest and the power to exercise control over the operations. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

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## NOTES to the consolidated annual financial statements continued

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### 1 ACCOUNTING POLICIES *continued*

#### 1.2 Consolidation *continued*

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date of disposal. The Group recognises assets and liabilities acquired in its statement of financial position at their estimated fair values at the date of acquisition. It eliminates all intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies.

#### 1.3 Revenue recognition

##### 1.3.1 Interest income and expense

The Group recognises interest income and expense on an accrual basis in profit or loss using the effective interest method taking into account the expected timing and amount of cash flows. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

##### 1.3.2 Fair value adjustments (realised and unrealised)

The Group includes profits, losses and fair value adjustments on financial instruments, both realised and unrealised, in income as earned.

##### 1.3.3 Fee and other income

The Group recognises fee and other income on an accrual basis when the service is rendered to clients and the amount of revenue from the transaction or service can be reliably measured. The Group recognises revenue for services rendered to customers based on the estimated outcome of the transactions. When the outcome can be reliably estimated, transaction revenue is recognised by reference to the stage of completion of the transaction at the date of the statement of financial position. The stage of completion is measured based on the amount of work performed. When the outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are recoverable.

##### 1.3.4 Dividends

The Group recognises dividends on the date of declaration for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

#### 1.4 Foreign currency transactions

The Group converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the date of the statement of financial position. Exchange differences on monetary financial assets and liabilities measured at fair value are included in the statement of comprehensive income for the year.

#### 1.5 Taxation

##### 1.5.1 Current taxation assets and liabilities

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates enacted or substantively enacted at the balance sheet date.

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- A transaction or event which is recognised, in the same or a different period, directly in equity; or
- A business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

##### 1.5.2 Deferred taxation assets and liabilities

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## for the year ended 30 June 2011

A deferred taxation liability is recognised for all taxable temporary differences.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### 1.5.3 *Current and deferred taxation for the period*

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

## 1.6 Recognition of assets, liabilities and provisions

### 1.6.1 *Assets*

The Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

### 1.6.2 *Contingent assets*

The Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control.

### 1.6.3 *Liabilities and provisions*

The Group recognises liabilities, including provisions when:

It has a present legal or constructive obligation as a result of past events, and

- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

### 1.6.4 *Contingent liabilities*

The Group discloses a contingent liability where:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- It is not probable that an outflow of resources will be required to settle an obligation; or
- The amount of the obligation cannot be measured with sufficient reliability.

### 1.6.5 *Sale and repurchase agreements*

The Group annual financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as trading or investment stock. These instruments are measured at fair value, with changes in fair value reported in the statement of comprehensive income. The counterparty liability is included in long term liabilities at fair value on the date of the statement of financial position.

Securities purchased under agreements to resell ("reverse repos") are recorded in other assets. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

The Group recognises all sale and repurchase agreements on trade date.

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## NOTES to the consolidated annual financial statements continued

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### 1 ACCOUNTING POLICIES *continued*

#### 1.7 Offsetting financial instruments

The Group offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

- There is a legally enforceable right to set off; and
- There is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously; and
- The maturity date for the financial asset and liability is the same; and
- The financial asset and liability is denominated in the same currency.

#### 1.8 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise:

- Coins and bank notes; and
- Money at call and short notice.

#### 1.9 Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### 1.9.1 *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

##### 1.9.2 *Financial assets at FVTPL*

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Various instruments are designated as at FVTPL which is consistent with the Group's documented valuation policy. The risk of the portfolio is managed on a fair value basis. Performance measurement of the portfolio is based on the fair value method and is reported to key management staff on a regular basis.

Consistent with the criteria above, the funding of the Group is largely raised on the debt capital market and thus exposed to fair value movements, thus to avoid a possible valuation mismatch, related assets are designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 22.

##### 1.9.3 *Available-for-sale financial assets*

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 22. Gains and losses arising from changes in fair value are recognised directly in equity in the investments' revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised

## for the year ended 30 June 2011

directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments' revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the date of the statement of financial position. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

### 1.9.4 *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

### 1.9.5 *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each date of the statement of financial position. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of rentals where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

### 1.9.6 *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## 1.10 **Financial liabilities issued by the Group**

### 1.10.1 *Financial guarantee contract liabilities*

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out at 1.3 above.

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## NOTES to the consolidated annual financial statements continued

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**1 ACCOUNTING POLICIES** *continued***1.10 Financial liabilities issued by the Group** *continued***1.10.2 Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

**1.10.3 Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 21.

**1.10.4 Other financial liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

**1.10.5 Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**1.11 Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Further details of derivative financial instruments are disclosed in note 21.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each date of the statement of financial position. The resulting gain or loss is recognised in profit or loss immediately. Thus the Company elected not to do hedge accounting.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

**1.12 Property, plant and equipment**

The Group carries property and equipment at cost less accumulated depreciation.

It depreciates equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

## for the year ended 30 June 2011

The periods of depreciation used are as follows:

Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

The Group impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset. Repairs and maintenance costs are charged to the statement of comprehensive income as they are incurred. Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and is recognised in the statement of comprehensive income in the year of the disposal.

### 1.13 Intangible assets

#### 1.13.1 *Computer software development costs*

The Group generally expenses computer software development costs in the year incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Group exceeding the costs incurred for more than one accounting period, the Group capitalises such costs and recognise them as an intangible asset.

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the statement of comprehensive income when incurred.

#### 1.13.2 *Other intangible assets*

The Group does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts. It charges costs incurred on trademarks, concessions, patents and similar rights and assets, whether purchased or created by it, to the statement of comprehensive income in the year in which the costs are incurred.

Amortisation of and impairments of intangible assets are reflected under operating expenditure in the statement of comprehensive income.

### 1.14 Employee benefits

#### 1.14.1 *Post-employment benefits*

The Group contributes to a defined contribution scheme for the benefit of some employees. The rest of the employees are responsible for their own retirement planning and as such are members of various South African Pension and Provident Fund Schemes. These funds are registered in terms of the Pension Funds Act, 1956. The Group does not administer any Pension Fund Scheme and has no obligation in relation to any of the abovementioned funds. The Group expenses current service costs in the year in which it is incurred.

#### 1.14.2 *Termination benefits*

The Group recognises termination benefits as a liability in the statement of financial position and as an expense in the statement of comprehensive income when it has a present obligation relating to termination.

#### 1.14.3 *Leave pay accrual*

The Group recognises in full employees' rights to annual leave entitlement in respect of past service as a liability in the statement of financial position and an expense in the statement of comprehensive income.

#### 1.14.4 *Share appreciation rights obligation*

The Group recognises the liability at fair value on the date of the statement of financial position and the movement for the year is expensed in the statement of comprehensive income.

### 1.15 Related party transactions

All related party transactions are at arm's length and incurred in the ordinary course of business, except for the interest free loan to the INCA Share Incentive Trust.

### 1.16 Fiduciary activities

The Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these annual financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

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## NOTES to the consolidated annual financial statements continued

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### 1.17 Borrowing costs

Borrowing costs are recognised in profit or loss in the year in which they are incurred.

### 1.b CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

#### 1.b.1 Use of estimates, assumption and judgments

The preparation of the annual financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affected the reported amounts of assets, liabilities and contingent liabilities at the date of the statement of financial position as well as affecting the reported income and expenses for the year. Although estimates are based on management's best knowledge and judgment of current facts as at the date of the statement of financial position, the actual outcome may differ from those estimates.

#### 1.b.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### 1.b.2.1 *Useful lives of property, plant and equipment*

As described at 1.12 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

##### 1.b.2.2 *Fair value of derivatives and other financial instruments*

The fair value of financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. The fair values are determined according to the valuation policy approved by the Market Value Verification Committee. To the extent practical, valuation models only use observable data, however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

for the year ended 30 June 2011

	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>2 CASH AND CASH EQUIVALENTS</b>				
Bank balances	159 188	44 601	159 182	42 010
Call deposits with financial institutions	86 061	595 745	86 057	595 411
	<b>245 249</b>	<b>640 346</b>	<b>245 239</b>	<b>637 421</b>
<b>3 OTHER ASSETS</b>				
Accrued interest	23 077	55 606	23 069	55 573
Other debtors	9 442	13 313	9 424	13 249
Impairment on other debtors	(786)	–	(786)	–
	<b>31 733</b>	<b>68 919</b>	<b>31 707</b>	<b>68 822</b>
<b>4 INVESTMENTS</b>				
<b>4.1 Rand Merchant Bank</b>	<b>242 929</b>	<b>283 108</b>	<b>242 929</b>	<b>283 108</b>
<b>4.2 Loan to INCA Share Incentive Trust</b>			<b>22 816</b>	<b>22 816</b>
<b>4.3. Zero coupon bonds</b>	<b>4 732</b>	<b>107 596</b>	<b>4 732</b>	<b>107 596</b>
Capital market stock	445 016	318 050	445 016	318 050
<b>Other investments:</b>				
<b>4.4 Preference shares</b>	<b>47 765</b>	<b>54 986</b>	<b>47 765</b>	<b>54 986</b>
Dividend income fund	–	42 761	–	42 761
<b>Investment in and loans to subsidiaries:</b>				
<b>4.5 INCA Bond Rehabilitation Company (Proprietary) Limited</b>				
• Investment in ordinary shares			14 000	14 000
• Intercompany loan			(65 282)	(3 740)
<b>4.6 INCA Asset Finance (Proprietary) Limited</b>				
• Investment in ordinary shares			253	253
• Intercompany loan			(116)	(116)
<b>4.7 Infrastructure Finance Corporation Initiative (Proprietary) Limited</b>				
• Investment in ordinary shares			1	1
<b>4.8 Retention deposits held</b>	<b>1 186</b>	<b>12 330</b>	<b>1 186</b>	<b>12 330</b>
	<b>741 628</b>	<b>818 831</b>	<b>713 300</b>	<b>852 045</b>

4.1 INCA received a loan of EUR40 million from the European Investment Bank. These funds were deposited with Rand Merchant Bank (a division of FirstRand Bank Limited) in ZAR, with the exchange risks hedged through a common terms currency agreement.

4.2 The Company made an interest free loan, secured by the shares held in the INCA Share Incentive Trust, to the Trust to acquire shares in the Company. The loan has no fixed terms of repayment.

4.3 The zero coupon bonds represent deposits with financial institutions. These investments are partially offset by zero coupon liabilities to municipalities. (See note 10.3)

4.4 On 29 July 2005 INCA invested R73 116 000 in non-cumulative redeemable preference shares in Sechold Financial Services (Proprietary) Limited and will be redeemed on 20 March 2017. These shares were pledged as part security for a R112 million liquidity facility with Investec Bank Limited.

4.5 The Company acquired a 100% interest in INCA Bond Rehabilitation Company (Proprietary) Limited on 9 January 2000. The Company is involved in the acquisition of non-investment grade municipal stock in the secondary market which it will hold until rehabilitated and thereafter such stock may be realised. The issued ordinary capital of the company is R1 000.

4.6 On 20 November 2002 Infrastructure Asset Finance (Proprietary) Limited ("INCAfin") was incorporated and on 13 February 2003, INCA subscribed for 51 000 shares out of a total of 90 000 shares issued (56,7%) at a total cost of R51 000. INCAfin discounts movable asset related rental agreements in the statutory sector.

INCA acquired the remaining shares from the minority shareholders with effect from 15 December 2004 to increase its shareholding to 100%. INCA has incorporated INCAfin's operations into its own since 2009.

4.7 The company is dormant.

4.8 The amount was withheld from service providers in respect of the rental portfolio. This amount is invested on behalf of the third parties and paid out when the service is provided to our clients.

## NOTES to the consolidated annual financial statements continued

	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>5 ADVANCES</b>				
<b>5.1 Valuation profile</b>				
Advances at fair value	1 575 545	3 001 488	1 565 407	2 942 587
Lease receivables at cost	129 681	512 338	129 681	512 338
Impairment on lease receivables and advances	(28 712)	(40 880)	(28 712)	(39 981)
	<b>1 676 514</b>	<b>3 472 946</b>	<b>1 666 376</b>	<b>3 414 944</b>
The fair value of lease receivables is R132 785 195 (2010: R529 234 245) for the Group and Company.				
<b>5.2 Maturity profile</b>				
Maturing within one year	191 312	926 345	184 683	873 756
Maturing within two years	80 041	376 721	80 041	376 482
Maturing within three years	98 627	210 356	95 118	210 356
Maturing within four years	42 411	243 764	42 411	238 590
Maturing within five years	43 788	545 422	43 788	545 422
Maturing after five years	1 220 335	1 170 338	1 220 335	1 170 338
	<b>1 676 514</b>	<b>3 472 946</b>	<b>1 666 376</b>	<b>3 414 944</b>
<b>5.3 Geographic profile</b>				
Eastern Cape	23 477	79 036	23 477	79 036
Free State	35 827	184 705	28 299	167 861
Gauteng	802 828	1 357 594	802 828	1 318 410
KwaZulu-Natal	336 545	651 840	336 545	651 840
Limpopo	60 017	71 194	60 017	71 194
Mpumalanga	81 730	243 113	81 730	243 113
Northern Cape	5 613	23 052	5 613	23 052
North West	86 015	204 266	86 015	202 292
Western Cape	48 453	117 246	48 453	117 246
Southern African Development Community	64 942	77 732	64 942	77 732
Other:				
– National Government	49 787	238 628	47 177	238 628
– State Owned Enterprises	81 280	224 540	81 280	224 540
	<b>1 676 514</b>	<b>3 472 946</b>	<b>1 666 376</b>	<b>3 414 944</b>
<b>5.4 Repayment profile</b>				
Bonds (bullet payment profile)	68 428	772 319	66 570	724 359
Amortised loans	1 608 086	2 700 627	1 599 806	2 690 585
	<b>1 676 514</b>	<b>3 472 946</b>	<b>1 666 376</b>	<b>3 414 944</b>
<b>5.5 Loan commitments to advance funds</b>				
KwaZulu-Natal Growth Fund	266 130	288 199	266 130	288 199
Neotel (Proprietary) Limited	–	43 920	–	43 920
Kwa-dukuzi Local Municipality	–	6 800	–	6 800
	<b>266 130</b>	<b>338 919</b>	<b>266 130</b>	<b>338 919</b>

for the year ended 30 June 2011

	30 June 2011 R'000	30 June % of advances	30 June 2010 R'000	30 June % of advances
<b>5 ADVANCES <i>continued</i></b>				
<b>5.6 Concentration profile (Group and Company)</b>				
<b>Ten largest exposures (face value)</b>				
Neotel (Proprietary) Limited	206 080	12,3	206 080	5,9
eThekweni Municipality	189 082	11,3	202 059	5,8
Nalitemba Provincial Hospital	182 183	10,9	190 549	5,5
Tshwane Metropolitan Municipality	167 538	10,0	264 815	7,6
Ekurhuleni Metropolitan Council	94 705	5,6	295 394	8,5
South African Airways	80 626	4,8	216 235	6,2
Umhlathuze Municipality	37 996	2,3	n <sup>2</sup> –	–
Steve Tshwete Municipality	36 863	2,2	n <sup>2</sup> –	–
Moses Kotane Municipality	34 391	2,1	n <sup>2</sup> –	–
Transnet Limited	32 923	2,0	n <sup>2</sup> –	–
University of KwaZulu-Natal	n <sup>1</sup> –	–	179 116	5,2
National Government	n <sup>1</sup> –	–	124 560	3,6
Sedibeng Water	n <sup>1</sup> –	–	99 886	2,9
City of Johannesburg Metropolitan Municipality	n <sup>1</sup> –	–	83 611	2,4
Total	1 062 387	63,5	1 862 305	53,6
Capital secured	–	–	(172 100)	(5,0)
Net exposure	1 062 387	63,5	1 690 205	48,6

n<sup>1</sup> The 2010 exposures to these entities matured or were sold during the year.

n<sup>2</sup> These exposure did not qualify under the ten largest exposures in 2010.

	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>5.7 Capital repayments secured</b>				
Secured by cession of a zero coupon bond or set off against a deposit with the Company	25 210	663 821	25 210	621 535
Percentage of total book value before impairment	1.5%	18.9%	1.5%	18.0%
The Company ceded advances to the European Investment Bank with a book value of R172 million (2010: R183 million) and R189 million (2010: R202 million) made to the Tshwane Metropolitan Municipality and eThekweni Metropolitan Municipality respectively. (See note 10.2)				
Credit linked notes with a book value of R81 million (2010: R95 million) were ceded to Investec Bank Limited as part security for a R112 million liquidity facility.				
<b>5.8 Impairment on lease receivables and advances and other assets</b>				
Balance beginning of the year	40 880	32 261	39 981	31 362
Impairment charge for the year	8 013	11 010	8 013	11 010
Impairment utilised for the year	(20 181)	(2 391)	(19 282)	(2 391)
Balance end of the year	28 712	40 880	28 712	39 981

## NOTES to the consolidated annual financial statements continued

	Cost R'000	Accumulated depreciation R'000	Net carrying value R'000			
<b>6 PROPERTY, PLANT AND EQUIPMENT</b>						
<b>6.1 Group – 2011</b>						
Computer equipment	3 196	2 897	299			
Furniture and fittings	729	637	92			
Leasehold improvements	1 650	1 573	77			
Motor vehicles	412	261	151			
	<b>5 987</b>	<b>5 368</b>	<b>619</b>			
<b>Group – 2010</b>						
Computer equipment	3 013	2 722	291			
Furniture and fittings	3 225	615	2 610			
Leasehold improvements	1 650	1 503	147			
Motor vehicles	551	318	233			
	<b>8 439</b>	<b>5 158</b>	<b>3 281</b>			
	30 June 2010 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit/(loss) R'000	Depreciation R'000	30 June 2011 Carrying value R'000
<b>Movements: 2010 to 2011</b>						
Computer equipment	291	183	–	–	(175)	299
Furniture and fittings	2 610	–	(6 500)	4 004	(22)	92
Leasehold improvements	147	–	–	–	(70)	77
Motor vehicles	233	–	–	–	(82)	151
	<b>3 281</b>	<b>183</b>	<b>(6 500)</b>	<b>4 004</b>	<b>(349)</b>	<b>619</b>
<b>Movements: 2009 to 2010</b>						
Computer equipment	404	24	–	(5)	(132)	291
Furniture and fittings	2 722	–	(3)	(78)	(31)	2 610
Leasehold improvements	13	205	–	–	(71)	147
Motor vehicles	334	–	–	–	(101)	233
	<b>3 473</b>	<b>229</b>	<b>(3)</b>	<b>(83)</b>	<b>(335)</b>	<b>3 281</b>

for the year ended 30 June 2011

	Cost R'000	Accumulated depreciation R'000	Net carrying value R'000			
<b>6 PROPERTY, PLANT AND EQUIPMENT <i>continued</i></b>						
<b>6.2 Company – 2011</b>						
Computer equipment	3 081	2 782	299			
Furniture and fittings	729	637	92			
Leasehold improvements	1 650	1 573	77			
Motor vehicles	412	261	151			
	<b>5 872</b>	<b>5 253</b>	<b>619</b>			
<b>Company – 2010</b>						
Computer equipment	2 898	2 607	291			
Furniture and fittings	3 225	615	2 610			
Leasehold improvements	1 650	1 503	147			
Motor vehicles	551	318	233			
	<b>8 324</b>	<b>5 043</b>	<b>3 281</b>			
	30 June 2010 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit/(loss) R'000	Depreciation R'000	30 June 2011 Carrying value R'000
<b>Movements: 2010 to 2011</b>						
Computer equipment	291	183	–	–	(175)	299
Furniture and fittings	2 610	–	(6 500)	4 004	(22)	92
Leasehold improvements	147	–	–	–	(70)	77
Motor vehicles	233	–	–	–	(82)	151
	<b>3 281</b>	<b>183</b>	<b>(6 500)</b>	<b>4 004</b>	<b>(349)</b>	<b>619</b>
<b>Movements: 2009 to 2010</b>						
Computer equipment	404	24	–	(5)	(132)	291
Furniture and fittings	2 722	–	(3)	(78)	(31)	2 610
Leasehold improvements	13	205	–	–	(71)	147
Motor vehicles	334	–	–	–	(101)	233
	<b>3 473</b>	<b>229</b>	<b>(3)</b>	<b>(83)</b>	<b>(335)</b>	<b>3 281</b>

## NOTES to the consolidated annual financial statements continued

	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>7 SHARE CAPITAL</b>				
<b>Authorised</b>				
1 000 000 ordinary shares of R1 each (2010: 1 000 000 ordinary shares of R1 each)	1 000	1 000	1 000	1 000
<b>Issued</b>				
848 532 ordinary shares of R1 each (2010: 848 532 ordinary shares of R1 each)	849	849	849	849
Shares held by the INCA Share Incentive Trust 42 007 ordinary shares of R1 each (2010: 42 007)	(42)	(42)	–	–
Shares held by INCA Bond Rehabilitation Company 54 571 ordinary shares of R1 each (2010: 100)	(55)	n <sup>1</sup> –	–	–
Balance at the end of the year	752	807	849	849
<i>n<sup>1</sup> Less than R1 000.</i>				
In terms of the shareholders' agreement, shareholders have the power to issue the unissued shares.				
<b>8 SHARE PREMIUM</b>				
Balance at the beginning of the year	105 988	105 988	105 988	105 988
Share premium relating to the shares held by the INCA Share Incentive Trust	(6 931)	(6 931)	–	–
Share premium relating to the shares held by INCA Bond Rehabilitation Company	(6 816)	(12)	–	–
Balance at the end of the year	92 241	99 045	105 988	105 988

	Notes	Group				Company			
		30 June 2011 Face value R'000	30 June 2011 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2011 Face value R'000	30 June 2011 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000
<b>9 SUBORDINATED BORROWED FUNDS</b>									
<b>9.1 INCA Bonds issued to the market</b>									
INJ01 bond – redeemable 21 September 2011. Interest of 10,96% p.a. Interest payable on 21 September and 21 March.	n <sup>1</sup>	100 000	100 638	100 000	102 198	100 000	100 638	100 000	102 198
INJ02 bond – redeemable 30 April 2015. Interest is payable quarterly at jibar plus 635 basis points.		160 000	161 900	160 000	160 000	160 000	161 900	160 000	160 000
		260 000	262 538	260 000	262 198	260 000	262 538	260 000	262 198

The loans are irrevocably subordinated to all present and future concurrent obligations of the Company.

for the year ended 30 June 2011

	Notes	Group				Company			
		30 June 2011	30 June 2011	30 June 2010	30 June 2010	30 June 2011	30 June 2011	30 June 2010	30 June 2010
		Face value R'000	Fair value R'000	Face value R'000	Fair value R'000	Face value R'000	Fair value R'000	Face value R'000	Fair value R'000
<b>10 BORROWED FUNDS</b>									
<b>10.1 INCA Bonds issued to the market:</b>									
INO3 bonds – redeemable 30 June 2011 Interest of 14,0% p.a. payable half yearly.	n <sup>1</sup>	–	–	1 146 312	1 179 417	–	–	1 146 312	1 179 417
INO4 note – redeemable 15 March 2015 Interest of 8,9% p.a. payable half yearly.	n <sup>1</sup>	444 000	413 022	444 000	407 727	444 000	413 022	444 000	407 727
INO657 note – redeemable 22 October 2010 Interest is payable quarterly at jibar plus 140 basis points.	n <sup>1</sup>	–	–	300 000	300 572	–	–	300 000	300 572
INO661 note – redeemable 21 July 2010 Interest calculated at 8.500% p.a. is payable at maturity.	n <sup>1</sup>	–	–	24 000	24 010	–	–	24 000	24 010
INO662 note – redeemable 12 August 2010 Interest calculated at 8.370% p.a. is payable at maturity.	n <sup>1</sup>	–	–	107 000	107 094	–	–	107 000	107 094
INO663 note – redeemable 19 August 2010 Interest calculated at 8.030% p.a. is payable at maturity.	n <sup>1</sup>	–	–	70 000	70 044	–	–	70 000	70 044
INO664 note – redeemable 24 November 2010 Interest calculated at 8.750% p.a. is payable at maturity.	n <sup>1</sup>	–	–	9 000	9 033	–	–	9 000	9 033
INO665 note – redeemable 25 August 2010 Interest calculated at 8.030% p.a. is payable at maturity.	n <sup>1</sup>	–	–	100 000	100 049	–	–	100 000	100 049
INO667 note – redeemable 13 September 2010 Interest calculated at 8.355% p.a. is payable at maturity.	n <sup>1</sup>	–	–	13 000	13 017	–	–	13 000	13 017
INO668 note – redeemable 17 September 2010 Interest calculated at 7.960% p.a. is payable at maturity.	n <sup>1</sup>	–	–	100 000	100 084	–	–	100 000	100 084

## NOTES to the consolidated annual financial statements continued

	Notes	Group				Company			
		30 June 2011 Face value R'000	30 June 2011 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2011 Face value R'000	30 June 2011 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000
		<b>10 BORROWED FUNDS</b> <i>continued</i>							
<b>10.1 INCA Bonds issued to the market: <i>continued</i></b>									
INO669 note – redeemable 10 May 2011 Interest is payable quarterly at Jibar plus 110 basis points.	n <sup>1</sup>	–	–	20 000	20 158	–	–	20 000	20 158
INO7 bonds – redeemable 16 May 2013 Interest of 9,0% p.a. payable half yearly.	n <sup>1</sup>	302 600	296 893	304 300	290 363	302 600	296 893	304 300	290 363
INO8 bonds – redeemable 20 November 2012 Interest of 11,26% p.a. payable half yearly.		100 000	104 310	100 000	101 526	100 000	104 310	100 000	101 526
INO9 bonds – redeemable 01 February 2016 Interest is payable quarterly at Jibar plus 350 basis points.	n <sup>1</sup>	250 000	255 048	250 000	249 808	250 000	255 048	250 000	249 808
		<b>1 096 600</b>	<b>1 069 273</b>	<b>2 987 612</b>	<b>2 972 902</b>	<b>1 096 600</b>	<b>1 069 273</b>	<b>2 987 612</b>	<b>2 972 902</b>
<b>10.2 Long term foreign loans</b>									
• <b>European Investment Bank</b> Euro40 million interest at eibor payable semi-annually, the capital is repayable in semi-annual instalments commencing on 15 September 2009 and ending on 15 September 2017.		239 012	239 493	266 723	267 198	239 012	239 493	266 723	267 198
• <b>European Investment Bank</b> R238 230 000 interest at Jibar payable semi-annually, the capital is repayable in equal semi-annual instalments commencing on 15 September 2009 and ending on 15 March 2019.		190 584	184 677	214 407	188 696	190 584	184 677	214 407	188 696
• <b>Agence Francaise de Developpement (AFD)</b> EUR15882353. Capital repaid in 16 equal semi-annual instalments commencing on 31 October 2003 and ended on 30 April 2011. Bore interest at 3,5% per annum.		–	–	18 619	18 880	–	–	18 619	18 880

for the year ended 30 June 2011

	Notes	Group				Company			
		30 June 2011 Face value R'000	30 June 2011 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2011 Face value R'000	30 June 2011 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000
<b>10 BORROWED FUNDS</b>									
<i>continued</i>									
<b>10.2 Long term foreign loans</b>									
<i>continued</i>									
• <b>Agence Francaise de Developpement (AFD)</b>									
EUR4 117 647. Capital repaid in 16 equal semi-annual instalments commencing on 31 October 2003 and ended on 30 April 2011. Bore interest at 3,5% per annum.		-	-	4 827	4 895	-	-	4 827	4 895
• <b>European Investment Bank</b>									
R225 000 000 interest at Jibar payable semi-annually, the capital is repayable in semi-annual instalments commencing on 15 September 2005 and ending on 15 March 2020.	n <sup>2</sup>	167 538	161 361	178 909	151 203	167 538	161 361	178 909	151 203
• <b>European Investment Bank</b>									
R238 419 000 interest at Jibar payable semi-annually, the capital is repayable in semi-annual instalments commencing on 15 December 2005 and ending on 15 June 2020.	n <sup>3</sup>	179 722	172 831	191 921	160 885	179 722	172 831	191 921	160 885
		<b>776 856</b>	<b>758 362</b>	<b>875 406</b>	<b>791 757</b>	<b>776 856</b>	<b>758 362</b>	<b>875 406</b>	<b>791 757</b>
<b>10.3 Long term domestic loans:</b>									
• <b>Zero coupon liabilities to municipalities</b>	n <sup>4</sup>	<b>6 500</b>	<b>4 527</b>	<b>264 620</b>	<b>236 803</b>	<b>6 500</b>	<b>4 527</b>	<b>264 620</b>	<b>236 803</b>
		<b>1 879 956</b>	<b>1 832 162</b>	<b>4 127 638</b>	<b>4 001 462</b>	<b>1 879 956</b>	<b>1 832 162</b>	<b>4 127 638</b>	<b>4 001 462</b>

n<sup>1</sup> INCA Bonds were issued in terms of a prospectus and incur interest at a fixed rate linked to the government bond rate at the time of issue as follows: INO3 bonds: R153, INO4 & INO9 bonds: R157, INO7 bond R201, INJO1 bond: R153 and INO6 notes: Jibar.

n<sup>2</sup> INCA has ceded the Tshwane Metropolitan Municipality advance with a book value of R171 558 267 (2010: R183 202 304) to the European Investment Bank as collateral for the loan.

n<sup>3</sup> INCA has ceded the eThekweni Metropolitan Municipality advance with a book value of R188 745 868 (2010: R201 556 698) to the European Investment Bank as collateral for the loan.

n<sup>4</sup> The remaining zero coupon liabilities is offset by zero coupon investments with a financial institution. During the previous year zero coupon liabilities to municipalities related to zero coupon bonds issued by the Company to its borrowers to serve as security against the advances. The zero coupon liabilities matured with the related advances during the current year.

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## NOTES to the consolidated annual financial statements continued

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### 10 BORROWED FUNDS *continued*

#### Bond Issues (Company)

##### INCA Bonds and Notes issued in 2011:

Bond	Date	Face value R'000	Proceeds R'000
INO 670U	01 September 2010	65 000	65 000
INO 671U	21 September 2010	100 000	100 000

##### INCA Bonds and Notes issued in 2010:

Bond	Date	Face value R'000	Proceeds R'000
INO 647U	07 July 2009	35 000	35 000
INO 648U	13 July 2009	100 000	100 000
INO 649U	22 July 2009	67 000	67 000
INO 650U	27 July 2009	5 000	5 000
INO 651U	27 July 2009	5 000	5 000
INO 652U	19 August 2009	100 000	100 000
INO 653U	26 August 2009	24 000	24 000
INO 654U	17 September 2009	100 000	100 000
INO 655U	02 October 2009	32 000	32 000
INO 656U	07 October 2009	38 000	38 000
INO 657U	20 October 2009	300 000	300 000
INO 658U	23 November 2009	31 000	31 000
INO 659U	03 December 2009	38 000	38 000
INO 661U	20 January 2010	24 000	24 000
INO 662U	11 February 2010	107 000	107 000
INO 663U	18 February 2010	70 000	70 000
INO 664U	24 February 2010	9 000	9 000
INO 665U	23 February 2010	100 000	100 000
INO 666U	24 February 2010	50 000	50 000
INO 667U	10 March 2010	13 000	13 000
INO 668U	17 March 2010	100 000	100 000
INO 669U	06 May 2010	20 000	20 000

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for the year ended 30 June 2011

	<b>Group 30 June 2011 R'000</b>	Group 30 June 2010 R'000	<b>Company 30 June 2011 R'000</b>	Company 30 June 2010 R'000
<b>11 TRADE AND OTHER PAYABLES</b>				
Interest accrued on borrowed funds	40 605	70 047	40 605	70 047
Leave pay accrual	–	742	–	742
Share appreciation rights obligation	–	–	–	–
Other accounts payable	11 307	25 720	10 736	24 478
Funding under repurchase agreements	–	–	–	25 548
	<b>51 912</b>	96 509	<b>51 341</b>	120 815

**11.1 Share appreciation rights obligation**

During the 2006 financial year the Group implemented an employee incentive scheme whereby 42 007 share appreciation rights were made available to certain employees. The incentive scheme was implemented retrospectively to commence on 01 July 2004. The current incentive scheme was introduced to replace the old scheme that was discontinued on 30 June 2004. In terms of the new scheme, a third of the rights vest after a period of three years from the date they were granted and a third in the fourth and the fifth years respectively. Employees are obliged to exercise their rights when they vest.

The 'exercise price' of the share appreciation rights varies depending on the compounded annual growth rate ("CAGR") target achieved, as expressed in the form of total shareholder return. The Group share price for purposes of the incentive scheme will be determined using the net asset value as reported from time to time in the audited annual financial statements multiplied by 1,3.

The 'exercise price' will be determined in accordance with the rules and targets of the incentive scheme as follows:

Target CAGR	Exercise price
13%	Issue price
14%	70% of issue price
15%	40% of issue price
16%	20% of issue price
17%	R1 (one Rand)

As at year end the total outstanding rights amounted to 16 067 (2010: 31 150) rights of which 7 083 (2010: 6 483) were vesting on the last day of the financial year. During the financial year under review no new rights (2010: nil) were granted while 7 083 rights (2010: 6 483 rights) that vested on 30 June 2011 did not result in any amount due and payable to the holders of the share appreciation rights. The table below reflects movement in the share appreciation rights for the year:

	Opening balance	New issues	Vested	Forfeited	Closing balance
2011	16 067	–	(7 083)	–	8 984
2010	23 750	–	(6 483)	(1 200)	16 067

The share appreciation rights obligation was previously determined using the option price valuation technique, however, this methodology is now considered inappropriate given the adopted business strategy of the entity. This change in methodology was implemented in the financial year under review for the first time. This change has no effect on the rules of the scheme and how the exercise price is computed, therefore the share appreciation rights holders will not be affected.

The share appreciation rights obligation is calculated using management's professional judgment of the likelihood that the entity will achieve the CAGR where a payment will be due to the share appreciation rights holders. There will be no further rights issued into the future. The last batch of the remaining appreciation rights will vest on 30 June 2013. The Board has considered management's assessment and concur that no liability should be recognised for the share appreciation rights scheme for the year ended 30 June 2011. This potential liability will be assessed on an annual basis despite the internal view that it is unlikely that the share appreciation rights will achieve the set target CAGR over the life of the scheme.

**11.2 Funding under repurchase agreements**

Funding received under repurchase agreements is payable within 364 days from the balance sheet date.

## NOTES to the consolidated annual financial statements continued

	Group				Company	
	Notional	Notional	Fair value	Fair value	Fair value	Fair value
	30 June	30 June	30 June	30 June	30 June	30 June
	2011	2010	2011	2010	2011	2010
	R'000	R'000	R'000	R'000	R'000	R'000
<b>12 DERIVATIVE FINANCIAL INSTRUMENTS</b>						
<b>Derivative assets</b>						
Interest rate swaps	90 626	1 116 930	4 082	33 565	4 082	33 565
	90 626	1 116 930	4 082	33 565	4 082	33 565
<b>Derivative liabilities</b>						
Currency swaps	299 172	359 248	9 690	35 183	9 690	35 183
Interest rate swaps	747 813	989 544	72 975	84 059	72 975	84 059
Foreign exchange contracts	1 053	1 964	316	457	316	457
	1 048 038	1 350 756	82 981	119 699	82 981	119 699

The notional principal gives an indication on the Group's and Company's activity in the derivative market and represents the aggregate size of total outstanding contracts at period end. This figure cannot be used in assessing the market risk associated with positions.

	Group		Company	
	30 June	30 June	30 June	30 June
	2011	2010	2011	2010
	R'000	R'000	R'000	R'000
<b>13 INTEREST AND SIMILAR INCOME</b>				
Advances	349 764	538 851	340 417	529 674
Investments	64 427	81 869	63 321	81 869
Cash and short term funds	37 257	36 046	37 139	36 031
Preference share dividends	3 742	5 192	3 742	5 190
Repurchase agreements	253	3 488	–	1 872
Derivative financial instruments	152 492	275 720	152 492	275 720
	607 935	941 166	597 111	930 356
Attributable to:				
Financial assets held for trading	187 884	327 521	187 632	325 905
Financial assets designated as FVTPL	350 354	504 233	339 900	495 055
Loans and receivables (including cash and bank balances)	69 697	109 412	69 579	109 396
	607 935	941 166	597 111	930 356
<b>14 INTEREST EXPENSE AND SIMILAR CHARGES</b>				
INCA bonds	311 668	440 729	311 668	440 729
Long term loans	59 588	73 058	59 502	73 058
Subordinated liabilities	30 718	14 480	30 718	14 480
Repurchase agreements	253	30 757	253	30 757
Derivative financial instruments	169 767	304 079	169 767	304 079
	571 994	863 103	571 908	863 103
Attributable to:				
Loans and receivables (including cash and bank balances)	207	8	121	8
Financial liabilities held for trading	170 020	334 836	170 020	334 836
Financial liabilities designated as FVTPL	401 767	528 259	401 767	528 259
	571 994	863 103	571 908	863 103

for the year ended 30 June 2011

	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>15 FAIR VALUE ADJUSTMENT</b>				
<b>15.1 Fair value adjustment – realised</b>				
1 Advances	(141)	37 119	(147)	37 119
Investments	629	1 409	629	1 409
2 INCA bonds	–	206	–	206
3 Long term loans	–	342	–	342
4 Derivative financial instruments	(26)	(14 996)	(26)	(14 996)
	<b>462</b>	<b>24 080</b>	<b>456</b>	<b>24 080</b>
Attributable to:				
Financial assets held for trading	374	(13 409)	374	(13 409)
Financial assets designated as FVTPL	(141)	37 119	(147)	37 119
Financial liabilities designated as FVTPL	229	453	229	453
	<b>462</b>	<b>24 163</b>	<b>456</b>	<b>24 163</b>
<b>15.2 Fair value adjustment – unrealised</b>				
5 Advances	(23 440)	(34 913)	(19 175)	(32 059)
6 Investments	4 174	1 480	4 186	1 480
7 INCA bonds*	49 577	65 125	49 577	65 125
8 Long term loans*	(71 141)	7 947	(71 141)	7 947
8 Subordinated liabilities*	(339)	846	(339)	846
9 Derivative financial instruments	(16 391)	(10 583)	(16 391)	(10 583)
Repurchase agreements	–	2 532	(13)	2 542
	<b>(57 560)</b>	<b>32 434</b>	<b>(53 296)</b>	<b>35 298</b>
Attributable to:				
Financial assets held for trading	(12 955)	(8 800)	(12 968)	(8 789)
Financial assets designated as FVTPL	(22 701)	(32 684)	(18 436)	(29 831)
Loans and receivables (including cash and bank balances)	–	–	12	–
Financial liabilities designated as FVTPL	(21 904)	73 918	(21 904)	73 918
	<b>(57 560)</b>	<b>32 434</b>	<b>(53 296)</b>	<b>35 298</b>

**\*Fair value on liabilities**

The total fair value adjustments resulting from liabilities amounted to R10 million profit (2010: R74 million profit). The unrealised fair value adjustments are attributable to an increase in credit spreads (mainly due to INCA's credit downgrade), the passing of time, a reduction in the liabilities' portfolio and changes in the base rates.

## NOTES to the consolidated annual financial statements continued

### 15 FAIR VALUE ADJUSTMENT *continued*

#### 15.2 Fair value adjustment – realised *continued*

- 1 Realised fair value adjustments on advances include the effects of the early settlement and disposal of certain advances. These amounts include breakage costs to compensate for the early settlement as well as the credit spread and base rate movement observed on these advances. The realised fair value adjustments on investments relate primarily to capital market stock that is liquidated during the year for various treasury management reasons.
- 2 Realised fair value adjustments on INCA bonds relate to capital gains and losses made on the buy-back and re-issue of bonds to the market. The Company does not trade its bonds for speculative reasons.
- 3 The realised loss on long term loans during the previous year, related mainly to guarantee fees paid and other funding costs.
- 4 The realised loss on derivative financial instruments stems from the unwinding of interest rate swaps, due to the related advances having been disposed of.
- 5 The base interest rates decreased during the year under review and the credit spreads on similar assets contracted somewhat, which lead to a positive fair value adjustment for amortising advances of R46 million. This was countered by the effect of credit downgrades contributing R18 million to the negative fair value movement as well as R51 million for advances with a bullet payment profile, as a significant amount of these advances matured during the year and previous revaluation profits were reversed.
- 6 The positive unrealised fair value of the investments is mainly the result of a decrease in the base rates and a decrease in the credit spreads.
- 7 The unrealised fair value profit on the INCA bonds is mainly caused by the 'pull-to-par' effect (ie passing of time) of the IN03 bonds, this means a reversal of the negative unrealised fair value, contributing approximately R33 million. The remainder of positive fair value adjustment is a result of an increase in the spreads on the IN04 bonds, a change in base rates as well as the effect of the passing of time.
- 8 The large unrealised fair value loss on the long term loans is mainly due to a change in the valuation estimate for the ZAR denominated EIB loans. Previously the fair values of the loans were determined by taking into account the entity's funding curve, however, this estimate has now been changed to reflect the level at which the general market would obtain funding.
- 9 Derivative financial instruments are used to hedge general market movements (movements in the credit spreads of assets and liabilities are not hedged). The fair value adjustments largely reflect the changes in interest rates and the passing of time. The unrealised fair value was also influenced by the reversal of the unrealised fair value of those swaps that were unwound during the period under review.

	Group 30 June 2011 R'000	30 June 2010 R'000	Company 30 June 2011 R'000	30 June 2010 R'000
<b>16 FEE AND OTHER INCOME</b>				
<b>Fair value through profit and loss</b>				
Facility and commitment fees	2 669	85	2 669	85
<b>Non-financial income</b>				
<b>Administrative fees</b>	132	441	365	674
Dividends received (Share Incentive Trust)	–		495	743
Profit on disposal of property, plant and equipment	4 004	–	4 004	–
Other income	534	315	534	315
	<b>7 339</b>	<b>841</b>	<b>8 067</b>	<b>1 817</b>

## for the year ended 30 June 2011

	Group 30 June 2011 R'000	30 June 2010 R'000	Company 30 June 2011 R'000	30 June 2010 R'000
<b>17 OPERATING EXPENDITURE</b>				
Operating expenditure includes the following items:				
<b>17.1 Auditors' remuneration</b>				
Audit fees	1 605	2 205	1 515	2 115
Prior year over accrual	(787)	(299)	(787)	(299)
Other services	164	195	164	195
	<b>982</b>	<b>2 101</b>	<b>892</b>	<b>2 011</b>
<b>17.2 Depreciation</b>				
Computer equipment	175	132	175	132
Furniture and fittings	22	31	22	31
Leasehold improvements	70	71	70	71
Motor vehicles	82	101	82	101
	<b>349</b>	<b>335</b>	<b>349</b>	<b>335</b>
<b>17.3 Lease expenses</b>				
Office premises	1 713	1 685	1 713	1 685
Computer software	846	557	846	557
	<b>2 559</b>	<b>2 242</b>	<b>2 559</b>	<b>2 242</b>
<b>17.4 Professional fees</b>				
Management fee	14 999	–	14 999	–
Technical and other services	1 901	2 209	1 898	2 208
	<b>16 900</b>	<b>2 209</b>	<b>16 897</b>	<b>2 208</b>
<b>17.5 Retirement benefits</b>				
Company provident fund contributions	139	167	139	167
	<b>139</b>	<b>167</b>	<b>139</b>	<b>167</b>
<b>17.6 Other staff costs excluding directors</b>				
Salaries and incentive payments	209	13 706	209	13 706
	<b>209</b>	<b>13 706</b>	<b>209</b>	<b>13 706</b>

## NOTES to the consolidated annual financial statements continued

	Group 30 June 2011 R'000	Group 30 June 2010 R'000	Company 30 June 2011 R'000	Company 30 June 2010 R'000
<b>17 OPERATING EXPENDITURE <i>continued</i></b>				
<b>17.7 Directors' emoluments</b>				
<i>Non-executive directors' fees</i>	536	843	536	843
A Arnott	–	83	–	83
I Ayob	n <sup>1</sup> 6	38	6	38
A Canter	55	73	55	73
R de Korte	49	55	49	55
J Howard	60	67	60	67
J Pouchous	n <sup>1</sup> –	32	–	32
G McKenzie	55	24	55	24
N Njeke	–	26	–	26
L Scholtz	31	44	31	44
J Stals	n <sup>1</sup> 6	38	6	38
J Matlala	n <sup>1</sup> 13	58	13	58
L Gcwabe	n <sup>1</sup> 19	13	19	13
R Kalaichelvan	26	13	26	13
P Truyens	107	119	107	119
H van Wyk	109	160	109	160
<i>Non-executive directors – other fees</i>				
P Truyens	169	95	169	95
Prior year under/(over) provision	365	(562)	365	(562)
<i>Executive directors' emoluments</i>				
Salaries and incentive payments	5 631	6 069	5 631	6 069
R Boqo	n <sup>1</sup> 1 571	1 601	1 571	1 601
D du Pont-Bouma	n <sup>1</sup> 1 667	1 654	1 667	1 654
A van Zyl	n <sup>1</sup> 2 393	2 814	2 393	2 814
Accrual made under INCA Staff Share Scheme	2 912	–	2 912	–
R Boqo	n <sup>1</sup> 560	–	560	–
D du Pont-Bouma	n <sup>1</sup> 784	–	784	–
A van Zyl	n <sup>1</sup> 1 568	–	1 568	–
Utilisation of bonus accrual made in prior periods	(4 962)	–	(4 962)	–
	4 651	6 445	4 651	6 445
<i>n<sup>1</sup> These directors resigned during the financial year, and remuneration only reflects the period that they served as directors.</i>				
<b>17.8 Other</b>				
Other sundry expenditure	2 072	3 201	2 040	3 174
<b>Total expenditure</b>	<b>27 861</b>	<b>30 406</b>	<b>27 736</b>	<b>30 288</b>

for the year ended 30 June 2011

	Group 30 June 2011 R'000	30 June 2010 R'000	Company 30 June 2011 R'000	30 June 2010 R'000
<b>18 TAXATION</b>				
<b>18.1 Taxation charge for the year</b>				
<i>18.1.1 Current year</i>				
South African current taxation				
Normal	(19 120)	21 062	(22 085)	18 109
Deferred	3 200	3 655	4 369	4 483
Secondary tax on companies	–	–	–	–
Total current year	(15 920)	24 717	(17 716)	22 592
<b>18.2 Tax rate reconciliation</b>	%	%	%	%
Effective tax rate	37,9	21,9	39,4	20,2
Adjusted for:				
Disallowed expenditure	(5,9)	4,1	(7,8)	5,1
Non-taxable income	(4,0)	2,0	(3,6)	2,7
Secondary tax on companies	–	–	–	–
Standard tax rate	28,0	28,0	28,0	28,0
<b>18.3 Analysis of deferred taxation</b>	R'000	R'000	R'000	R'000
Differences between tax and book values of:				
Income and expenditure accruals	28 438	8 936	27 549	8 846
Unrealised profits and losses on assets and liabilities	(4 759)	11 543	(4 978)	9 356
STC credits	(6 062)	(6 062)	(6 062)	(6 062)
	17 617	14 417	16 509	12 140
<b>18.4 Movement in deferred taxation</b>				
Balance at the beginning of the year	14 417	10 762	12 140	7 657
Charge through the statement of comprehensive income:				
Current timing differences	3 200	3 655	4 369	4 483
STC credits	–	–	–	–
Balance at the end of the year	17 617	14 417	16 509	12 140
<b>18.5 Movement in STC</b>				
Balance at the beginning of the year	–	–	–	–
Applied in dividends paid	(1 000)	(1 500)	(1 000)	(1 500)
Credits from dividends received	1 000	1 500	1 000	1 500
Balance at the end of the year	–	–	–	–
<b>19 DIVIDENDS</b>				
A dividend of R10 million (2010: R15 million) was declared and paid during the year.				
<b>20 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES</b>				
<b>20.1 Capital commitments</b>				
Authorised and contracted for: Operating lease rentals for office premises and software licence fees:				
within one year	2 507	2 253	2 507	2 253
within two years	122	2 507	122	2 507
within three years	–	122	–	122
exceeding three years	–	–	–	–
	2 629	4 882	2 629	4 882

Commitments will be funded from the Group's own resources.

## NOTES to the consolidated annual financial statements continued

	Group 30 June 2011 R'000	30 June 2010 R'000	Company 30 June 2011 R'000	30 June 2010 R'000
<b>21 RELATED PARTY TRANSACTIONS</b>				
<b>Deposit with shareholders</b>				
Rand Merchant Bank (a division of FirstRand Bank Limited)	242 929	284 018	242 929	284 018
	<b>242 929</b>	284 018	<b>242 929</b>	284 018
<b>Transactions with shareholders</b>				
First National Bank (a division of FirstRand Bank Limited)	–	169 722	–	123 684
Rand Merchant Bank (a division of FirstRand Bank Limited)	572 243	277 125	572 243	277 125
	<b>572 243</b>	446 847	<b>572 243</b>	400 809
<b>Transactions with other related parties</b>				
Inca Portfolio Managers (Proprietary) Limited*	14 999	3 973	14 999	3 973
	<b>14 999</b>	3 973	<b>14 999</b>	3 973

### \*Management by a third party

Inca Portfolio Managers (Proprietary) Limited ("IPM") is an independent company established by former executive management of Infrastructure Finance Corporation Limited ("INCA") with the intent to offer portfolio management services to the market including INCA. The agreement to provide portfolio management services to INCA came into effect on 1 July 2010 and the executive directors of INCA resigned on 30 April 2011 when all the suspensive conditions in the agreement were met.

Other intercompany balances are reflected under Investments (note 4) and Trade and other payables (note 11).

### Key management personnel

Remuneration paid to directors is disclosed in note 17.7. The total remuneration paid to executive management for the financial year under review amounted to R4 million (2010: R9 million). There were no payments in respect share appreciation rights, no new share appreciation rights (2010: nil) were granted, during or subsequent to year end and no rights (2010: nil) were forfeited. The details of the share appreciation rights are disclosed in note 11.1.

### Contracts

FirstRand Bank Limited also acts as bankers to the Group. All of these related party transactions were concluded on an arm's length basis. At no stage during the financial year were any contracts concluded by the Group in which a director had an interest except as disclosed above.

The Group identifies related party transactions at the conclusion of each transaction. Significant related party transactions are reviewed by the Board or its subcommittees and the executive management prior to conclusion.

for the year ended 30 June 2011

## 22 FINANCIAL INSTRUMENTS

### 22.1 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall capital management strategy remained unchanged from 2010. The Group's capital adequacy ratio calculated in three different methods reflect an improvement from the previous financial year.

The capital structure of the Group consists of debt, which includes subordinated borrowings disclosed in note 9, long term borrowings disclosed in note 10, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 7 and 8 respectively.

	Carrying value R'000	FVTPL R'000	Held for trading R'000	Loans and receivables R'000
<b>22.2 Categories of financial instruments</b>				
<b>22.2.1 Group – 2011</b>				
<b>Financial assets</b>				
Cash and cash equivalents	245 249	–	–	245 249
Other assets	31 733	–	–	31 733
Investments	741 628	295 426	445 016	1 186
Derivative financial instruments	4 082	–	4 082	–
Advances	1 676 514	1 575 545	–	100 969
<b>Total financial assets</b>	<b>2 699 206</b>	<b>1 870 971</b>	<b>449 098</b>	<b>379 137</b>
<b>Financial liabilities</b>				
Subordinated borrowings	262 538	262 538	–	–
Long term borrowings	1 832 162	1 832 162	–	–
Derivative financial instruments	82 981	–	82 981	–
<b>Total financial liabilities</b>	<b>2 177 681</b>	<b>2 094 700</b>	<b>82 981</b>	<b>–</b>
<b>22.2.2 Group – 2010</b>				
<b>Financial assets</b>				
Cash and cash equivalents	640 346	–	–	640 346
Other assets	68 919	–	–	68 919
Investments	818 831	445 690	360 811	12 330
Derivative financial instruments	33 565	–	33 565	–
Advances	3 472 946	3 001 488	–	471 458
<b>Total financial assets</b>	<b>5 034 607</b>	<b>3 447 178</b>	<b>394 376</b>	<b>1 193 053</b>
<b>Financial liabilities</b>				
Subordinated borrowings	262 198	262 198	–	–
Long term borrowings	4 001 462	4 001 462	–	–
Derivative financial instruments	119 699	–	119 699	–
<b>Total financial liabilities</b>	<b>4 383 359</b>	<b>4 263 660</b>	<b>119 699</b>	<b>–</b>

The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

Fair value was negatively affected by changes in credit risk based on credit rating changes for advances held at FVTPL by R2 840 660 (2010: R33 275 positive) whilst the cumulative effect was R7 993 414 positive (2010: R10 834 074 positive).

The concentration of credit risks for loans and receivables is analysed in notes 5 and 10 respectively.

## NOTES to the consolidated annual financial statements continued

### 22 FINANCIAL INSTRUMENTS *continued*

#### 22.3 Valuation methods and significant accounting policies

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined using the discounted cash flow valuation technique. The cash flows and the duration can be reliably measured, however, the discount rates or yield curves required to discount the cash flows requires various inputs mainly from the market and some professional judgment from management. Non-municipal exposures are valued using management's best estimate of the counterparty's risk rating which is subjected to the Investment and Review Committee for approval. The approved counterparty's risk rating is used to determine the appropriate credit curve on which the exposure is valued; and
- The fair value of derivative instruments is calculated using the quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

The entire valuation process is managed and monitored by a Board sub-committee, namely the Market Valuation Verification Committee ("MVVC") chaired by a non-executive director. The MVVC reviews and approves the estimated credit spreads based on the valuation policy as adopted and reviewed from time-to-time. The key element of the policy is to ensure that a significant part of the inputs is obtained from the observable market and there is minimal assumptions and estimates included in the valuation process. The policy was adopted to ensure consistency and adequate governance on the valuation process, particularly where estimates and professional judgments are used.

Details of the significant accounting policies, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the annual financial statements.

#### 22.4 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
<b>22.4.1 Group – 2011</b>				
<b>Financial assets at FVTPL</b>				
Investments	295 426	–	295 426	–
Advances	1 575 545	–	1 575 545	–
<b>Held for trading financial assets</b>				
Investments	445 016	358 834	86 182	–
Derivative financial instruments	4 082	–	4 082	–
<b>Total</b>	<b>2 320 069</b>	<b>358 834</b>	<b>1 961 235</b>	<b>–</b>
<b>Financial liabilities at FVTPL</b>				
Subordinated borrowings	262 538	–	262 538	–
Long term borrowings	1 832 162	964 963	867 199	–
<b>Held for trading financial liabilities</b>				
Derivative financial instruments	82 981	–	82 981	–
<b>Total</b>	<b>2 177 681</b>	<b>964 963</b>	<b>1 212 718</b>	<b>–</b>

There were no transfers between Level 1 and 2 during the current or previous financial year.

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	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
<b>22 FINANCIAL INSTRUMENTS <i>continued</i></b>				
<b>22.4 Fair value measurements recognised in the statement of financial position <i>continued</i></b>				
<b>22.4.2 Group – 2010</b>				
<b><i>Financial assets at FVTPL</i></b>				
Investments	445 690	–	445 690	–
Advances	3 001 488	–	3 001 488	–
<b><i>Held for trading financial assets</i></b>				
Investments	360 811	226 910	133 901	–
Derivative financial instruments	33 565	–	33 565	–
<b>Total</b>	<b>3 841 554</b>	<b>226 910</b>	<b>3 614 644</b>	<b>–</b>
<b><i>Financial liabilities at FVTPL</i></b>				
Subordinated borrowings	262 198	–	262 198	–
Long term borrowings	4 001 462	2 127 315	1 874 147	–
<b><i>Held for trading financial liabilities</i></b>				
Derivative financial instruments	119 699	–	119 699	–
<b>Total</b>	<b>4 383 359</b>	<b>2 127 315</b>	<b>2 256 044</b>	<b>–</b>

**22.5 Financial risk management objectives**

The Group's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include currency risk, liquidity risk and interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of derivative financial instruments is governed by the Group's asset and liability management policies approved by the Board of Directors, which provide written principles on foreign currency risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function reports quarterly to the Asset and Liability Committee ("ALCO").

**22.6 Market risk**

ALCO independently reviews and monitors the market risk reports used by management for the day-to-day market risk management. Significant market risks decisions are reported to ALCO and all market risk limits are recommended by ALCO to the Board for approval.

**22.7 Sensitivity analysis**

Realised fair value adjustments relate primarily to the sale or early settlement of some advances and capital market stock sold as well as the unwinding of some derivative financial instruments for treasury reasons. Unrealised fair value adjustments represent the annual mark-to-market revaluation movement of financial assets and financial liabilities that are measured at fair value in the balance sheet. The unrealised fair value adjustments also include the transfer of prior years unrealised fair value adjustments to realised fair value adjustments as a result of early settlements and disposal during the current financial year. The Group hedges its portfolio for interest rate movements in terms of the ALCO policy, however, credit spread movements are not hedged. The fair value adjustments generally result from interest rate movements, the basis risk, the passing of time and credit spread movements. Because the Group does not hedge itself for credit spread movements, any unequal credit spread movement on the financial assets and financial liabilities result in positive or negative fair value adjustments. The Group has remained within the ALCO limits in terms of its interest rate movement hedge.

Market movements dictated fairly large movements due to credit spreads and swap basis risks for both financial assets and financial liabilities measured at fair value through profit or loss. The decrease in credit spreads on the advances together with an average increase in the credit spreads on some of the INCA bonds, contributed approximately R13 million positively. It is estimated that the swap basis risk's contribution is approximately R15 million positive unrealised fair value, whilst the remainder of the unrealised fair value is attributable to the passing of time, to a reduction in the size of the advances and liabilities portfolio during the year as well as a change in valuation methodology for some of the long term loans as disclosed elsewhere in this report.

Historically a significant increase in credit spreads of the financial assets of the Group, without a corresponding increase in the credit spreads of the financial liabilities will result in significant volatility on the income statement. The following scenario illustrates the sensitivity for such an event, utilising the figures as at year end.

## NOTES to the consolidated annual financial statements continued

### 22 FINANCIAL INSTRUMENTS *continued*

#### 22.7 Sensitivity analysis *continued*

Credit spreads on a substantial part of the advances portfolio were increased by 25 basis points whilst credit spreads on liabilities were kept constant. In the event of such occurrence, a negative unrealised loss before tax of R16 million (2010: R22 million) is observed. The Group is most sensitive for credit spread movements of advances in Metropolitan municipalities as illustrated below. A 25 basis points credit spread movement on the advances per risk category has the following outcome:

INCA credit rating category	Fair value adjustment 2011 R'000	Fair value adjustment 2011 R'000
Category 1 (AA- to AAA)	4 382	3 798
Category 2 (A- to A+)	3 906	7 153
Category 3 (BBB)	1 402	3 769
Metropolitan municipalities (A to AA)	6 442	7 647
<b>Total</b>	<b>16 132</b>	<b>22 367</b>

Details of the fair value adjustments that arose during the year under review are disclosed in note 15.

The interest rate sensitivity performed at year end was based on an increase or decrease of 200 basis points. The impact to the pre-tax profit/(loss) of the Group would have been an increase of R9,0 million or a decrease of R10,5 million. In both scenarios the Group would have remained within the limit set by ALCO.

The Group does not have any foreign exchange exposure, hence no sensitivity analysis was performed based on the possible currency movements.

#### 22.8 Foreign currency management

Foreign liabilities and advances are hedged on a back to back basis with foreign assets or are swapped using cross currency interest rate swaps, which effectively eliminate any currency exposure. According to a policy approved by the Board of Directors, INCA may not be exposed to foreign currency risk and therefore all these risks are hedged.

#### 22.9 Interest rate risk

The Group manages its interest rate risk with standard analytical techniques to measure interest rate sensitivity on a consolidated portfolio basis. This includes position reports and point-in-time interest income stress test for parallel interest rate moves. In addition, 'twists' scenarios are used to focus on the impact on the value of the portfolio caused by changes to the shape of the yield curve. Interest rate risk is hedged based on the delta of the transaction. Treasury closely monitors the delta in each of the annual time buckets. All hedging activities and balance sheet mismatches are monitored by ALCO, chaired by a non-executive director.

#### 22.10 Credit risk

Financial assets, which potentially subject the Company to concentrations of credit risk, consist principally of cash, short term deposits and advances. The Company's cash equivalents and short term deposits are placed with high credit quality financial institutions.

The INCA credit evaluation model, which has been specifically developed to provide a shadow rating of each potential borrower prior to investment, provides the primary technique for mitigating against credit risk. The model focuses on all the major components that impact on the ability of the borrower to meet its commitments to the Group. The shadow rating provided by the INCA credit evaluation model is continuously compared and where necessary adjusted to the observable official credit ratings in the market.

Credit risk is minimised through the diversification of the lending portfolio. The carrying amounts of financial assets included in the balance sheet represent the Group's exposure to credit risk in relation to these assets but exclude any potential reduction for collateral security.

The Investment and Review Committee chaired by a non-executive director, oversees the annual credit reviews and approves the credit policy as well as reviewing credit portfolios and impairments.

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**22 FINANCIAL INSTRUMENTS** *continued***22.10 Credit risk** *continued*

Impairment on lease receivables and advances are analysed in note 5.8. Amounts past due but not impaired can be analysed as follows:

Ageing	2011 R'000	2010 R'000
Less than 30 days	23 982	55 035
30 to 60 days	4 648	4 548
60 to 180 days	263	12 215
More than 180 days	49 255	17 738
<b>Total</b>	<b>78 148</b>	<b>89 536</b>

This analysis is inclusive of lease receivables and long term advances. Lease receivables are secured by the underlying assets being leased.

**22.11 Liquidity risk**

The Company has a policy of retaining liquidity equivalent to six months operational costs plus interest, coupon and capital payments due over the next six months less the risk-adjusted cash inflows from advances for the next six months. In addition, the Group holds sufficient cash, short term assets and readily marketable liquid assets and maintains credit lines with various major banks.

**Liquidity maturity analysis**

Analysis as at 30 June 2011

Period	6 months	1 year	3 years	2 years	After
From	Jul-11	Jan-12	Jan-13	Jan-16	Jan-18
To	Dec-11	Dec-12	Dec-15	Dec-17	
	R'000	R'000	R'000	R'000	R'000
<b>ASSETS</b>					
Interest receivable	137 401	297 415	646 620	265 163	472 146
Capital receivable	350 536	333 653	901 327	448 438	771 518
	487 937	631 068	1 547 947	713 601	1 243 664
<b>LIABILITIES</b>					
Interest payable	(134 586)	(270 006)	(577 704)	(169 202)	(300 796)
Capital payable	(147 653)	(216 422)	(1 267 458)	(487 461)	(275 874)
	(282 240)	(486 428)	(1 845 161)	(656 663)	(576 670)
Net cash flow	205 697	144 640	(297 214)	56 937	666 995
Cumulative net cash flow	205 697	350 337	53 123	110 060	777 055

The Company's cash and short term investments are reflected in the December 2011 bracket. The large amount of capital payable during 2013 to 2015 includes the redemption of the Company's INO7 and INO4 senior bonds as well as the INJO2 subordinated debt. The maturity analysis reflects the Group's cash flows and not the fair values as reported in the Group's balance sheet.

The Treasury function's focus remains on the bond redemptions. The Company still holds an unencumbered liquidity reserve of R358,8 million (refer to note 4, Capital market stock) as at year end.

**23 RETIREMENT BENEFITS**

The Company contributed to a defined contribution scheme for the benefit of some employees. The rest of the employees are responsible for their own retirement planning and as such are members of various South African Pension and Provident Fund Schemes. South African Pension Funds are governed by the Pension Funds Act of 1956. The Company does not administer any Pension Fund Scheme and has no obligations in relation to any of the abovementioned funds. The entity has ceased to make any contributions since it has no employees from 30 April 2011.

**24 EARNINGS PER SHARE**

The loss per share has been calculated based on the total comprehensive loss attributable to owners of the Company of R34 558 000 (2010: R71 676 000 profit) and the weighted average number of issued ordinary shares during the period of 779 771 shares (2010: 806 525 shares). Prior to the consolidation of IBRC and the INCA Share Incentive Trust, 848 532 shares were used in the calculation.





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**[www.inca.co.za](http://www.inca.co.za)**

**ADMINISTRATION**

**REGISTERED NAME:** Infrastructure Finance Corporation Limited (Trading as INCA)

**REG NO:** 1996/001482/06

**REGISTERED OFFICE:** Building 3, Pinewood Office Park, 33 Riley Road, Woodmead, Sandton, South Africa

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**BANKERS:** FNB Corporate

**TRUSTEE:** Maitland Trust Limited

**SECRETARY:** JM Poulter

**AUDITORS:** Deloitte & Touche, The Woodlands, 20 Woodlands Drive, Woodmead, Sandton

**INCA TREASURY:** Dirkje du-Pont-Bouma **TELEPHONE:** +27 (11) 202 2215

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