



INCA TIMES

INFRASTRUCTURE FINANCE CORPORATION LIMITED

www.inca.co.za

INCA succeeds in trying times

During the past financial year, INCA extended new funding commitments to the value of R1 420 million, lowered the concentration risk in its portfolio by selling R470 million of its municipal exposure and managed to maintain its liquidity position at more than R1 000 million at year end.

The performance of the Group over the past year is best evaluated if the effect of fair value adjustments (realised and unrealised) are neutralised. On this basis, net income before

operational expenditure increased by 17,4% to R95 million. With operational expenditure down 13% on last year to R33 million, the result was a sharp improvement in the cost to income ratio, which now stands at 22,9% compared to 46,2% in the previous year.

Going forward, it was resolved that changes should be made to the business model to enable other third party investors in infrastructure to make use of the expertise of INCA's staff.



CEO'S REPORT // P10

Infrastructure Finance Corporation Limited's (INCA) main business during the past year remained providing largely unsecured debt finance to infrastructure providers in the public sector. However, special focus was placed on the generation of fee income, curtailing costs and increasing the net interest turn of the portfolio, and not necessarily growing the R6,6 billion balance sheet.

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OUR OPERATIONAL ACTIVITIES

During the year under review, the main activities performed were:

- the funding of infrastructure projects and programmes;
- the provision of development loans in the form of three-year bridging loans;
- the active management of the loan portfolio;
- raising of capital market funding under the Domestic Medium Term Note (DMTN) Programme;
- financial management of third party investments; and,
- the management of the Asset and Liability Portfolio within predetermined limits.

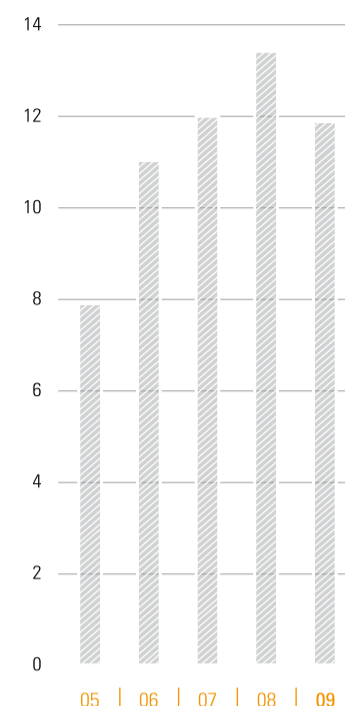
Going forward, INCA Portfolio Managers will be allowed to actively market its deal origination and portfolio management skills to third party investors interested in investing in the infrastructure development of South Africa. The work of the INCA Capacity Building Fund is also to be maintained.

Financial highlights

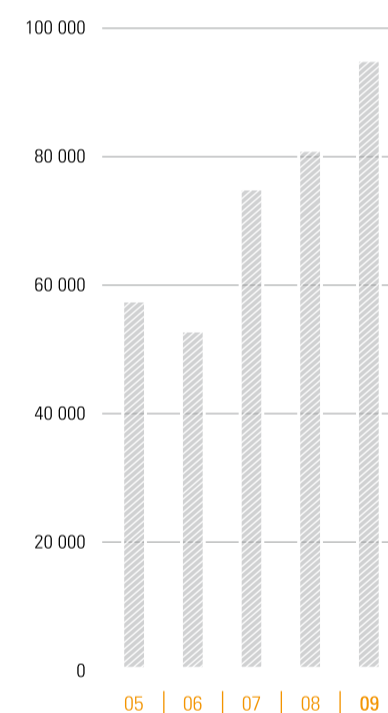
KEY FIGURES AND RATIOS

	12 months June 2009	12 months June 2008	12 months June 2007	12 months June 2006	12 months June 2005
PERFORMANCE					
(Loss)/profit for the year (R'000)	(54 455)	52 381	35 499	174 131	70 316
Profit for the year (excluding unrealised fair value adjusted) (R'000)	86 395	38 306	75 221	46 991	37 359
(Loss)/earnings per share (cents)	(6 752)	6 495	4 401	21 590	8 718
(Loss)/profit for the year per employee (R'000)	(1 433)	1 247	910	3 628	1 496
SELECTED RETURNS					
Return on weighted average shareholders' funds (percent)	(10,52)	10,77	7,43	54,18	25,50
Operating costs to total income (percent)	22,90	46,23	27,00	43,70	42,91
CAPITAL ADEQUACY					
Advances (R'000)	4 728 450	4 627 305	5 037 663	5 362 183	6 514 449
Total shareholders' interest (R'000)	459 734	528 446	502 258	490 522	340 152
Risk weighted assets – Basel II (R'000)	1 966 580	1 975 943	N/A	N/A	N/A
Tier 1 capital – Basel II (R'000)	424 288	352 151	N/A	N/A	N/A
Capital adequacy ratio (equity and sub-debt/advances) (percent)	11,90	13,42	12,00	11,03	7,99
Capital adequacy ratio (Basel II – tier 1) (percent)	21,57	17,82	N/A	N/A	N/A
OFFICIAL RATINGS					
Official credit rating – senior debt (Moody's)	A3.za	A2.za	A1.za	N/A	N/A
– short term (Moody's)	P – 2.za	P – 1.za	P – 1.za	N/A	N/A
VALUE					
Net asset value per share (Rand)	570	655	623	608	422

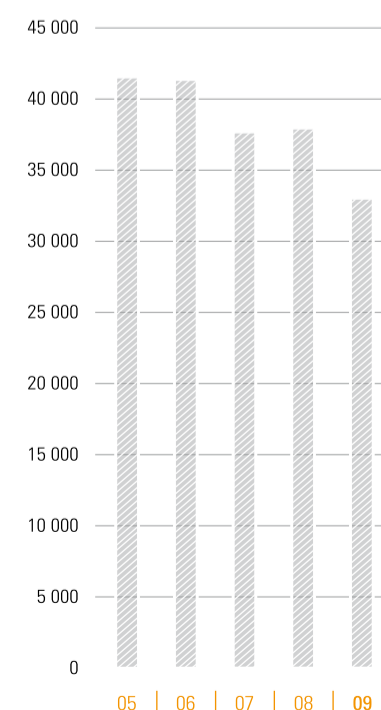
capital adequacy ratio
(equity and sub-debt/advances)
(%)



normalised net income before
operational expenditure
(R million)



operational expenditure
(R million)



Normalised profit for the year increased by **126%**
to **R86,4** million

Net interest income increased by **14%**
to **R91,4** million

Impairments increased from **R1,9** million
to **R6,8** million

Fee income increased by **263%**
to **R10,4** million

Operational expenditure decreased by **13%**
and contributed to a cost to income ratio of **23%**

New advances to the value of **R798**
million made during the year
pushed the balance sheet to **R6 630** million

Liquidity level as at 30 June 2009 stood at more than
R1 000 million

Exco, portfolio management
and treasury

Committed and skilled people underpin our success.



Support services and finance

Our passion and focus on quality yields excellent results.

Back office and administration



Driving efficiencies and broadening our offering

In a year characterised by continued turmoil in the global economy and the worst liquidity crisis in decades, I am pleased to report that INCA has weathered the storm.



CHAIRMAN'S STATEMENT

The initiative shown by our shareholders in continuing to invest in infrastructure across South Africa despite the difficult economic environment, while utilising INCA to access the required capital and money market resources, contributed greatly to our success.

The economic crisis and subsequent fallout have resulted in far-reaching changes to the financial sector, necessitating a critical evaluation of the current INCA model. Thus a new approach was formulated during the year, premised on the reality that infrastructure funding and service delivery by the municipal sector must continue. There is evidence that capital market funding sources are prepared not only to take an indirect view of these investments, but are willing to fund projects and service providers directly.

The Board of Directors resolved to manage INCA's balance sheet down to lower levels in a natural process over the next three years. As part of this process, a strategy will be followed to ensure that an optimal capital structure is put in place. Our focus on efficiency, that was started a few years ago, will be taken further and the profitability of the Company will be pushed higher.

To this end, it was resolved that INCA should facilitate the flow of capital market funds to infrastructure providers by extending its services to fund managers and investors. This approach allows INCA management to start a new initiative operating as independent portfolio managers. Offering the Company's services to third parties complements the rationale for INCA's creation – to mobilise capital market funding for infrastructure development.

I am pleased to announce the start of this new initiative to avail INCA's expertise to fund managers and investors who wish to participate in the financing of infrastructure in our country. The process to unlock INCA's internal potential that was initiated at the end of the previous financial year is now coming into its own right.

I am in no doubt that INCA's portfolio managers will be highly successful in their task of not only managing the INCA portfolio, but providing this function to other fund managers and private sector entities who wish to invest directly in projects and programmes that contribute to the infrastructural fabric of South Africa. We envisage that, in this way, the flow of private capital towards infrastructure investment will be enhanced.

I thank my colleagues on the Board of Directors and its sub-committees for their guidance. A special word of thanks is due to our independent directors for their commitment, not only to INCA and the delivery of a solid financial performance, but for remaining committed to finding alternative ways to contribute to the interminable task of creating better living conditions for our people.

MJN Njeke
Chairman



Corporate governance

The directors of INCA – which include non-executive shareholder representatives, executive directors 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 2008/09 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 management in accordance with International Financial Reporting Standards (IFRS). Management has consistently applied appropriate accounting policies supported by reasonable and prudent judgements and estimates in preparing the financial statements.

BOARD OF DIRECTORS

The Board of Directors retains full and effective control over the Group, monitors executive management and ensures material matters are subject to Board approval. Management reports to the Board 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 two independent non-executive directors to provide a measure of balance and independence on the Board. In line with the new Companies Act, the Audit, Risk and Compliance Committee consists only of independent directors.

Details of executive and non-executive directors are provided below.

AUDIT, RISK AND COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee is composed of independent directors. The chief executive officer, financial director and non-executive directors also attend 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.

CREDIT COMMITTEE

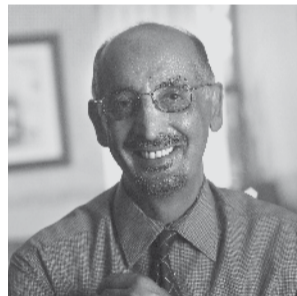
The primary responsibility of the Credit Committee is to control the extent of credit exposure to any entity or related group of entities. This committee meets twice a month. The Credit Committee consists of the chief executive officer and two non-executive directors, one of whom is the chairperson. Another independent outside resource person has been appointed to the committee to strengthen its capacity.

Decisions on credit exposures of less than R10 million, or increases of 10% in existing exposures, have been delegated to the chief executive officer, who approves these exposures after consulting with the executive.

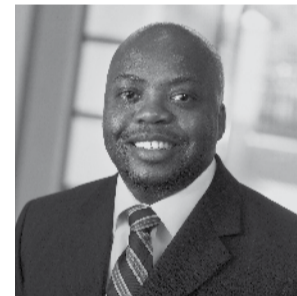
Directorate



AH Arnott // Director
FirstRand•#



IM Ayob // Director
Chanson Investments



RN Boqo // Executive Director
INCA



D du-Pont-Bouma // Executive Director
INCA*



H van Wyk // Director
Kagiso#*□



J Matlala // Director
Kagiso



PGM Truyens // Director
Independent*□†



L Scholtz // Director
Rand Merchant Bank



AJ van Zyl // Chief Executive Officer
INCA•#*□

- Member of Human Resources Committee
- # Member of Credit Committee
- † Member of Audit, Risk and Compliance Committee

- * Member of Asset Liability Committee
- Member of Market Value Verification Committee

ASSET LIABILITY COMMITTEE

Asset Liability Committee (ALCO) meets quarterly and is chaired by a non-executive director, with one further non-executive director, one independent director, the chief executive officer and the treasurer serving on the committee. The chief financial officer 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 in a prudent manner. The Company's funding strategy is also tabled at the quarterly ALCO meetings.

INTERNAL AUDIT

Given the number of permanent staff employed by the Company, external expertise is employed to perform the internal audit function. The audit programme implemented by these external experts focuses on key business risks to ensure that the main risk factors are closely monitored. This programme is submitted to the Audit, Risk and Compliance Committee for approval.

MARKET VALUE VERIFICATION COMMITTEE

The committee was established to address market valuation issues emanating from the implementation of IAS39. The committee consists of at least two non-executive directors, one independent director and the chief executive officer. A member is drawn from the Audit, Risk and Compliance Committee, Credit Committee and ALCO Committee.

The committee meets twice a year before the finalisation of interim and annual financial statements, and did so in January and July of 2008.

The committee is mandated to:

- Review and approve management'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

Three non-executive directors and the chief executive officer sit on the Human Resources Committee. This committee is responsible for ensuring:

- Labour legislation is complied with;
- INCA staff remuneration is comparable with other institutions;

- Key staff is retained;
- INCA upholds and supports the principle of equity in the workplace; and,
- Succession planning is adequate to support continuing operations.

EMPLOYMENT EQUITY

INCA is strongly committed to empowering its staff at all levels within the Group and providing them with the necessary training and support to ensure they are capable of achieving their highest aspirations.

At 30 June 2009, INCA's staff composition was 39,4% male, 60,6% female, while 42,4% of staff were from designated groups.

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.

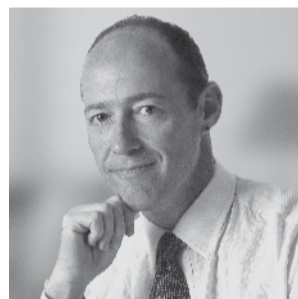
Risk management is dealt with in an integrated way by the chief executive officer and the executive team, with regular reporting to the Audit, Risk and Compliance Committee and the Board of Directors.

GOING CONCERN

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



JF Howard // Director
Futuregrowth •



AC Canter // Director
Futuregrowth* □



RW de Korte // Director †
Independent



JF Pouchous // Director
Dexia



MJN Njeke // Chairman
Kagiso



J Stals // Director
Kagiso •

Alternates

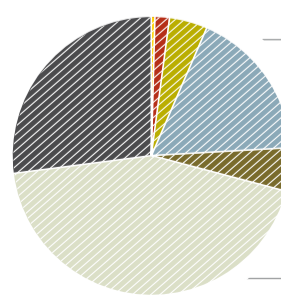


P Rackstraw
Futuregrowth

A Sangqu
Kagiso



Shareholders



2,0% Chanson Investment Holdings (Pty) Limited

4,42% Dexia Crédit Local

17,68% FirstRand Bank Limited

4,95% INCA Share Incentive Trust

43,96% Kagiso Financial Services Limited

26,98% Old Mutual Life Assurance (South Africa) Limited*

0,01% INCA Bond Rehabilitation Company

* Held by Futuregrowth (Pty) Limited

Chief executive officer's

During the last quarter of 2008 and the first quarter of 2009 world economic output plunged by more than 7% on an annualised basis. The first signs that the world economy was stabilising emerged in the second quarter of 2009. The impact on the South African economy was observed in the first quarter of 2009, when gross domestic product contracted by an annualised 6,4% – the economy's worst performance since 1983. After the second consecutive quarterly drop, South Africa was technically in recession.

INCA's primary focus on funding municipal infrastructure and providing services to the sector stood it in good stead during the year ended 30 June 2009. If the volatility of fair value adjustments is neutralised, INCA's performance on a normalised basis for the past year is the best since the Group was established in 1996.

Overview

This performance can be attributed to INCA's prudent lending criteria and the hands-on management of the loan portfolio that provides a stable annuity income stream.

As reported further on, the excellent performance of the INCA lending book, and our success in maintaining high levels of liquidity during the worst financial sector conditions in living memory, are most pleasing.

The business environment has become much more challenging. INCA undertook a number of initiatives during the past year that had a positive impact on our financial results. These included concentrating on fee income in addition to the net interest turn of the portfolio, as well as other cost saving steps.

Despite the year-on-year improvement in financial performance, Moody's downgraded INCA's short and long term credit rating.

During challenging conditions it is sensible to follow a strategy that favours conservative investment decisions, the maintenance of high levels of liquidity and the protection of the asset base, and, as with other financial institutions, INCA's focus was not on growing the balance sheet.

The chairman and I are proud that, during these challenging times, we were able to forge a new path for INCA and the role played by its staff in financing much-needed infrastructure in South Africa. Our new vision is discussed further under *The year ahead*.

{ REPORT }

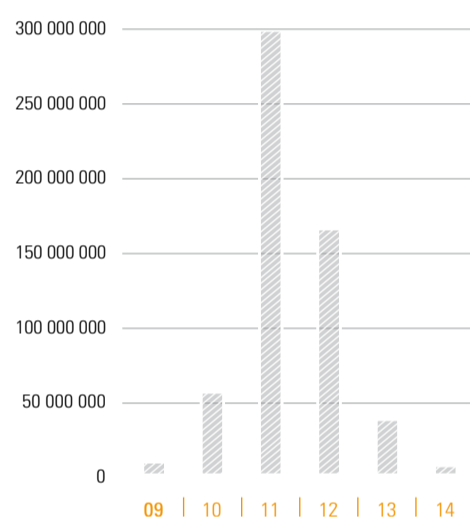


Asset generation and portfolio management

During the year, INCA extended new funding commitments to the value of R1 420 million, of which R973,5 million has been disbursed. To lower concentration risk and selectively deleverage the advance portfolio, advances of R470 million were sold which resulted in a small net increase in the value of advances to R4 728 450 at year end (2008: R4 627 305).

In addition to the R641,5 million new term loan funding provided in the past year, INCA has discounted new rental and lease transactions to the value of R332 million. These were mainly the provision of moveable assets by key suppliers to national and provincial governments on a rental and lease basis that was discounted with INCA. The total value of this rental discounting book as at 30 June 2009 was R570 million, with an average maturity profile of 36 months.

total maturity profile (Rand)

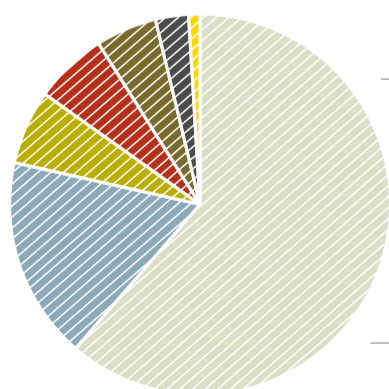


On this book, debt outstanding for longer than 90 days came to R21,8 million, against which an additional R6,8 million was impaired. The rental and lease discount book now constitutes 8,6% of INCA's balance sheet.

A sector analysis of INCA's loan portfolio highlights the reason for its low risk and solid performance as reflected in its low default rate (less than 0,2%) as at year end.

Loans to local government represented 61,34% of the loan book, followed by loans to state-owned enterprises at 17,19%, public-private partnership transactions at 6,31% and loans to higher education institutions at 6,2%. Only 3,77% of INCA's loan portfolio is not to government or public sector-related institutions.

sector analysis of long term loans (excluding rentals)



61,3%	Local, District and Metropolitan Municipalities
17,2%	State-owned Enterprises
6,3%	PPP
6,2%	Tertiary Education
5,2%	Water Boards
2,8%	Project Finance
1,0%	Property

The total debt outstanding on this portfolio as at 30 June 2009 was R8,6 million from 11 smaller municipalities, which has since decreased to R1,98 million as at 4 September 2009.

As INCA traditionally focuses on only the municipal sector, the portfolio is still dominated by exposures to metropolitan municipalities in South Africa. Loans to metropolitan councils account for 34% of INCA's long term loan book. Although the concentration risk in the portfolio has improved as compared to previous years, the top 30 exposures in the loan portfolio represent 84% of the value of the portfolio. The single biggest exposure is to the eThekweni Metropolitan Municipality at 8%.

top 30 exposures to total portfolio

Counterparty	Face value	% of total book
ETHEKWINI MM	370 880 277,75	8%
JOHANNESBURG MM GROUP	344 961 618,18	8%
EKURHULENI MM	318 963 809,35	7%
TSHWANE MM	273 446 583,87	6%
AIRPORTS COMPANY	250 000 000,00	6%
SOUTH AFRICAN AIRWAYS	246 251 630,51	5%
NETCARE CONSORTIUM	216 048 900,32	5%
CITY OF CAPE TOWN MM	210 118 113,80	5%
KWAZULU-NATAL UNIVERSITY	167 694 532,79	4%
ESKOM	145 000 000,00	3%
NEOTEL (PTY) LIMITED	126 136 363,63	3%
SEDIBENG WATER	99 310 000,00	2%
STEVE TSHWETE LM	72 650 959,87	2%
GOVAN MBEKI LM	70 000 000,00	2%
SANRAL	69 000 000,00	2%
SADC	67 492 466,92	2%
BLOEM WATER	62 576 377,78	1%
EMALAHLENI LM	62 099 805,80	1%
UMHLATHUZE LM	57 306 998,78	1%
TRANSNET LIMITED	56 649 219,33	1%
EMFULENI LM	54 186 313,00	1%
MHLATHUZE WATER	51 000 000,00	1%
MSUNDUZI LM	50 131 605,73	1%
MOGALE CITY LM	49 121 944,64	1%
RUSTENBURG LM	48 933 638,82	1%
BREED VALLEY LM	45 001 401,39	1%
MERAFONG LM	44 339 180,91	1%
WESTONARIA LM	42 737 768,29	1%
MBOMBELA LM	40 841 071,91	1%
STELLENBOSCH UNIVERSITY	40 763 211,81	1%
Sub total	3 753 643 795,18	84%
TOTAL BOOK (excl rentals)	4 491 234 459,15	100%

OTHER SIGNIFICANT CONTRIBUTIONS DURING THE YEAR

The credit quality of the portfolio has not changed significantly in the past year. Official ratings by rating agencies and INCA's own internal credit quality assessments indicate that five municipalities' credit ratings improved during the year and five ratings deteriorated.

Analysing the credit quality of the INCA term loan book utilising available credit ratings and INCA's internal credit assessment, 38% of the portfolio was assessed to have a credit quality of AA- or higher, 70% of the portfolio of a credit quality of A- and better, and 98% of the portfolio was assessed to be of investment grade (higher than BBB-).

Exposure per risk category			No. of clients
Category 1 (AA- to AAA)	1 724 923 819,08	38%	8
Category 2 (A- to A+)	1 436 713 934,24	32%	27
Category 3 (BBB)	1 231 645 993,56	27%	43
Below BBB- (non investment grade)	97 950 712,27	2%	12
	4 491 234 459,15	100%	

The impact of the recession, as reflected in a decline in spending power and the loss of employment, has become more evident towards the end of the financial year, contributing to rising bad debts for many municipalities. The cash flow situation has also deteriorated for many municipalities and their spending patterns and investment programmes have come under the spotlight. Unless the recession protracts, it is anticipated that the municipalities will be able to meet their external debt obligations.

The fact that public sector entities are also finding trading conditions more challenging presents a new dynamic to the question of institutional capacity in general. INCA's ability to actively manage its loan book and maintain close interaction with its borrowers played a positive role in the performance of the portfolio.

In addition to INCA's primary activity of loan funding to infrastructure providers, other important contributions that support infrastructure delivery and economic development were made during the year.

The Ukulungisa Project Preparation Fund (UPPF) came into operation during the year. UPPF was born out of an initiative by the Business Trust to support accelerated infrastructure delivery through project preparation. The Business Trust appointed INCA and the Project Preparation Trust of KwaZulu-Natal (KZN) to launch the initiative. In addition to making R24 million in loan funding available to Ukulungisa, INCA is responsible for the financial management and administration of UPPF, while the Project Preparation Trust is responsible for providing practical assistance to municipalities in preparing projects for investment and implementation as part of the joint venture. The facility that INCA made available to Ukulungisa gears the R12 million grant funding made available by the Business Trust.

INCA also played a key role in formatting and operationalising the KZN Growth Fund. This Fund acts as a leveraged fund, in that the provincial government has invested a significant amount of risk capital (33%) into the Fund. Together with the Development Bank of Southern Africa (DBSA) and Standard Bank, INCA has committed to providing the remaining 67% of funding to the Fund in the form of subordinated and senior debt. INCA's commitment to the Fund totals R275 million senior term loan funding and R25 million subordinated debt funding. Under the guidance of the Investment Committee, which, among others, includes all the funders and an

independent chairperson, the Fund seeks to invest in viable commercial projects that contribute to the development and unlocking of the competitive economic advantage of the province.



Increased fee income

One of the most pleasing developments over the past year was INCA's success in increasing its non-interest income. This sharp increase in fee income resulted from a specific strategy to generate additional income from services provided by INCA during the past year. These included placement and origination fees, underwriting and commitment fees, as well as administration and portfolio

management fees. The increase in fee income to R10,4 million contributed to a better financial performance this year.

Particularly noteworthy is that the focus on fee income did not impact negatively on the net interest margin earned on the total portfolio. The latter increased by 20 basis points to 1,47% for the year.

Funding the treasury

Liquidity featured foremost on the minds of most institutions over the past year. Considering market volatility and the difficulty to raise new funding at affordable levels, INCA specifically focused on maintaining a high level of liquidity throughout the year. As at 30 June 2009, INCA's total liquidity position totalled R1 093,6 million, which more than adequately meets the requirements of the approved liquidity policy, which specifies R560,5 million up to December 2009, and R801,8 million for the 12 months ending 30 June 2010.

This level of liquidity was maintained despite the repayment of external long term loan redemptions and commitments during the year totalling R672 million. As part of the liquidity buffer, INCA obtained a dedicated

R100 million bank facility, which was maintained throughout the year although not utilised.

Having drawn the last R59 million under the French development agency (AFD) participation agreement, during the year INCA mainly focused on its short term INO6 funding programme, managing to roll and/or refinance the funding raised under this programme and increase the net amount by a further R201 million to a total R968 million. The size of INCA's short term (commercial paper) funding programme was limited to a maximum of 20% of the total funding raised. This upper limit will prevent incurring additional liquidity risk due to short-term borrowings.

In line with market developments, the spreads on INCA bonds issued under the Domestic Medium Term Note (DMTN) programme widened from the prior year. During the year, spreads on the INO3 rose from 247 basis points to 260 basis points, on the INO7 from 240 basis points to 280 basis points, and on the INO4 from 220 basis points to 260 basis points. The spreads on the advances in respect of INCA's clients have also widened during the year.

The widening of the spreads on the listed INCA liabilities contributed approximately R35,4 million in fair value gains. However, these gains were more than offset by the credit spread widening in the INCA advance book. This change in credit spread resulted in approximately R62 million in

negative unrealised fair value adjustments. The chief financial officer's report specifically highlights fair value adjustments.

INCA maintained its conservative interest rate risk policy throughout the year, adhering to the limit of 3% equity that could be risked for a 200 basis point parallel shift in interest rates. From a foreign exchange exposure perspective, INCA maintained its policy of not having any foreign currency positions.

The active asset and liability management programme was maintained throughout the year and positions were reported on a quarterly basis to the Asset and Liability Committee (ALCO) and Board of Directors. The focus has shifted to redeeming the INO3 on 30 June 2011. At 30 June 2009, the funding gap on 30 June 2011 was just over R900 million. Despite being two years away, specific attention will remain on reducing this funding gap. Of the total INO3 issue (R2 515 million), INCA has already bought R568 million back and is committed to resolving this mismatch before 30 June 2010.

Although the investment in INCA bonds qualifies for points under the Financial Sector Charter (FSC), the financial crisis and specifically the liquidity crisis have shifted focus from this added advantage of investing in INCA bonds. Total FSC points for the 2008 calendar year are at 40,4%, audited by PricewaterhouseCoopers Inc.

FINANCIAL RESULTS

A loss of R54,5 million is reflected in the income statement for the financial year ended 30 June 2009 (2008: profit of R52,4 million). This major swing in the bottom line is mainly attributable to the volatility associated with fair value adjustments. The income statement reflects a negative unrealised fair value adjustment of R195,6 million compared to a positive unrealised fair value adjustment of R19,5 million for the previous year.

As fair value is pertinent only if the assets and/or liabilities are liquidated or traded, the performance of the Group over the past year is better evaluated if the effect of fair value adjustments (realised and unrealised) are neutralised. On this basis, net income before operational expenditure increased 17,4% to R95 million (2008: R80,9 million). The increase in impairments to R6,8 million of lease receivables and advances were

more than offset by the net interest income of R91,4 million (2008: R80 million) and the R10,4 million fee income (2008: R2,9 million).

Operational expenditure of R33 million was 13% down when compared to the previous year. The combination of the 17,4% increase in the net income before operational expenditure, a significant increase in realised fair value adjustment and a decrease of 13% in operational costs, resulted in a sharp improvement in the cost to income ratio, which now stands at 22,9% compared to 46,2% in the previous year.

As at 30 June 2009, total shareholder interest came to R459,7 million, which was 13% down on the previous year. This reflects the effect of the volatility associated with unrealised fair value adjustments, and contributed to the lower capital adequacy ratio of 11,9% (2008: 13,4%).

As reflected in the key figures and ratios, Tier 1 capital (as per Basel II) increased. Utilising Basel II and South African Reserve Bank guidelines, the calculated capital adequacy ratio has improved to 21,6% as at the end of the 2009 financial year (2008: 17,8%).

Given the commitment of shareholders and the Board of Directors not to weaken the capital underpin to the senior debt, a net dividend of R14,3 million was distributed during the year to shareholders. Notwithstanding the solid financial performance of the past year and the fact that cash generated from operations increased sharply to R121,4 million (2008: R46 million), the dividend distribution to shareholders was kept the same as last year. Since year end, and as approved by the Board on 17 September 2009, a net dividend of R14,3 million was distributed to shareholders on 1 October 2009.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

INCA maintained a good standard of corporate governance and transparency throughout the year. The Board and its sub-committees functioned well and an additional risk monitor report to the Audit, Risk and Compliance Committee was introduced during the year. This new report identifies the ten major risk factors faced by INCA and, through prioritising these factors, INCA will monitor and address the key risk factors on a quarterly basis.

The policy to review all credit exposures at least once every 18 months was adhered to, and at 30 June 2009 no credit reviews were outstanding.

INCA is rated by Moody's, who provide an independent credit opinion which is available to all investors. Following the financial year end, on 3 August 2009, Moody's downgraded INCA's long and short-term national scale rating to A3.za/P2.za from A2.za/P-1.za.

The level of corporate governance maintained by INCA is discussed on page 8 in the corporate governance section of this report.

Administration, operational systems and employee matters

The high levels of operational efficiency over the past few years were maintained during the 2009 financial year. In terms of financial administration, monthly management figures were provided and utilised to guide operational actions throughout the year. The information and treasury risk systems worked well and enabled treasury to run position reports and to manage the interest rate risk positions of the Group.

Additional resources were allocated during the year to deal with outstanding debt and the collection process of the rental and lease discount book. This resulted in the stabilisation of the debtors situation and indications are that the level of debt outstanding for longer than 90 days will decrease.

In adapting to market conditions, and as part of a more prudent expenditure approach, staff numbers decreased by 23% during the year. With regard to the task of managing the INCA portfolio and maintaining its expertise to provide services to third parties, the current number of staff is expected to remain stable for the immediate future.

THE YEAR AHEAD

The challenging market conditions are expected to remain during the 2010 financial year.

The strategic decision taken by the INCA Board and the shareholders not to grow the INCA portfolio but to carefully manage the portfolio down to a lower level will remove the need for INCA to raise new term loan funding.

The focus in the year ahead is to remain active in the short end of the market and keep the amount raised under the commercial paper programme at around the current level, and to protect current liquidity levels.

A particular effort will be made to deal with the redemption of the INO3 issue on 30 June 2011, and to remove this funding risk well in advance of the maturity date of the INO3.

If the portfolio of advances are closely monitored and managed, and the operational cost of the Company is fixed due to a fixed cost contract signed with the management in their new capacity as independent portfolio managers, then it is reasonable for the profitability and risk profile of INCA to be maintained at its current levels or even to improve on the weighted performance of the 2009 financial year.

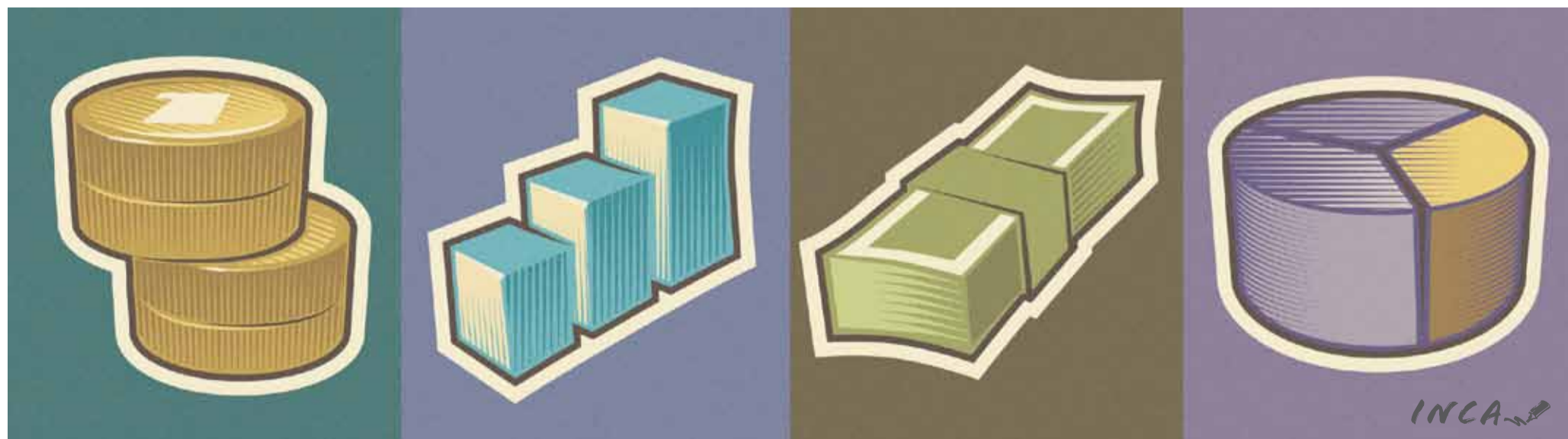
The decision to allow the executive to act as portfolio managers and provide professional services to other third parties will contribute to maintaining the original vision of playing a catalytic role in directing capital market funds towards infrastructure investments.

The main focus of the Group, as during the 2009 financial year, will remain on managing the Group through a period of challenging financial market conditions.

I would like to express my thanks to the Board of Directors and the sub-committees for their guidance during the year. Also to my co-executive directors and INCA staff – thank you for your dedication. We can all take pride in the results achieved during the past year.



Attie van Zyl
Chief Executive Officer



INCA team projects

INCA involved in Project Preparation Initiative

During the past year, INCA played a key role in the Ukulungisa Project Preparation Fund (UPPF).

UPPF is a strategic national initiative to help address service delivery backlogs in South Africa, and to facilitate a better life for all, faster.

UPPF's establishment was triggered by research findings which indicate that limited capacity to initiate and prepare projects is a significant barrier to expediting infrastructure delivery in municipalities. In response, UPPF was initiated by government, via the Support Programme for Infrastructure Delivery (SPAID), to help municipalities more quickly meet the objectives of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). SPAID is a partnership between the Presidency and the Business Trust, and is supported by the national Department of Cooperative Governance and Traditional Affairs and National Treasury. In addition to the seed funding that was provided by the Business Trust for the establishment of the Fund, it will also provide funding for project preparation services. INCA is committed to gear this contribution by R2 for every R1 provided by the Business Trust.

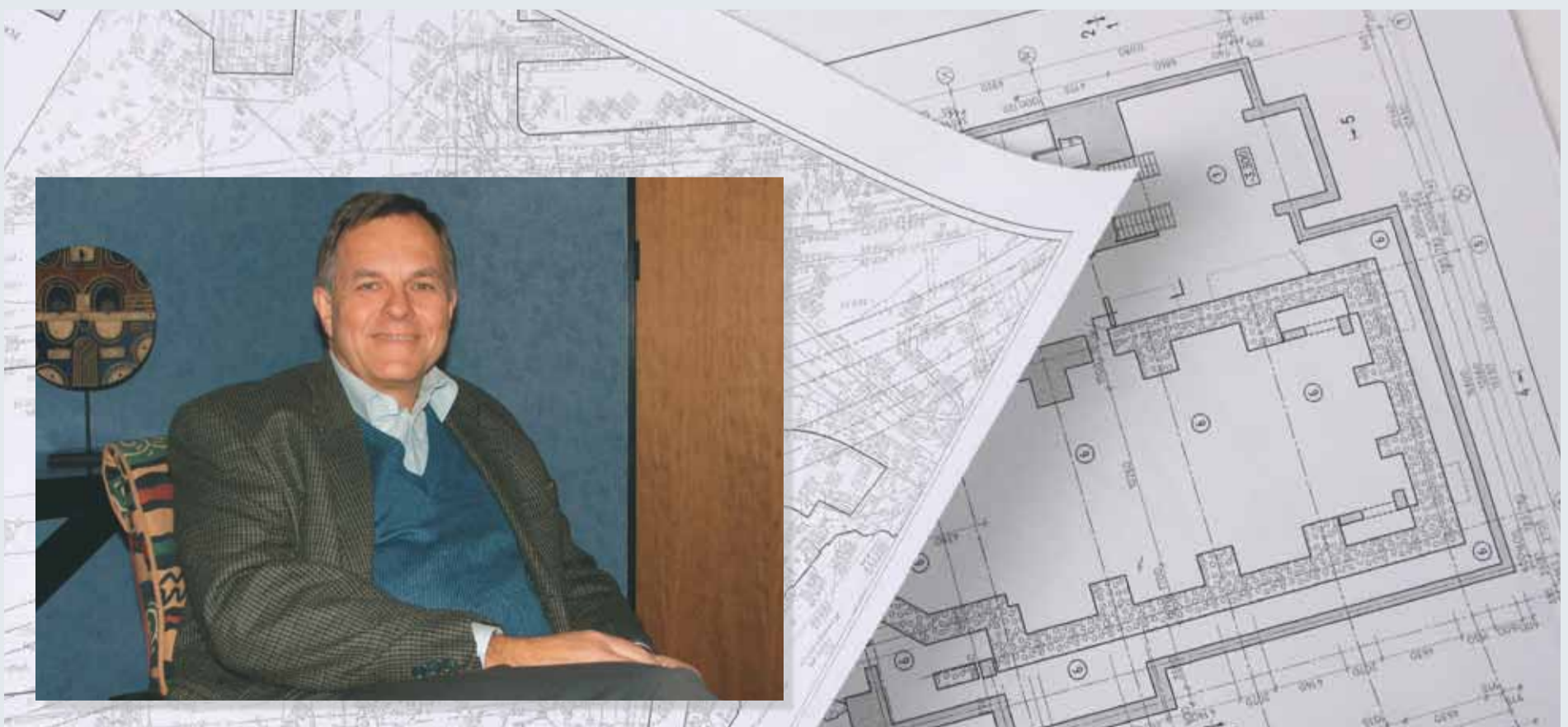
UPPF is a 'Special Purpose' Section 21 Company that aims to establish an independent and sustainable national Project Preparation Fund which can mobilise capacity and funding from the private and NGO sectors. Its core business is to fund and manage the preparation of selected municipal infrastructure projects, especially those which address poverty and basic service backlogs. Any municipality in the country can apply for assistance.

Those municipalities in the Eastern Cape, KZN and Limpopo are particularly welcome.

The services provided by UPPF are unique in that they are fully funded and at no risk to the municipality. These services are provided in terms of a bilateral agreement with the municipality. An agreed service fee for project preparation is payable to UPPF by the municipality only when a particular project succeeds in obtaining approval of capital funding for project implementation. The preparation work undertaken consists of all the activities required to ensure that a project is viable and appropriate, and that capital funding is secured. This includes project screening, prefeasibility, feasibility, concept design and business plans. UPPF funds and manages the entire project preparation process for the municipality, including the procurement and management of suitable consultants and project preparation teams.

The UPPF is a joint venture between PPT (Project Preparation Trust) and INCA, who were selected to champion this important initiative following a competitive bid process and stringent evaluation. The joint venture brings together PPT's extensive experience in project preparation and INCA's expertise in providing finance for municipal infrastructure. As leaders in their respective fields, PPT and INCA share a mutual commitment to promoting socio-economic upliftment.

Given the extent of infrastructure backlogs, financial constraints and a range of challenges affecting project delivery at local level, the UPPF will need to apply strict criteria in selecting the projects for which it will provide project preparation assistance.



Helge Switala – Head: Special Projects

A CORPORATE GOLF EVENT WITH A DIFFERENCE



Mama Florinah and her "kids"



Reggie Boqo (CFO) and Mama Florinah

For INCA's annual golf event we invite our corporate clients and partners to a golf weekend in the Drakensberg, where it is customary to take time out to raise funds for a charitable cause. A smaller group joined INCA this year, and with the impact of the recession on the financial services sector we expected that fewer funds would be raised.

Mamma Florinah's House in Finetown was selected as the benefiting charity. Mamma Florinah is a pensioner who has taken in nine vulnerable children who she supports on her state pension of only R980,00. INCA's goal was to collect enough money to provide the children with groceries for the next 12 months.

Despite the prevailing economic conditions, the 16 golfers opened their hearts and wallets, donating a total of R81 000,00, far exceeding the R45 000,00 collected last year.

The donation enabled INCA to provide Mama Florinah's House with:

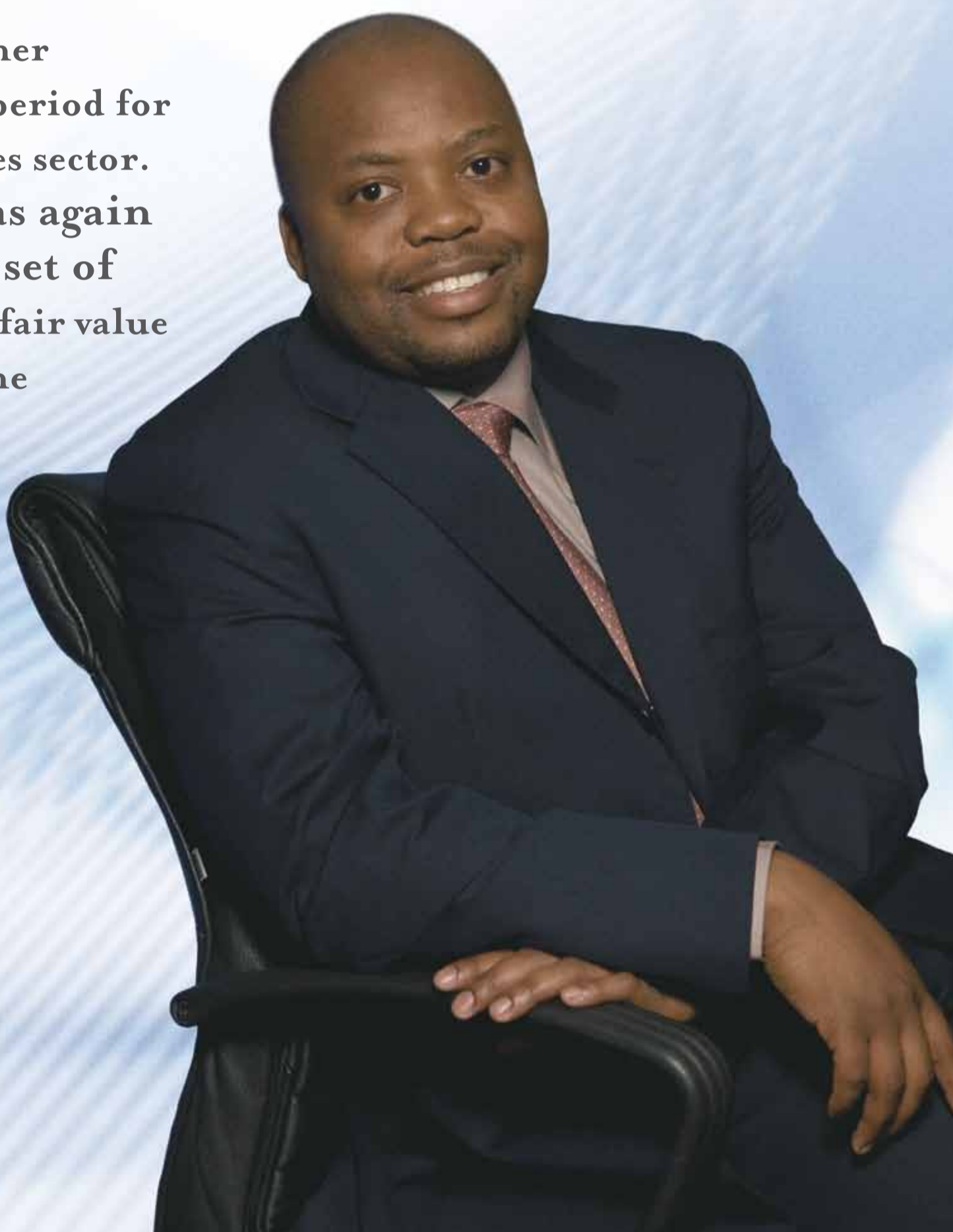
- New school uniforms;
- An extra bedroom for four of the children;
- Bedroom furniture and linen;
- Monthly groceries for the next 12 months; and,
- A Christmas lunch as well as a gift for each child.

The sizable donation also enabled INCA to support four child-headed families, with the focus once again on providing monthly groceries, bedding and school uniforms. Additionally, INCA hosts a Christmas party for around 100 children from the Finetown community.

Supporting a charity through the annual golf weekend gives an added sense of meaning to the enjoyment of a few rounds of golf. The smiles on the faces of Mama Florinah and her children will remain with us for a long time to come. With the help of the local church, it is a pleasure and a privilege to do something for the good of this community.

Chief financial officer's REPORT

It has been yet another difficult reporting period for the financial services sector. However, INCA has again delivered a great set of results despite the fair value losses reflected in the income statement.



Reporting The Group continues to enhance its reporting framework by complying with International Financial Reporting Standards (IFRS) and further expanding on its disclosure. There were no changes to the accounting policies during the year under review. Monthly and quarterly reporting processes were further improved to facilitate better financial management, and the Group continues to implement refinements to its information systems to improve the decision making process and financial reporting function.



Financial overview

The size of the Group's balance sheet remained fairly stable at R6 630,2 million, while its cash position increased significantly to 9% of the Group's total asset base at year end. Advances have remained flat at R4 728,5 million due to new advances, maturities, disposals and the fair value adjustments almost offsetting each other during the year under review.

Total equity decreased by 13% to R460 million due the negative unrealised fair value adjustments recognised in the current year's income statement of R195,6 million. The unrealised fair value reserve accounts for 8% of total equity, compared to 33% in the previous year. However, the strong underlying performance of the Group resulted in retained earnings reflecting a 29% increase to R324,4 million, despite a net dividend payment of R14,3 million to shareholders during the year. The dividend declaration was based on the Group's performance during the previous year.

The income statement reflects a loss of R54,5 million, attributable to the negative unrealised fair value adjustments of R195,6 million. As indicated in the highlights

section, when unrealised fair value adjustments are neutralised, the Group's income statement reflects a profit of R86,4 million for the year under review. The unrealised fair value adjustments are discussed in detail on page 20 and the summary of the attribution exercise performed by management is included. The realised fair value adjustment of R42,5 million resulted mainly from the disposal of advances referred to in the Chief Executive Officer's report under *Asset generation and portfolio management*.

The Group's focus on generating non-interest revenue has had a positive effect on the income statement, with fee and other income increasing nearly three-fold to R10,4 million. The cost containment process implemented more than three years ago has continued to bear fruit and resulted in the cost-to-income ratio improving to 23% for the year under review.

The Group's cash generating ability remains one of the key pillars of its business model. Cash generated by operations increased by 164% to R121,4 million as a result of the strong net interest income and realised gains on advances disposed of during the year.

FAIR VALUE REPORTING

The Group continues to account for most of its financial assets and financial liabilities at fair value through profit and loss in terms of IAS39 Financial Instruments: Recognition and Measurement. The fair value movements are recognised through the income statement in the year in which they occur. The fair value process is largely driven by data observable from the market as well as management judgements and estimates where financial instruments are not quoted in an active market. The fair valuation process is monitored by the Market Value Verification Committee and subjected to external audit as part of the annual financial statements year-end audit.

The objective of a near full balance sheet fair value reporting basis was to reduce the possible volatility in the Group's income statement. This objective can only be achieved if the market movements affect the financial assets and the financial liabilities to the same extent for the same financial period. This is not always a reality because the Group does not hedge itself for credit spread movements. In line with the Group's principle of transparent reporting, the disclosure in the annual financial statements strives to unpack the fair value adjustments to aid understanding by all readers.

The Group's income statement reflects negative unrealised fair value adjustments of R195,6 million (2008: positive R19,5 million). The base rates decreased significantly in the year under review, particularly the R153 and R157 rates which decreased by 456 basis points and 224 basis points respectively.

The table depicts an approximate attribution to various elements of unrealised fair value adjustments.

Contributing factor	Gain/(loss) Rm	Percentage
Credit spreads	(72,4)	37%
Twist risk	(1,6)	1%
Swap basis risk	(46,7)	24%
Lease receivables fair value adjustments reversed	(29,7)	15%
Early settlements (disposals)	(52,1)	27%
Other portfolio movements	6,9	(4%)
Total unrealised fair value adjustments	(195,6)	100%

The Group does not hedge itself for credit spread movements, therefore 37% of the unrealised fair value adjustment is due to unequal credit spread movements in financial assets and financial liabilities. The credit spread of both advances and liabilities increased during the year while the base rates reflected a significant decrease.

Derivative financial instruments reported in the balance sheet include cross currency swaps and interest rate swaps that are concluded to protect interest margins and foreign exchange exposures. These financial instruments are fair valued based on the swap curve, while the bulk of other financial assets and financial liabilities are fair valued with reference to the government bond curve. The bond curve changed from an inverse to a steep shape during the year under review. This change in shape affected the relationship between the swap curve and

the bond curve, and the outcome was a swap basis risk contribution of approximately 24% of the unrealised fair value adjustments reported.

The lease receivables portfolio is measured at amortised cost in terms of IFRS, therefore any unrealised fair value adjustment related to this portfolio is reversed for accounting purposes. The impact of this reversal was quantified at 15% of the total unrealised fair adjustments reported.

During the year, some advances and their related interest rate swaps were early settled or disposed of as mentioned previously in this report. The cumulative unrealised fair value adjustment relating to the early settled financial instruments were reversed in full in the current year's income statement and the gains were captured as part of the realised fair value adjustments line in the income statement.

The analysis of the unrealised fair value adjustments is further disclosed in note 15.2 of the annual financial statements.

To put the fair value adjustments into perspective, a sensitivity analysis is presented in note 21.6 of the annual financial statements. A 25 basis point credit spread widening on the advances, without an equal corresponding movement on the liabilities, will result in a negative fair value adjustment of approximately R33 million (2008: R35,9 million). The Group's advances portfolio, excluding metropolitan municipalities, is most sensitive to credit spread movement in risk category 2 (A- to A+).

CAPITAL MANAGEMENT

As per the intentions stated in the previous year's report, the Group's capital management framework has been further enhanced. The Group now calculates its capital adequacy in line with the Basel II capital adequacy framework where the assets are risk weighted and the fair value is excluded from both the assets and equity figures reported in the balance sheet. The risk weighted assets remained stable at R1 966,6 million (2008: R1 975,9 million) while Tier 1 capital increased to R424,3 million from R352,1 million in the previous financial year. The Group's Tier 1 capital adequacy ratio, based on the Basel II framework, amounts to 21,6% (2008: 17,8%).

Achieving this high capital adequacy ratio without any capital injection during the year further confirms the Group's prudent investment policy and the resultant high quality advances portfolio. The Basel II framework will be applied consistently in future and will provide all stakeholders with a uniform benchmark against which to measure the adequacy of the Group's capital when compared to its asset base.

The Group's capital stands at 7% of the total assets as reflected in the balance sheet. This is the ratio generally referred to by the rating agency in its rating report. However, management believes that the Basel II capital adequacy ratio provides a more transparent measure and is in line with international best practice.

The capital retention strategy alluded to in the previous year's annual report has been maintained resulting in the dividend declaration remaining the same as last year (R15,0 million), of which R14, 3 million was paid out. The dividend declaration was accepted by shareholders and the payout is due to take place three months after year end.

The Group's objective is to maintain an optimal capital structure while harmonising the requirements and expectations of our shareholders, debt holders, the rating agency and all other relevant stakeholders.

Looking ahead

The Group's information system platform will be further refined to facilitate best practice reporting and quick decision making. Risk management processes will also continue to be improved to ensure that the portfolio continues to perform well. The Group will also continue to comply with new accounting standards as these are introduced, in line with the International Financial Reporting Standards.



Conclusion

The strong results posted by the Group during the year, when excluding unrealised fair value adjustments, indicate the maturity of the portfolio as well as the Group's ability to extract maximum portfolio returns while maintaining a good credit quality advances portfolio.

Reggie Boqo

Chief Financial Officer

THE STORY BEHIND THE STORY

INCA was created 13 years ago as an intermediary between investors and, for the most part, municipalities. To generate proceeds to on-lend to municipalities it was necessary to allow investors to invest in rated INCA bonds listed on the Bond Exchange of South Africa (BESA). With the prevailing market conditions as well as anticipated changes within the market over the next two to three years, it was prudent to undertake a careful assessment of the business model to ensure optimum positioning within our sector.

Two obstacles that needed to be addressed to continue growing the loan portfolio were identified. The first is the capital adequacy aspect and associated returns to shareholders on their capital, given the yield by the portfolio and the level of gearing acceptable to external analysts. The second is that investors buying INCA bonds have a larger credit risk limit exposure to the underlying assets which INCA invests in than INCA itself. For example, an investor will begin to reach concentration limits if investing R1 000 million in INCA bonds, but will be prepared to invest far more in the municipal sector or metropolitan councils individually.

Additionally, the increased cost of INCA funding and the competitive risk pricing over the past few years resulted in margins being squeezed.

However, continuing to grow and add low risk transactions with lower net margins to the portfolio alone will not result in an improved set of financial results or in a better risk profile. Thus it makes good business sense to allow the portfolio to level off and deleverage the balance sheet when opportunities arise.

The need for accelerated infrastructure investment and associated high levels of capital market investment in infrastructure projects remains a reality. Given the expertise of INCA's staff and their profile in the marketplace, the prospect of allowing them to extend their services to other third parties, in addition to managing the INCA portfolio, is a logical and exciting step. This step will carry the initiative taken by shareholders to create INCA forward, benefiting current shareholders and contributing to the investment of capital market funds and funds entrusted to INCA's Portfolio Managers into infrastructure projects and programmes.

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Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the Company and Group annual financial statements, comprising the balance sheets at 30 June 2009, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the 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's and Group's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

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 THE ANNUAL FINANCIAL STATEMENTS

The Company and Group annual financial statements set out on pages 25 to 55 were considered by the Audit, Risk and Compliance Committee on 16 September 2009 and subsequently approved by the Board of Directors on 17 September 2009 and are signed on its behalf by:



JJ Njeke
Chairman



AJ van Zyl
Chief Executive Officer

Certification by the company secretary

The directors are responsible for the preparation and fair presentation of the Company and Group annual financial statements, comprising the balance sheets at 30 June 2009, and in terms of Section 268G(d) of the Companies Act, 61 of 1973, 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 2009, 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

17 September 2009

Independent auditor's report to the shareholders of Infrastructure Finance Corporation Limited

We have audited the Company and Group annual financial statements of Infrastructure Finance Corporation Limited, which comprise the balance sheets at 30 June 2009, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on page 25.

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 in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

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 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 judgement, 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 Group'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 Group'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, the financial statements present fairly, in all material respects, the financial position of the Company and Group at 30 June 2009, and their financial performance and 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: Siyabonga Dube
Partner
17 September 2009

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DL Kennedy Tax & Legal and Risk Advisory L Geeringh Consulting L Bam Corporate Finance CR Beukman Finance
TJ Brown Clients & Markets NT Mtoba Chairman of the Board CR Qually Deputy Chairman of the Board

A full list of partners and directors is available on request.

B-BBEE rating: Level 3 contributor/AA (certified by Empowerdex)

Member of Deloitte Touche Tohmatsu

Audit, Risk and Compliance Committee report

The committee is satisfied that the external auditor's 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 which were also discussed and accepted by the shareholders at the most recent annual general meeting.

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;
- review and discuss the audited annual financial statements included in the annual report with the external auditors, the Chief Executive Officer and the Chief Financial Officer; and
- review significant adjustments resulting from external audit queries and accept immaterial unadjusted audit differences.



Audit, Risk and Compliance Committee Chairman

17 September 2009

Directors' report

The main business of Infrastructure Finance Corporation Limited (INCA or the Company) remains that of providing largely unsecured debt finance to infrastructure providers and the providers of services normally rendered by the public sector. Special focus was placed on the generation of fee income and not necessarily on growing the balance sheet but to curtail costs and increase the net interest turn of the portfolio.

OPERATING RESULTS

The Group reflected a net loss after tax of R54,5 million on a fair value basis (2008: R52,4 million profit) and the Company reported a net loss after tax of R62,6 million (2008: R50,4 million profit) for the financial year under review. The reported fair values incorporated independent market information and transparent pricing where available. In addition, in the case of valuations of advances where no transparent market pricing exists or where market pricing observed was deemed outdated due to illiquidity, management used internally-generated historical data, recent transactions data, experienced judgements and fair comparisons. The fair value processes followed are the specific focus area of the Market Value Verification Committee, and are assessed by the external auditors as part of the normal audit process.

AUTHORISED AND ISSUED SHARE CAPITAL

The Company's authorised and issued share capital remained unchanged in the year under review (2008: no change).

The INCA Share Incentive Trust (the Trust) is consolidated into the Group's results and consequently the shares held by the Trust are cancelled as treasury shares on consolidation. During the year under review, the Trust did not purchase or dispose of any of the shares.

SUBORDINATED LIABILITIES

The fair value of total subordinated liabilities in issue at financial year end amounted to R103,0 million (2008: R92,4 million) and the maturity date of these subordinated liabilities is 2011.

DIVIDENDS

A dividend of R15,0 million (2008: R27,5 million) was declared, of which R14,3 million (2008: R26,1 million) (net of dividend to the Share Incentive Trust) was distributed to shareholders in October 2008.

DIRECTORS

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

LP Collet resigned as alternative director on 31 January 2009.

SECRETARY AND REGISTERED OFFICE

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

SUBSIDIARY COMPANIES

INCA's 100% holding of the issued shares in INCA Bond Rehabilitation Company (Pty) Limited, INCA Asset Finance (Pty) Limited and Infrastructure Finance Corporation Africa (Pty) Limited did not change during the year under review. Details relating to INCA's subsidiary companies are reflected in note 4 of the financial statements. The interest of INCA in the after tax profits of its subsidiary companies for the year is R8,8 million (2008: R2,4 million).

OWNERSHIP OF COMPANY

	Percentage holding	
	June 2009	June 2008
Chanson Investment Holdings (Pty) Limited	2,00	2,00
Dexia Crédit Local	4,42	4,42
FirstRand Bank Limited	17,68	17,68
INCA Bond Rehabilitation Company (Pty) Limited	0,01	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
	100,00	100,00

INCA Bond Rehabilitation Company (Pty) Limited, a 100% subsidiary of the Group, bought 100 INCA shares from Proparco on 3 December 2008. These shares are held as treasury shares.

*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 (2008: 42 007) INCA ordinary shares are currently held by the Trust. Members of the Human Resources Committee are trustees of the Trust and JM Poulter is the compliance officer.

BORROWING POWERS

The Company has unlimited borrowing powers.

SUBSEQUENT EVENTS

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

COUNTRY OF INCORPORATION

Republic of South Africa.

GOING CONCERN

The Company and Group annual financial statements have been prepared on a going concern basis.

Balance sheets

at 30 June 2009

	Notes	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
ASSETS					
Cash and cash equivalents	2	611 703	192 080	608 768	184 157
Other assets	3	127 474	101 926	127 317	101 429
Investments	4	1 078 712	1 229 189	1 115 854	1 267 498
Derivative financial instruments	12	80 437	365 605	80 437	365 605
Advances	5	4 728 450	4 627 305	4 665 897	4 558 863
Property, plant and equipment	6	3 473	3 633	3 473	3 633
Total assets		6 630 249	6 519 738	6 601 746	6 481 185
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	7	807	807	849	849
Share premium	8	99 045	99 045	105 988	105 988
Unrealised fair value reserve		35 446	176 295	21 699	163 800
Retained earnings		324 436	252 299	288 472	223 948
Total equity		459 734	528 446	417 008	494 585
Liabilities					
Subordinated borrowed funds	9	103 044	92 415	103 044	92 415
Borrowed funds	10	5 153 001	5 572 290	5 153 001	5 572 290
Trade and other payables	11	769 717	137 465	790 668	136 609
Taxation payable		27 840	5 568	24 217	4 351
Derivative financial instruments	12	106 151	136 300	106 151	136 300
Deferred taxation	17.3	10 762	47 254	7 657	44 635
Total liabilities		6 170 515	5 991 292	6 184 738	5 986 600
Total equity and liabilities		6 630 249	6 519 738	6 601 746	6 481 185
Approximate rate of exchange ruling at the end of the year	USD	7,7150	7,8298		
	EUR	10,8266	12,3382		
	GBP	12,7226	15,6065		

Income statements

for the year ended 30 June 2009

	Notes	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
Interest and similar income	13	1 271 265	1 071 965	1 259 567	1 059 319
Interest expense and similar charges	14	1 179 886	992 008	1 179 863	991 939
Net interest income		91 379	79 957	79 704	67 380
Impairment on lease receivables and advances	5.8	6 801	1 889	6 801	1 889
Net interest income after impairment		84 578	78 068	72 903	65 491
Fair value adjustment – realised	15.1	42 466	(689)	42 466	(689)
– unrealised	15.2	(195 624)	19 548	(197 362)	26 598
Fee and other income		10 398	2 862	11 373	4 344
Net income before operating expenditure		(58 182)	99 789	(70 620)	95 744
Operating expenditure	16	33 037	37 969	32 793	37 708
(Loss)/profit before taxation		(91 219)	61 820	(103 413)	58 036
Taxation	17.1	(36 764)	(9 439)	(40 836)	(7 677)
(Loss)/profit for the year		(54 455)	52 381	(62 577)	50 359
Attributable to:					
Equity holders of the parent		(54 455)	52 380	(62 577)	50 359
		(54 455)	52 380	(62 577)	50 359
(Loss)/earnings per share (cents)	23	(6 752)	6 495		
Dividend per share (cents)		1 768	3 241		

Statements of changes in equity

for the year ended 30 June 2009

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 1 July 2007	807	99 057	162 220	240 174	502 258
Dividend paid for 2007 net of dividend to Share Trust	–	–	–	(26 141)	(26 141)
Treasury shares acquired	–	(12)	–	(40)	(52)
Profit for the year	–	–	14 075	38 306	52 381
Balance at 1 July 2008	807	99 045	176 295	252 299	528 446
Dividend paid for 2008 net of dividend to Share Trust	–	–	–	(14 257)	(14 257)
Loss for the year	–	–	(140 849)	86 394	(54 455)
Balance at 30 June 2009	807	99 045	35 446	324 436	459 734

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 1 July 2007	849	105 988	144 649	220 240	471 726
Dividend paid for 2007	–	–	–	(27 500)	(27 500)
Profit for the year	–	–	19 151	31 208	50 359
Balance at 1 July 2008	849	105 988	163 800	223 948	494 585
Dividend paid for 2008	–	–	–	(15 000)	(15 000)
Loss for the year	–	–	(142 101)	79 524	(62 577)
Balance at 30 June 2009	849	105 988	21 699	288 472	417 008

* The unrealised fair value reserve was included in retained earnings per the 2008 annual financial statements, the split was done in the current year's annual financial statements to provide better disclosure.

Cash flow statements

for the year ended 30 June 2009

Notes	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
CASH FLOWS FROM OPERATING ACTIVITIES				
A.1	725 259	609 111	716 428	600 072
A.2	(1 188 616)	(1 014 657)	(1 188 349)	(1 014 331)
A.3	584 786	451 501	583 454	451 176
A.6	121 429	45 955	111 533	36 917
A.4	22 544	(5 452)	23 724	(2 407)
A.5	(14 257)	(26 141)	(15 000)	(27 500)
A.7	81 828	(201 330)	74 808	(195 286)
A.8	(25 548)	405 383	(25 888)	404 883
A.9	233 710	(469 041)	255 517	(471 999)
	289 990	(264 988)	304 437	(262 402)
	419 706	(252 137)	424 694	(256 903)
CASH FLOWS FROM INVESTING ACTIVITIES				
	(168)	(342)	(168)	(342)
	(92)	(5)	(92)	(5)
	(26)	(70)	(26)	(70)
	–	(412)	–	(412)
	(286)	(829)	(286)	(829)
	74	9	74	9
	129	9	129	9
	(83)	(811)	(83)	(811)
CASH FLOWS FROM FINANCING ACTIVITIES				
	–	(52)	–	–
	–	(52)	–	–
	419 623	(253 009)	424 611	(257 723)
	192 080	445 089	184 157	441 880
	611 703	192 080	608 768	184 157

Notes to the cash flow statements

	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
CASH FLOW INFORMATION				
A.1 Cash receipts from borrowers and customers				
Interest income	648 260	606 512	637 894	594 191
Realised profits on advances	67 476	1 475	67 476	1 475
Fee and other income	10 398	2 862	11 373	4 344
(Deduct)/add amortisation of discount income	(875)	(1 738)	(315)	62
Total cash receipts from borrowers and customers	725 259	609 111	716 428	600 072
A.2 Cash paid to lenders, employees and suppliers				
Interest expense	(1 179 886)	(992 008)	(1 179 863)	(991 939)
Realised losses on long term liabilities	(1 086)	(12 816)	(1 086)	(12 816)
Add: amortisation of discount expense	24 974	27 687	24 974	27 687
	(1 155 998)	(977 137)	(1 155 975)	(977 068)
Operating expenses, excluding depreciation	(32 618)	(37 520)	(32 374)	(37 263)
Total cash paid to lenders, employees and suppliers	(1 188 616)	(1 014 657)	(1 188 349)	(1 014 331)
A.3 Cash receipts from investments and cash balances				
Interest income	614 099	456 858	612 768	456 533
Preference share dividends	8 906	8 595	8 905	8 595
Realised profits on investments and derivatives	(23 924)	10 652	(23 924)	10 652
Less: amortisation of discount income	(14 295)	(24 604)	(14 295)	(24 604)
Total cash receipts from investments and cash balances	584 786	451 501	583 454	451 176
A.4 Normal taxation paid				
Amounts (payable)/over paid at the beginning of the year	(5 568)	1 601	(4 351)	2 975
Income statement charge	272	(12 621)	3 858	(9 733)
Amounts payable at the end of the year	27 840	5 568	24 217	4 351
Normal tax paid	22 544	(5 452)	23 724	(2 407)
A.5 Dividends paid				
Amounts unpaid at the beginning of the year	–	–	–	–
Dividend paid	(14 257)	(26 141)	(15 000)	(27 500)
Amounts unpaid at the end of the year	–	–	–	–
Dividends paid	(14 257)	(26 141)	(15 000)	(27 500)
A.6 Reconciliation of profit before taxation to cash generated from operations				
(Loss)/profit before taxation	(91 219)	61 820	(103 413)	58 036
Non-cash charges:				
Depreciation	419	449	419	445
Impairment on lease receivables and advances	6 801	1 889	6 801	1 889
Amortisation of discount income	(15 170)	(26 342)	(14 610)	(24 542)
Amortisation of discount expense	24 974	27 687	24 974	27 687
Revaluation of investments and advances	(24 127)	419 274	(22 389)	412 222
Revaluation of subordinated debt and borrowed funds	221 956	(439 360)	221 956	(439 360)
Revaluation of currency translation gains and losses	(2 029)	540	(2 029)	540
Profit on disposal of equipment	(176)	(2)	(176)	(2)
Cash generated from operations	121 429	45 955	111 533	36 917

for the year ended 30 June 2009

	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
A.7 Decrease/(increase) in income earning assets				
Investments	150 477	(216 867)	151 644	(217 959)
Advances	(101 145)	410 358	(107 034)	408 206
Add: amortisation of discount income	15 170	26 342	14 610	24 542
Revaluation of advances and investments	24 127	(419 274)	22 389	(408 186)
Impairment on advances	(6 801)	(1 889)	(6 801)	(1 889)
Net decrease/(increase) in income earning assets	81 828	(201 330)	74 808	(195 286)
A.8 (Increase)/decrease in non-income earning assets				
Accrued interest	(39 833)	24 422	(39 830)	23 565
Decrease in other debtors	14 285	380 961	13 942	381 318
Net (increase)/decrease in non-income earning assets	(25 548)	405 383	(25 888)	404 883
A.9 Increase/(decrease) in borrowings, derivatives and other payables				
Increase/(decrease) in borrowed funds and derivative financial instruments	(164 270)	(703 817)	(164 270)	(703 817)
Add: amortisation of discount expense	(24 974)	(27 687)	(24 974)	(27 687)
Revaluation of borrowed funds and derivatives	(209 298)	432 338	(209 298)	428 300
Increase/(decrease) in subordinated borrowed funds	10 629	(6 482)	10 629	(6 482)
Revaluation of subordinated borrowed funds	(10 629)	6 482	(10 629)	6 482
Increase/(decrease) in other payables	632 252	(169 875)	654 059	(168 795)
Net increase/(decrease) in borrowings, derivatives and other payables	233 710	(469 041)	255 517	(471 999)

Infrastructure Finance Corporation Limited

Notes to the financial statements

1. ACCOUNTING POLICIES

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

Adoption of new and revised Standards

Standards and interpretations effective in the current period

No significant new International Accounting Standards or interpretations were introduced during the current financial year that is expected to have a material impact on the compilation or presentation of the financial statements of the Group.

New/revised International Financial Reporting and International Accounting Standards and interpretations in issue but not yet effective

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

- IFRS 2, Share based payments – Revised April 2009 – Effective for annual periods beginning on or after 1 July 2009;
- IFRS 3, Business Combinations – Revised 2008 – Effective for annual periods beginning on or after 1 July 2009;
- IFRS 7, Financial Instruments: Disclosure – Revised March 2009 – Effective for annual periods beginning on or after 1 January 2009;
- IAS 1, Presentation of Financial Statements – Revised May 2008 – Effective for annual periods beginning on or after 1 January 2009;
- IAS 7, Statement of Cash Flows – Revised April 2009 – Effective for annual periods beginning on or after 1 January 2010;
- IAS 16, Property, Plant and Equipment – Revised May 2008 – Effective for annual periods beginning on or after 1 January 2009;
- IAS 17, Leases – Revised April 2009 – Effective for annual periods beginning on or after 1 January 2010;
- IAS 23, Borrowing Costs – Revised May 2008 – Effective for annual periods beginning on or after 1 January 2009;
- IAS 27, Consolidated and Separate Financial Statements – Revised May 2008 – Effective for annual periods beginning on or after 1 January 2009;
- IAS 32, Financial Instruments: Presentation – Revised 2008 – Effective for annual periods beginning on or after 1 January 2009;
- IAS 36, Impairment of Assets – Revised May 2008 – Effective for annual periods beginning on or after 1 January 2009;
- IAS 38, Intangible Assets – Revised April 2009 – Effective for annual periods beginning on or after 1 July 2009; and
- IAS 39, Financial Instruments: Recognition and Measurement – Revised March 2009 – Effective for annual periods beginning on or after 30 June 2009.

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

Standards, interpretations and amendments to published Standards that are not yet effective

There are Standards and interpretations in issue and a number of amendments made to various existing Standards that are not yet effective following the International Accounting Standards Board project in May 2009.

1.1 Basis of presentation

The Group's consolidated 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. Where necessary or required by the IFRS, the comparative figures have been restated.

The consolidated 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 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.

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 balance sheet 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.

for the year ended 30 June 2009

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 balance sheet date. 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 balance sheet date. Exchange differences on monetary financial assets and liabilities measured at fair value are included in the income statement for the year.

1.5 *Direct and indirect taxation*

Direct taxes include South African jurisdiction corporate tax payable, as well as secondary tax on companies (STC) and capital gains tax.

The charge for current tax is based on the results for the year as adjusted for items, which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date.

STC credits are recognised as a deferred tax asset.

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 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 income statement. The counterparty liability is included in other payables at fair value on the balance sheet date.

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.

1.7 *Offsetting financial instruments*

The Group offsets financial assets and liabilities and reports the net balance in the balance sheet 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.

Notes to the financial statements (continued)

1. ACCOUNTING POLICIES (continued)

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 21.

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 21. 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 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 balance sheet date. 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.

for the year ended 30 June 2009

1.9.5 *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. 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 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 asset, 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 lease receivables 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.

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.

Notes to the financial statements (continued)

1. ACCOUNTING POLICIES (continued)

1.10 Financial liabilities issued by the Group (continued)

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 12.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. Thus the Group 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.

Equipment is depreciated 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.

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
Leasehold improvements	Over lease term of assets leased

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 income statement 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 income statement 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 recognises them as an intangible asset.

The Group carries capitalised software assets at cost less amortisation and any impairment losses. These assets are amortised 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 income statement 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 income statement in the year in which the costs are incurred.

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

for the year ended 30 June 2009

1.14 **Deferred taxation**

The Group calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The Group recognises deferred tax assets if the directors of the company consider it probable that future taxable income will be available against which the unused tax losses and deductible temporary differences can be used. Temporary differences arise primarily from unrealised fair value adjustments and prepaid expenses.

1.15 **Employee benefits**

1.15.1 **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.

1.15.2 **Termination benefits**

The Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

1.15.3 **Leave pay accrual**

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

1.15.4 **Share appreciation rights obligation**

The Group recognises the liability at fair value on balance sheet date and the movement for the year is expensed in the income statement.

1.16 **Related party transactions**

All related party transactions are at arm's length and incurred in the ordinary course of business.

1.17 **Fiduciary activities**

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

1.18 **Borrowing costs**

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

2. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

2.1 **Use of estimates, assumptions and judgements**

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

2.2 **Key sources of estimation uncertainty**

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

2.2.1 **Useful lives of property, plant and equipment**

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

2.2.2 **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.

Notes to the financial statements (continued)

	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
2. CASH AND CASH EQUIVALENTS				
Bank balances	109 470	91 962	106 545	88 494
Call deposits with financial institutions	502 233	100 118	502 223	95 663
	611 703	192 080	608 768	184 157
3. OTHER ASSETS				
Accrued interest	114 298	74 465	114 205	74 375
Other debtors	13 176	27 461	13 112	27 054
	127 474	101 926	127 317	101 429
4. INVESTMENTS				
4.1 Rand Merchant Bank	322 648	362 638	322 648	362 638
4.2 Loan to INCA Share Incentive Trust	–	–	22 816	22 816
4.3 Zero coupon bonds	97 760	134 395	97 760	134 395
Capital market stock	526 486	334 638	526 486	334 618
Other investments:				
4.4 Preference shares	62 609	73 243	62 609	73 243
Dividend income fund	40 295	179 684	40 295	179 684
Funding provided under repurchase agreements	16 680	–	16 680	–
Investment in and loans to subsidiaries:				
4.5 INCA Bond Rehabilitation Company (Pty) Limited				
• Investment in ordinary shares	–	–	14 000	14 000
• Inter-company loan	–	–	188	1 136
4.6 INCA Asset Finance (Pty) Limited				
• Investment in ordinary shares	–	–	253	253
• Inter-company loan	–	–	(116)	(116)
4.7 Infrastructure Finance Corporation Initiative (Pty) Limited				
• Investment in ordinary shares	–	–	1	1
• Inter-company loan	–	–	–	239
Money market investments with other banks:				
• Maturing after one month but within three months	–	134 623	–	134 623
4.8 Retentions deposits held	12 234	9 968	12 234	9 968
	1 078 712	1 229 189	1 115 854	1 267 498

for the year ended 30 June 2009

4. INVESTMENTS (continued)

- 4.1 INCA received a loan of EUR 40 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 Trust, to the INCA Share Incentive 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). Zero coupon bonds with a combined maturity value of R95 million were pledged as security for a liquidity facility with Investec Bank. The zero coupon bonds have the same maturity date and maturity value as the capital due in respect of bond profile advances made to specific borrowers. On maturity, the proceeds of the zero coupon bonds will be used to settle the principal balance due by INCA in respect of zero coupon bond liabilities to municipalities.
- 4.4 On 29 July 2005, INCA invested in R73 116 000 in non-cumulative redeemable preference shares in Sechold Financial Services (Pty) Limited. These shares will be redeemed on 20 March 2017. INCA invested in R40 million (2008: R180 million) in a Dividend Income Fund. This investment is redeemable on demand.
- 4.5 The Company acquired a 100% interest in INCA Bond Rehabilitation Company (Pty) 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 will be realised. The issued ordinary capital of the Company is R1 000.
- 4.6 On 20 November 2002, Infrastructure Asset Finance (Pty) Limited 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. The Company 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 since incorporated Infrastructure Asset Finance (Pty) Limited's operations into its own since the beginning of the previous financial year.
- 4.7 Infrastructure Finance Corporation Initiative (Pty) Limited (formerly known as Infrastructure Finance Corporation Africa) commenced operations in January 2004. The ten shares in issue are all held by INCA who subscribed for the shares at par. This company has had no business activities during the financial year under review and is in the process of being de-registered.
- 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.
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Notes to the financial statements (continued)

	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
5. ADVANCES				
5.1 Valuation profile				
Advances at fair value	4 154 706	4 152 427	4 091 254	4 083 086
Lease receivables at cost	606 005	500 338	606 005	500 338
Impairment on lease receivables and advances	(32 261)	(25 460)	(31 362)	(24 561)
	4 728 450	4 627 305	4 665 897	4 558 863
The fair value of lease receivables is R596 134 409 (2008: R496 107 951) for the Group and Company.				
5.2 Maturity profile				
Maturing within one year	127 506	453 526	124 650	444 762
Maturing within two years	982 056	173 848	929 241	173 393
Maturing within three years	569 498	1 096 385	569 140	1 044 766
Maturing within four years	141 800	377 973	135 276	377 537
Maturing within five years	152 366	–	152 366	–
Maturing after five years	2 755 224	2 525 573	2 755 224	2 518 405
	4 728 450	4 627 305	4 665 897	4 558 863
5.3 Geographic profile				
Eastern Cape	91 666	208 614	91 666	208 614
Free State	274 847	216 741	257 376	198 079
Gauteng	1 392 913	1 574 957	1 350 349	1 534 501
KwaZulu-Natal	977 633	875 829	977 633	869 907
Limpopo	95 734	88 418	95 734	88 418
Mpumalanga	390 634	320 149	390 634	320 149
Northern Cape	34 564	46 841	34 564	46 841
North West	196 467	252 046	193 953	248 674
Western Cape	359 684	430 523	359 680	430 493
Southern African Development Community	63 975	12 533	63 975	12 533
Other:				
– National Government	368 375	335 737	368 375	335 737
– State-owned Enterprises	481 958	264 917	481 958	264 917
	4 728 450	4 627 305	4 665 897	4 558 863
5.4 Repayment profile				
Bonds (bullet payment profile)	986 291	1 441 535	937 729	1 389 916
Amortised loans	3 742 159	3 185 770	3 728 168	3 168 947
	4 728 450	4 627 305	4 665 897	4 558 863
5.5 Loan commitments to advance funds				
Nalitemba Hospital/Eastern Cape Provincial Health Department (2009)	–	216 058	–	216 058
Bongwe Investments/SADEC (2009)	–	107 203	–	107 203
Rustenburg Local Municipality (2009)	–	50 000	–	50 000
Steve Tshwete Local Municipality (2009)	35 000	35 000	35 000	35 000
Emalahleni Local Municipality (2009)	–	14 000	–	14 000
Neotel (Pty) Limited	123 864	–	123 864	–
Jukskei View	16 000	–	16 000	–
	174 864	422 261	174 864	422 261

for the year ended 30 June 2009

	2009 R'000	% of advances	2008 R'000	% of advances
5. ADVANCES (continued)				
5.6 Concentration profile (Group and Company)				
Ten largest exposures (face value)				
eThekweni Metropolitan Municipality	371 795	7,9	406 977	8,8
Ekurhuleni Metropolitan Municipality	318 965	6,7	354 971	7,7
Tshwane Metropolitan Municipality	279 635	5,9	601 895	13,0
Airports Company of South Africa	250 000	5,3	* –	–
South African Airways	246 252	5,2	274 825	5,9
Nalitemba Provincial Hospital	203 144	4,3	109 288	2,4
University of KwaZulu-Natal	143 244	3,0	113 737	2,5
Eskom Group	148 762	3,1	146 947	3,2
City of Johannesburg Metropolitan Municipality	131 137	2,8	167 294	3,6
National Government	128 071	2,7	* –	–
City of Cape Town Metropolitan Municipality	n ¹	–	212 899	4,6
Buffalo City Local Municipality	n ¹	–	114 386	2,5
Total	2 221 005	46,9	2 503 219	54,2
Capital secured	(222 100)	(4,7)	(517 819)	(11,1)
Net exposure	1 998 905	42,2	1 985 400	43,1

n¹ The 2009 exposure to City of Cape Town of R110 189 million was excluded because it did not qualify under the ten largest advances. The exposure to Buffalo City was settled during the year.

* New exposure in the current financial year.

	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
5.7 Capital repayments secured				
Secured by cession of a zero coupon bond or set off against a deposit with the Company	662 709	1 046 474	620 423	1 046 474
Percentage of total book value before impairment	13,9%	22,5%	13,2%	22,8%

The Company ceded to the European Investment Bank advances with a book value of R194 million (2008: R203 million) and R213 million (2008: R224 million) made to the Tshwane Metropolitan Municipality and eThekweni Metropolitan Municipality respectively (see note 10.2).

5.8 Impairment on lease receivables and advances				
Balance beginning of the year	25 460	35 664	24 561	34 765
Impairment charge for the year	7 127	1 889	7 127	1 889
Impairment reversals for the year	(326)	(12 093)	(326)	(12 093)
Balance end of the year	32 261	25 460	31 362	24 561

for the year ended 30 June 2009

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	30 June 2008 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit/(loss) R'000	Depreciation R'000	30 June 2009 Carrying value R'000
Movements: 2008 to 2009						
Computer equipment	378	168	(74)	72	(140)	404
Furniture and fittings	2 696	92	(129)	115	(52)	2 722
Leasehold improvements	114	26	–	(11)	(116)	13
Motor vehicles	445	–	–	–	(111)	334
	3 633	286	(203)	176	(419)	3 473
Movements: 2006 to 2008						
Computer equipment	324	342	(9)	2	(281)	378
Furniture and fittings	2 756	5	–	–	(65)	2 696
Leasehold improvements	101	70	–	–	(57)	114
Motor vehicles	75	412	–	–	(42)	445
	3 256	829	(9)	2	(445)	3 633

	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
7. SHARE CAPITAL				
Authorised				
1 000 000 ordinary shares of R1 each (2008: 1 000 000 ordinary shares of R1 each)	1 000	1 000	1 000	1 000
Issued				
848 532 ordinary shares of R1 each (2008: 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 (2008: 42 007)	(42)	(42)	–	–
Shares held by INCA Bond Rehabilitation Company 100 ordinary shares of R1 each (2008: nil)	n ¹	n ¹	–	–
Balance at the end of the year	807	807	849	849

n¹ Less than R1 000.

In terms of the shareholders' agreement, shareholders have the power to issue the unissued shares.

8. SHARE PREMIUM				
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	(12)	(12)	–	–
Balance at the end of the year	99 045	99 045	105 988	105 988

Notes to the financial statements (continued)

	Group				Company			
	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2008 Face value R'000	30 June 2008 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2008 Face value R'000	30 June 2008 Fair value R'000
9. SUBORDINATED BORROWINGS								
9.1 INCA bonds issued to the market								
INJ01 bond – redeemable 21 September 2011 Semi-annual coupon of 10,96% Coupons payable on 21 September and 21 March	100 000	103 044	100 000	92 415	100 000	103 044	100 000	92 415
	100 000	103 044	100 000	92 415	100 000	103 044	100 000	92 415
The loans are irrevocably subordinated to all present and future concurrent obligations of the Company.								
10. BORROWED FUNDS								
10.1 INCA bonds issued to the market								
IN03 bonds – redeemable 30 June 2011 Semi-annual coupons of 14,0%	1 946 748	2 091 547	2 213 343	2 201 698	1 946 748	2 091 547	2 213 343	2 201 698
IN04 note – redeemable 15 March 2015 Semi-annual coupons of 8,9%	646 000	572 846	650 000	535 125	646 000	572 846	650 000	535 125
IN0609 note – redeemable 29 August 2009 Interest is payable quarterly at Jibar plus 25 basis points	–	–	200 000	199 923	–	–	200 000	199 923
IN0610U note – redeemable 24 October 2009 Interest is payable quarterly at Jibar plus 30 basis points	–	–	217 000	216 774	–	–	217 000	216 774
IN0611 note – redeemable 25 February 2009 Interest is payable quarterly at Jibar plus 50 basis points	–	–	100 000	100 000	–	–	100 000	100 000
IN0612 note – redeemable 05 May 2009 Interest is payable quarterly at Jibar plus 65 basis points	–	–	200 000	200 020	–	–	200 000	200 020
IN0613 note – redeemable 04 August 2009 Interest is payable quarterly at Jibar plus 55 basis points	–	–	50 000	49 977	–	–	50 000	49 977
IN0618 note – redeemable 05 October 2009 Interest calculated at 13,15% is payable at maturity	32 000	32 309	–	–	32 000	32 309	–	–
IN0620 note – redeemable 10 July 2009 Interest calculated at 13,00% is payable at maturity	35 000	35 010	–	–	35 000	35 010	–	–
IN0621 note – redeemable 08 October 2009 Interest calculated at 13,15% is payable at maturity	13 000	13 130	–	–	13 000	13 130	–	–
IN0623 note – redeemable 23 October 2009 Interest is payable quarterly at Jibar plus 160 basis points	200 000	200 642	–	–	200 000	200 642	–	–
IN0626 note – redeemable 20 November 2009 Interest is payable quarterly at Jibar plus 125 basis points	100 000	100 219	–	–	100 000	100 219	–	–

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	Group				Company			
	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2008 Face value R'000	30 June 2008 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2008 Face value R'000	30 June 2008 Fair value R'000
10. BORROWED FUNDS (continued)								
10.1 INCA bonds issued to the market (continued)								
INO632 note – redeemable 16 October 2009 Interest calculated at 11,15% is payable at maturity	12 000	12 075	–	–	12 000	12 075	–	–
INO634 note – redeemable 19 February 2010 Interest calculated at 9,30% is payable at maturity	26 000	26 070	–	–	26 000	26 070	–	–
INO635 note – redeemable 25 February 2010 Interest calculated at 9,05% is payable at maturity	100 000	100 125	–	–	100 000	100 125	–	–
INO637 note – redeemable 16 March 2010 Interest calculated at 9,25% is payable at maturity	20 000	20 053	–	–	20 000	20 053	–	–
INO638 note – redeemable 14 December 2009 Interest calculated at 9,15% is payable at maturity	1 000	1 002	–	–	1 000	1 002	–	–
INO639 note – redeemable 16 March 2010 Interest calculated at 9,05% is payable at maturity	7 000	7 010	–	–	7 000	7 010	–	–
INO640 note – redeemable 14 December 2009 Interest calculated at 9,075% is payable at maturity	6 000	6 010	–	–	6 000	6 010	–	–
INO641 note – redeemable 08 January 2010 Interest calculated at 9,05% is payable at maturity	37 000	37 070	–	–	37 000	37 070	–	–
INO642 note – redeemable 23 July 2009 Interest calculated at 9,363% is payable at maturity	67 000	67 033	–	–	67 000	67 033	–	–
INO643 note – redeemable 28 July 2009 Interest calculated at 9,100% is payable at maturity	12 000	12 002	–	–	12 000	12 002	–	–
INO644 note – redeemable 05 May 2010 Interest is payable quarterly at Jibar plus 100 basis points	100 000	99 667	–	–	100 000	99 667	–	–
INO645 note – redeemable 03 September 2009 Interest calculated at 7,813% is payable at maturity	100 000	99 866	–	–	100 000	99 866	–	–
INO646 note – redeemable 18 September 2009 Interest calculated at 7,854% is payable at maturity	100 000	99 869	–	–	100 000	99 869	–	–
INO7 bonds – redeemable 16 May 2013 Semi-annual coupons of 14,0%	315 800	290 680	110 000	93 722	315 800	290 680	110 000	93 722
	3 876 548	3 924 235	3 740 343	3 597 239	3 876 548	3 924 235	3 740 343	3 597 239

Notes to the financial statements (continued)

	Group				Company			
	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2008 Face value R'000	30 June 2008 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2008 Face value R'000	30 June 2008 Fair value R'000
10. BORROWED FUNDS (continued)								
10.2 Long term foreign loans								
<ul style="list-style-type: none"> • Blaylock & Partners (USAID) – USD 49 200 000. Interest payable semi-annually (26 March and 26 September) and principal on 26 March 2009. Interest varies from 2,54% to 5,11%. The loan is guaranteed by USAID 	–	–	385 226	383 640	–	–	385 226	383 640
<ul style="list-style-type: none"> • European Investment Bank R100 million, interest at 15% payable annually and capital repayable on 23 February 2009. R100 million, interest at 13,8% payable annually and capital repayable on 19 May 2009 	–	–	200 000	200 144	–	–	200 000	200 144
<ul style="list-style-type: none"> • European Investment Bank EUR40 million interest at Eibor payable semi-annually, the capital is repayable in semi-annual instalments commencing on 15 September 2007 and ending on 15 September 2017 	351 213	351 980	449 603	450 531	351 213	351 980	449 603	450 531
<ul style="list-style-type: none"> • European Investment Bank 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 	238 230	214 076	238 230	225 069	238 230	214 076	238 230	225 069
<ul style="list-style-type: none"> • Agence Francaise de Developpement (AFD) EUR 15 882 353. Capital repayable in 16 equal semi-annual instalments commencing on 31 October 2003 and ending on 30 April 2011. Bears interest at 3,5% per annum 	42 988	43 874	73 485	71 495	42 988	43 874	73 485	71 495
<ul style="list-style-type: none"> • Agence Francaise de Developpement (AFD) EUR 4 117 647. Capital repayable in 16 equal semi-annual instalments commencing on 31 October 2003 and ending on 30 April 2011. Bears interest at 3,5% per annum 	11 145	11 376	19 052	18 536	11 145	11 376	19 052	18 536
<ul style="list-style-type: none"> • European Investment Bank 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 	189 271	163 785	198 712	184 740	189 271	163 785	198 712	184 740
<ul style="list-style-type: none"> • European Investment Bank 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 	203 036	174 508	213 164	198 317	203 036	174 508	213 164	198 317
	1 035 883	959 599	1 777 472	1 732 472	1 035 883	959 599	1 777 472	1 732 472
10.3 Long term domestic loans:								
<ul style="list-style-type: none"> • Zero coupon liabilities to municipalities (see note 3 below) 	314 522	269 167	330 620	242 579	314 522	269 167	330 620	242 579
Total borrowed funds	5 226 953	5 153 001	5 848 435	5 572 290	5 226 953	5 153 001	5 848 435	5 572 290

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INCA bonds were issued in terms of INCA's Domestic Medium Term Note Programme and incur interest at a fixed rate linked to the government bond rate at the time of issue as follows: IN03 bonds: R153, IN04 bonds: R157, IN07 bonds: R201, INJ01 bond: R153 and IN06 notes: Jibar.

1. INCA has ceded the Tshwane Metropolitan Municipality advance with a book value of R193 762 870 (2008: R203 479 902) to the European Investment Bank as collateral for the loan.
2. INCA has ceded the eThekweni Metropolitan Municipality advance with a book value of R212 897 966 (2008: R223 750 087) to the European Investment Bank as collateral for the loan.
3. Zero coupon liabilities to municipalities relate to zero coupon bonds issued by the Company to its borrowers to serve as security against the advances. The zero coupon liabilities mature as and when the advances mature.

BOND ISSUES (COMPANY)

	Bond	Date	Face value R'000	Proceeds R'000
The following INCA bonds and notes were issued in 2009:				
	INO 614U	21 August 2008	70 000	70 000
	INO 615U	25 August 2008	100 000	100 000
	INO 616U	19 September 2008	138 000	138 000
	INO 617U	06 October 2008	10 000	10 000
	INO 618U	06 October 2008	32 000	32 000
	INO 619U	09 October 2008	20 000	20 000
	INO 620U	09 October 2008	35 000	35 000
	INO 621U	09 October 2008	13 000	13 000
	INO 622U	20 October 2008	102 000	102 000
	INO 623U	23 October 2008	200 000	200 000
	INO 624U	06 November 2008	8 500	8 500
	INO 625U	06 November 2008	1 500	1 500
	INO 626U	21 November 2008	100 000	100 000
	INO 627U	21 November 2008	76 000	76 000
	INO 628U	21 November 2008	26 000	26 000
	INO 629U	05 December 2008	100 000	100 000
	INO 630U	05 December 2008	18 500	18 500
	INO 631U	22 December 2008	76 000	76 000
	INO 632U	16 January 2009	12 000	12 000
	INO 633U	22 January 2009	108 000	108 000
	INO 634U	20 February 2009	26 000	26 000
	INO 635U	25 February 2009	100 000	100 000
	INO 636U	05 March 2009	100 000	100 000
	INO 637U	17 March 2009	20 000	20 000
	INO 638U	17 March 2009	1 000	1 000
	INO 639U	17 March 2009	7 000	7 000
	INO 640U	17 March 2009	6 000	6 000
	INO 641U	09 April 2009	37 000	37 000
	INO 642U	23 April 2009	67 000	67 000
	INO 643U	28 April 2009	12 000	12 000
	INO 644U	05 May 2009	100 000	100 000
	INO 645U	03 June 2009	100 000	100 000
	INO 646U	19 June 2009	100 000	100 000
The following INCA bonds and notes were issued in 2008:				
	INO 609U	31 August 2008	200 000	200 000
	INO 610U	26 October 2008	217 000	217 000
	INO 611U	26 February 2009	100 000	100 000
	INO 612U	05 May 2009	200 000	200 000
	INO 613U	05 May 2009	50 000	50 000

Notes to the financial statements (continued)

	Group // 2009 R'000	Group // 2008 R'000	Company // 2009 R'000	Company // 2008 R'000
11. TRADE AND OTHER PAYABLES				
Interest accrued on borrowed funds	85 620	104 224	85 620	104 211
Leave pay accrual	1 219	1 146	1 219	1 146
Share appreciation rights obligation	589	11 306	589	11 306
Other accounts payable	24 968	21 286	23 810	20 443
Funding under repurchase agreements	657 321	(497)	679 430	(497)
	769 717	137 465	790 668	136 609

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 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 Group had granted 31 150 (2008: 35 150) rights of which 7 400 (2008: 7 300) were vesting on the last day of the financial year. During the financial year under review, 11 850 (2008: 15 000) rights were granted at the prevailing price at the time of the grant whilst 7 400 rights (2008: 7 300 rights) that vested on 30 June would be settled subsequent to year end. The table below reflects movement in the share appreciation rights for the year:

	Opening balance	New issues	Vested	Forfeited	Closing balance
2009	27 850	11 850	(7 400)	(8 550)	23 750
2008	20 900	15 000	(7 300)	(750)	27 850

The share appreciation rights obligation is calculated using the option price valuation technique.

The following inputs were used in the valuation model to quantify the obligation:

Volatility 21,02%

Risk free rate range 7,37% – 8,00%

Net asset value multiplied by 1,3

The inputs to the valuation model are subject to changes in market conditions and therefore will fluctuate from time to time.

11.2 Funding under repurchase agreements

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

for the year ended 30 June 2009

	Group				Company	
	Notional	Notional	Fair value	Fair value	Fair value	Fair value
	30 June	30 June	30 June	30 June	30 June	30 June
	2009	2008	2009	2008	2009	2008
	R'000	R'000	R'000	R'000	R'000	R'000
12. DERIVATIVE FINANCIAL INSTRUMENTS						
Derivative assets						
Currency swaps	394 201	738 505	37 578	184 235	37 578	184 235
Interest rate swaps	1 821 556	1 812 214	42 859	181 349	42 859	181 349
Foreign exchange contracts	–	1 515	–	21	–	21
	2 215 757	2 552 234	80 437	365 605	80 437	365 605
Derivative liabilities						
Currency swaps	150 203	90 336	18 937	10 511	18 937	10 511
Interest rate swaps	1 880 795	1 617 173	86 810	125 727	86 810	125 727
Foreign exchange contracts	1 510	1 910	404	62	404	62
	2 032 508	1 709 419	106 151	136 300	106 151	136 300

The notional principal gives an indication on the Group'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
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
13. INTEREST AND SIMILAR INCOME				
Advances	648 260	606 512	637 894	594 191
Investments	120 840	71 801	120 840	71 623
Cash and short term funds	26 781	21 482	26 593	21 371
Preference share dividends	8 906	8 595	8 905	8 595
Repurchase agreements	27 246	45 776	26 103	45 740
Derivative financial instruments	439 232	317 799	439 232	317 799
	1 271 265	1 071 965	1 259 567	1 059 319
Attributable to:				
Financial assets held for trading	531 051	384 468	529 908	384 431
Financial assets designated as FVTPL	637 873	620 353	627 508	607 855
Loans and receivables (including cash and bank balances)	102 341	67 144	102 151	67 033
	1 271 265	1 071 965	1 259 567	1 059 319
14. INTEREST EXPENSE AND SIMILAR CHARGES				
INCA bonds	478 319	465 353	478 319	465 353
Long term loans	153 403	166 295	153 403	166 295
Subordinated liabilities	10 960	10 960	10 960	10 960
Repurchase agreements	60 072	534	60 049	465
Derivative financial instruments	477 132	348 866	477 132	348 866
	1 179 886	992 008	1 179 863	991 939
Attributable to:				
Loans and receivables (including cash and bank balances)	1 816	8	1 816	8
Financial liabilities held for trading	537 203	349 400	537 181	349 331
Financial liabilities designated as FVTPL	640 867	642 600	640 866	642 600
	1 179 886	992 008	1 179 863	991 939

Notes to the financial statements (continued)

	Group		Company	
	30 June 2009 R'000	30 June 2008 R'000	30 June 2009 R'000	30 June 2008 R'000
15. FAIR VALUE ADJUSTMENT				
15.1 Fair value adjustment – realised				
1. Advances	67 476	1 475	67 476	1 475
Investments	(1 736)	10 652	(1 736)	10 652
2. INCA bonds	322	(11 319)	322	(11 319)
3. Long term loans	(1 408)	(1 497)	(1 408)	(1 497)
Derivative financial instruments	(22 188)	–	(22 188)	–
	42 466	(689)	42 466	(689)
Attributable to:				
Financial assets held for trading	(23 598)	11 940	(23 598)	11 940
Financial assets designated as FVTPL	67 475	1 475	67 475	1 475
Financial liabilities designated as FVTPL	(1 411)	(14 104)	(1 411)	(14 104)
	42 466	(689)	42 466	(689)
15.2 Fair value adjustment – unrealised				
4. Advances	96 876	(477 625)	95 137	(470 576)
5. Investments	31 126	(4 492)	31 126	(4 492)
6. INCA bonds*	(222 756)	375 193	(222 756)	375 193
7. Long term loans*	11 429	57 685	11 429	57 685
8. Subordinated liabilities*	(10 629)	6 482	(10 629)	6 482
9. Derivative financial instruments	(98 642)	61 782	(98 643)	61 782
Repurchase agreements	(3 028)	523	(3 026)	524
	(195 624)	19 548	(197 362)	26 598
Attributable to:				
Financial assets held for trading	(77 802)	60 903	(77 801)	60 904
Financial assets designated as FVTPL	104 220	(480 831)	102 480	(473 782)
Loans and receivables (including cash and bank balances)	(86)	117	(86)	117
Financial liabilities designated as FVTPL	(221 956)	439 359	(221 955)	439 359
	(195 624)	19 548	(197 362)	26 598

***Fair value on liabilities**

The total fair value adjustments resulting from liabilities amounted to R223 million loss (2008: R439 million profit). The unrealised fair value adjustments are attributable to increase or decrease in base rates and credit spreads, the passing of time, growth and maturities in the portfolio.

1. Realised fair value adjustments on advances relate to 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 contractions observed on some 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 relates mainly to guarantee fees paid and other funding costs.
4. The base interest rates decreased significantly during the year under review resulting in a positive unrealised fair value adjustment on assets. The credit spreads also widened somewhat due to the continuing scarcity of liquidity as well as credit crunch in financial markets. The disposal of some advances during the financial year resulted in positive unrealised fair value adjustments reported in the prior years being reversed out unrealised fair value adjustments to realised fair value adjustments to the tune of R52 million. This transfer resulted in the reported fair value adjustments on advances being lower than it have been.
5. Unrealised fair value adjustments on investments relate to the generally downward movement of base rates during the current year. The Group is hedged for interest rate movements in accordance to its Asset and Liability Management process.
6. IN03 bond spreads widened by 13 basis points during the year, whilst IN04 and IN07 widened by 100 points and 60 points respectively, resulting in the positive unrealised fair value adjustments. The impact of the credit spreads on the unrealised fair value adjustments is estimated at R35 million. The net negative unrealised fair value adjustment of R223 million is largely attributable to the significant decrease in base rates during the year under review.
7. Liabilities are marked-to-model at INCA's funding curve hence a positive fair value movement was reflected. The INCA funding curve was hugely influenced by the downward trend of the base rates in the current year under review.
8. The negative unrealised fair value adjustment on subordinated debt is attributable to the fact that the subordinated liability is valued using INCA's funding curve and the base rates on which the funding curve is based decreased significantly during the year under review.
9. Derivative financial instruments are used to hedge general market movements (movements in the credit spreads of assets and liabilities are not hedged).

for the year ended 30 June 2009

	Group		Company	
	30 June 2009 R'000	30 June 2008 R'000	30 June 2009 R'000	30 June 2008 R'000
16. OPERATING EXPENDITURE				
Operating expenditure includes the following items:				
16.1 Auditors' remuneration				
Audit fees	2 195	2 177	2 105	2 087
Prior year under accrual	–	144	–	144
Other services	151	136	151	136
	2 346	2 457	2 256	2 367
16.2 Depreciation				
Computer equipment	140	285	140	281
Furniture and fittings	52	65	52	65
Leasehold improvements	116	57	116	57
Motor vehicles	111	42	111	42
	419	449	419	445
16.3 Lease expenses				
Office premises	2 009	1 604	2 009	1 579
Computer software	631	542	631	542
	2 640	2 146	2 640	2 121
16.4 Professional fees				
Technical and other services	3 105	1 905	3 104	1 903
	3 105	1 905	3 104	1 903
16.5 Retirement benefits				
Company provident fund contributions	175	171	175	171
	175	171	175	171
16.6 Other staff costs, excluding directors				
Salaries and incentive payments	17 139	15 276	17 139	15 276
	17 139	15 276	17 139	15 276
16.7 Directors' emoluments				
Non-executive directors' fees	1 077	1 065	1 077	1 065
Executive directors' emoluments				
– salaries and incentive payments	5 473	5 564	5 473	5 564
– accrual made under INCA Staff Share Scheme	(4 508)	3 201	(4 508)	3 201
	2 042	9 830	2 042	9 830
16.8 Other				
Other sundry expenditure	5 171	5 735	5 018	5 595
Total expenditure	33 037	37 969	32 793	37 708

Notes to the financial statements (continued)

	Group		Company	
	30 June 2009 R'000	30 June 2008 R'000	30 June 2009 R'000	30 June 2008 R'000
17. TAXATION				
17.1 Taxation charge for the year				
17.1.1 Current year				
South African current taxation				
Normal	(272)	12 621	(3 858)	9 733
Deferred	(30 430)	(4 693)	(30 916)	(3 567)
Secondary tax on companies	(6 062)	1 511	(6 062)	1 511
Total current year	(36 764)	9 439	(40 836)	7 677
	%	%	%	%
17.2 Tax rate reconciliation				
Effective tax rate	40,3	15,3	39,5	13,2
Adjusted for:				
Disallowed expenditure	–	(1,4)	–	(1,5)
Non-taxable income	(5,7)	16,7	(5,9)	19,1
Secondary tax on companies	(6,6)	(2,6)	(5,6)	(2,8)
Standard tax rate	28,0	28,0	28,0	28,0
	R'000	R'000	R'000	R'000
17.3 Analysis of deferred taxation				
Differences between tax and book values of:				
Income and expenditure accruals	1 709	(25 721)	1 709	(25 721)
Unrealised profits and losses on assets and liabilities	9 053	72 975	5 948	70 356
	10 762	47 254	7 657	44 635
17.4 Movement in deferred taxation				
Balance at the beginning of the year	47 254	51 947	44 635	48 201
Charge through the income statement:				
Current timing differences	(30 430)	(2 902)	(30 916)	(1 904)
Change in income tax rate	–	(1 791)	–	(1 662)
STC credits	(6 062)	–	(6 062)	–
Balance at the end of the year	10 762	47 254	7 657	44 635
17.5 Movement in STC				
Balance at the beginning of the year	–	–	–	–
Applied in dividends paid	(1 500)	(1 511)	(1 500)	(1 511)
Credits from dividends received	7 562	1 511	7 562	1 511
Balance at the end of the year	6 062	–	6 062	–

18. DIVIDENDS

A dividend of R15 million (2008: R27,5 million) was declared and paid by the Company during the year.

for the year ended 30 June 2009

	Group		Company	
	30 June 2009 R'000	30 June 2008 R'000	30 June 2009 R'000	30 June 2008 R'000
19. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES				
19.1 Capital commitments				
Authorised and contracted for: operating lease rentals for office premises and software licence fees:				
2008	–	2 321	–	2 321
2009	2 287	2 287	2 287	2 287
2010	1 949	783	1 949	783
2011	2 165	911	2 165	911
2012 and after	2 526	1 053	2 526	1 053
	8 927	7 355	8 927	7 355
Commitments will be funded from the Group's own resources.				
19.2 Contingent liabilities				
Guarantee	29 295	29 295	29 295	29 295
	29 295	29 295	29 295	29 295
This guarantee is in respect of interest payments on a loan by a third party to Koekedouw Irrigation Board. The guarantee is secured by a deposit of R20 million.				
20. RELATED PARTY TRANSACTIONS				
Deposit with shareholders				
Rand Merchant Bank (a division of FirstRand Bank Limited)	322 648	362 638	322 648	362 638
	322 648	362 638	322 648	362 638
Transactions with shareholders				
Rand Merchant Bank (a division of FirstRand Bank Limited)	549 435	–	549 435	–
	549 435	–	549 435	–

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 16.7. The total remuneration paid to executive management for the financial year under review amounted to R14 million (2008: R12 million). The current year amount includes payments made in respect of the share appreciation rights that vested and were exercised. During the year, 7 650 (2008: 2 400) share appreciation rights were granted to executive management whilst 5 000 (2008: nil) rights were forfeited. There were no share appreciation rights awarded to executive management subsequent to year end. The details of the share appreciation rights are disclosed in note 11.1.

Management by a third party

None of the business of the Group has been managed by a third party in which a director had an interest during the financial year under review.

Contracts

FirstRand Bank Limited also acts as banker 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 sub-committees and the executive management prior to conclusion.

Notes to the financial statements (continued)

21. FINANCIAL INSTRUMENTS

21.1 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 strategy remained unchanged from 2008.

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.

21.2 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 require various inputs mainly from the market and some professional judgement from management. Non-municipal exposures are valued using management's best estimate of the counterparty's risk rating which is subjected to the Credit Committee for approval. The approved counterparty's risk 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 policy adopted. The key element of the policy is to ensure that a significant part of the inputs is obtained from 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 judgements 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 financial statements.

	Carrying value R'000	Fair value through profit and loss (FVTPL) R'000	Held for trading R'000	Loans and receivables R'000
21.3 Categories of financial instruments				
21.3.1 Group – 2009				
<i>Financial assets</i>				
Cash and cash equivalents	611 703	–	–	611 703
Other assets	127 474	–	–	127 474
Investments	1 078 712	483 016	583 024	12 672
Derivative financial instruments	80 437	–	80 437	–
Advances	4 728 450	4 154 706	–	573 744
Total financial assets	6 626 776	4 637 722	663 461	1 325 593
<i>Financial liabilities</i>				
Subordinated borrowings	103 044	103 044	–	–
Long term borrowings	5 153 001	5 153 001	–	–
Derivative financial instruments	106 151	–	106 151	–
Total financial liabilities	5 362 196	5 256 045	106 151	–
21.3.2 Group – 2008				
<i>Financial assets</i>				
Cash and cash equivalents	192 080	–	–	192 080
Other assets	101 926	–	–	101 926
Investments	1 229 189	704 899	514 322	9 968
Derivative financial instruments	365 605	–	365 605	–
Advances	4 627 305	4 135 261	–	492 044
Total financial assets	6 516 105	4 840 160	879 927	796 018
<i>Financial liabilities</i>				
Subordinated borrowings	92 415	92 415	–	–
Long term borrowings	5 572 290	5 572 290	–	–
Derivative financial instruments	136 300	–	136 300	–
Total financial liabilities	5 801 005	5 664 705	136 300	–

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

Fair value changes attributable to changes in credit risk based on credit rating changes for advances held at FVTPL recognised during the period were R4 490 238 (2008: R6 310 561) whilst the cumulative effect was R10 800 799 (2008: R6 264 074).

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

for the year ended 30 June 2009

21. FINANCIAL INSTRUMENTS (continued)

21.4 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).

21.5 Market risk

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

21.6 Sensitivity analysis

Realised fair value adjustments relate primarily to the sale or early settlement of some advances and capital market stock sold for treasury reasons. Unrealised fair value adjustments represent the yearly marked-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 rates 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 contributing approximately R71 million and R47 million respectively on the negative fair value adjustments whilst the remainder is attributable to the passing of time as well as the growth and maturities in the portfolio during the year.

In the financial year under review significant movements were observed on advances credit spreads as well as those of the liabilities and INCA bonds. These fair value adjustments are expected to reverse in the future provided that the financial assets and financial liabilities are held until maturity by the Group.

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.

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 R33 million (2008: R36 million) is observed. The Group is most sensitive for credit spread movements of advances in risk category 2 (A to A+) as illustrated below. A 25 basis point credit spread movement on the advances per risk category has the following outcome:

	Fair value adjustment 2009 (R'000)	Fair value adjustment 2008 (R'000)
INCA credit rating category		
Category 1 (AA – to AAA)	5 534	2 805
Category 2 (A – to A+)	9 799	10 221
Category 3 (BBB)	5 369	7 477
Metropolitan municipalities (A to AA)	12 256	15 404
Total	32 958	35 907

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 R3,8 million or a decrease of R5,3 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.

Notes to the financial statements (continued)

21. FINANCIAL INSTRUMENTS (continued)

21.7 Foreign currency management

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

21.8 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 tests 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 monitors closely the delta in each of the annual time buckets. All hedging activities and balance sheet mismatches are monitored by the ALCO, chaired by a non-executive director.

21.9 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 being minimised through the continued diversification of the lending portfolio. The carrying amounts of financial assets included in the balance sheet represents the Group's exposure to credit risk in relation to these assets but excludes any potential reduction for collateral security.

The Credit 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.

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

Ageing	2009 R'000	2008 R'000
Less than 30 days	10 623	26 303
30 to 60 days	3 639	5 982
60 to 180 days	8 801	13 551
More than 180 days	25 817	6 550
Total	48 880	52 386

This analysis is inclusive of lease receivables and long term advances. All long term advances included in the amounts above were received subsequent to year end and all lease receivables are secured by the underlying assets being leased.

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21. FINANCIAL INSTRUMENTS (continued)**21.10 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 2009

R'000	<1 yr	1 – 2 yrs	2 – 5 yrs	6 – 8 yrs	> 8 yrs
Assets					
Interest receivable	1 054 432	806 507	1 432 234	869 654	977 784
Capital receivable	1 313 056	1 373 709	1 355 333	1 255 595	1 345 688
	2 367 488	2 180 216	2 787 567	2 125 249	2 323 472
Liabilities					
Interest payable	(877 050)	(714 237)	(901 647)	(489 823)	(452 230)
Capital payable	(1 790 731)	(2 385 136)	(761 692)	(1 046 530)	(301 015)
	(2 667 781)	(3 099 373)	(1 663 339)	(1 536 353)	(753 245)
Net cash flow	(300 293)	(919 157)	1 124 228	588 896	1 570 227

The Treasury function's focus remains on the IN03 bond redemption in 2011. The cash flows from the Company's short term funds are reflected in the year 1 bracket. The large amount of capital payable in "<1 yr", includes the redemption of the Company's IN06 short term notes series. The maturity analysis reflects the Group's cash flows and not the fair values as reported in the Group's balance sheet.

22. RETIREMENT BENEFITS

The Company 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. 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 above mentioned funds.

23. EARNINGS PER SHARE

The loss per share has been calculated on the net loss attributable to ordinary shareholders of R54 455 000 (2008: R52 381 000 profit) and the weighted average number of issued ordinary shares during the period of 806 525 shares (2008: 806 525 shares). Prior to the consolidation of the INCA Share Incentive Trust, 848 532 shares were used in the calculation.



INCA TIMES

INFRASTRUCTURE FINANCE CORPORATION LIMITED

www.inca.co.za

ADMINISTRATION

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