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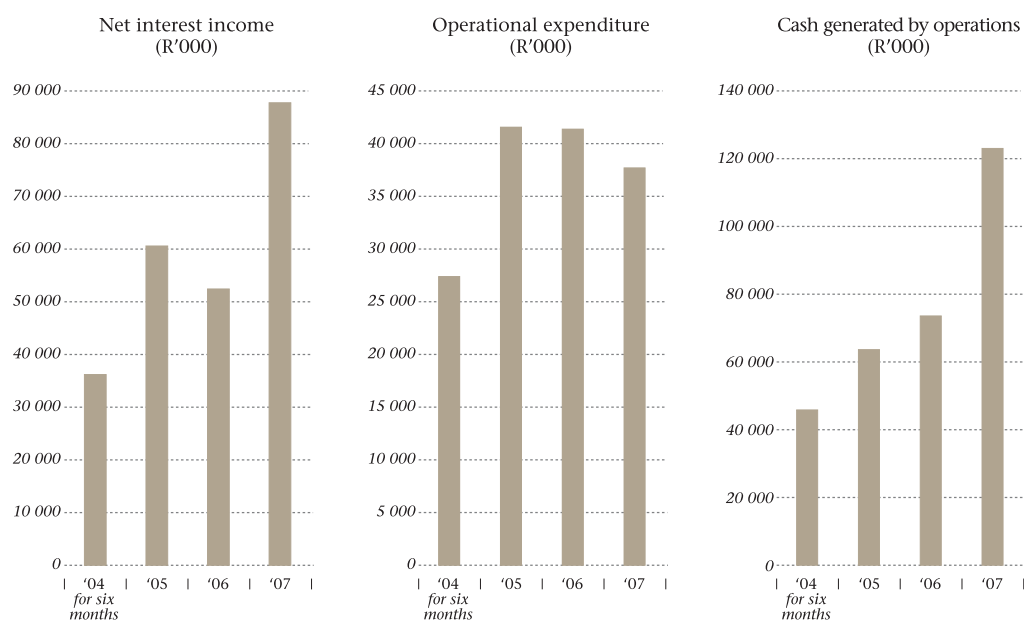
To be recognised as the preferred non-banking financier of public and private sector initiatives, focusing on the longer term social and economic development of South Africa and its neighbours.

Together with our shareholders and our international and local partners, we aim to:

- ✧ Provide finance and expertise to municipalities, provincial governments and other public sector entities, to assist them in executing their developmental role;
- ✧ Actively look to fund and support Public Private Partnerships that create, maintain and operate social and economic infrastructure in all sectors of the economy;
- ✧ Fund private sector initiatives focusing on local and regional developments that impact positively on the quality of life of local communities.

In respect of the above, INCA provides development loans and finance for property development, moveable assets, plant and equipment, but does not provide working capital. Grants are provided through the INCA Capacity Building Fund for technical assistance and capacity building.

Financial highlights



	12 months June 2007	12 months June 2006	12 months June 2005	6 months June 2004
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Performance

Net profit for the year (R'000)	35 499	174 132	70 316	32 701
Earnings per share (cents)	4 401	21 590	8 718	4 055
Net profit after tax per employee (R'000)	910	3 628	1 496	785

Selected returns

Return on weighted average shareholders' funds (per cent)	7,52	54,18	25,50	12,53
Operating costs to total income (per cent)	24,95	43,70	42,91	38,34

Capital adequacy

Funds distributed after capital redemptions (statutory body assets) (R'000)	5 037 663	5 362 183	6 514 449	5 660 130
Total shareholders' interest (R'000)	502 258	490 522	340 152	293 600
Capital adequacy ratio (capital/advances) (per cent)	11,93	11,03	7,99	6,57

Official ratings

Official credit rating – senior debt (Moody's)	A1	A1	N/A	N/A
– short-term debt (Moody's)	P-1	P-1	N/A	N/A

Value

Net asset value per share (Rands)	623	608	422	364
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Net interest income up **67%** to **R87,7** million.

Saving of **9%** on operating costs.

Cash generated by operations up **67%** to **R123,0** million.

New advances totalling **R915,6** million.

Loan portfolio totalling **R5 037** million.

Capital adequacy ratio (capital/advances) increased to **12%**.

Asset generation & treasury



- A. Ben
- B. Johan
- C. Helge
- D. Bavisha
- E. Faried
- F. Myra
- G. Koos



- H. Johan
- I. Vusi
- J. Karlien
- K. Noel
- L. Liesl



Exco

- A. Joanne
- B. Attie
- C. Reggie
- D. Dirkje
- E. Mike



Back office & administration

- A. Anton
- B. Kate
- C. Anastasia
- D. Zee
- E. Helen



Support services & finance

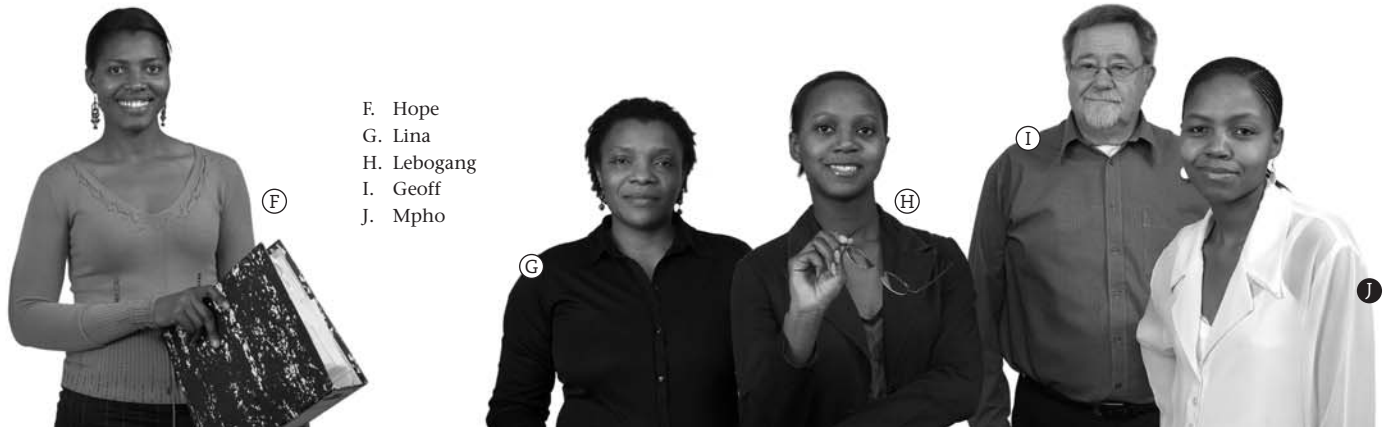
- A. Rita
- B. Christopher
- C. Sugeshni
- D. Genevieve





M. Karabo
N. Nicolette
O. Caroline
P. Kenneth

“ WE ARE FURTHER STRENGTHENING INCA’S PEOPLE CAPACITY AND WILL GROW OUR CORE GROUP OF HIGHLY SKILLED INDIVIDUALS.”



F. Hope
G. Lina
H. Lebogang
I. Geoff
J. Mpho



E. Kirsty
F. Thulani
G. Lucky
H. Luntu
I. Jermina

“WITH ITS STRONG MARKET POSITION AND ESTABLISHED RELATIONSHIPS, NOT LEAST WITH ITS SHAREHOLDERS AND INTERNATIONAL PARTNERS, WE ARE CONFIDENT INCA CAN BUILD ON THE GOOD RESULTS REPORTED IN THIS ANNUAL REPORT.”

MJN NJEKE

Chairman's statement

Pressure on economic and social infrastructure, as well as on human capacity and operating systems due to higher levels of economic growth, creates the environment of opportunities and challenges within which Infrastructure Finance Corporation Limited (INCA) operates.

In the past year INCA continued to execute its chosen role of infrastructure funding and support to those involved in delivering social and economic services, and did so successfully.

It is most pleasing that the results reported in these annual financial statements were achieved in a year in which people capacity in the public and private sectors was stretched, decision-making was slow and project implementation faced delays.

Acknowledging the changes that took place in INCA's traditional municipal market segment, the shareholders and the Board are fully supportive of the new business mandate proposed by management. The mandate enables INCA to widen its focus to include private sector infrastructure and capital formation, clearing the way for INCA to support all initiatives that contribute to growth and development in Southern Africa, and meaningfully improve the quality of life of its communities.

With its strong market position and established relationships, not least with its shareholders and international partners, we are confident INCA can build on the good results reported in this

annual report. Leveraging off relationships as part of its growth strategy has already contributed to new opportunities for INCA.

At the end of my first year as Chairman, on behalf of the Board I am pleased to express satisfaction with the performance of the Company in the year ending 30 June 2007.

I thank the executives and all staff for their efforts, and encourage them to continue thinking innovatively and developing financial solutions that make a difference in what has become a very competitive sector.

I also wish to thank the Board of Directors for their advice and commitment to the success of INCA, and the professionalism with which they execute their responsibilities on the Board and its sub-committees.



MJN Njeke
Chairman





AH Arnott
Director

FirstRand •#†
BCom, CA(SA)
Appointed to the Board
on 14 January 1997.



IM Ayob
Director

Chanson Investments
LLB (London) Barrister,
Attorney
Appointed to the Board
on 23 October 1996.



RN Boqo
Executive Director

INCA †
BCompt (Hons), CA(SA)
Appointed to the Board
on 20 May 2005.



JF Howard
Director

Futuregrowth •
BCom
Appointed to the Board
on 28 September 2007.



AC Canter
Director
(American)

Futuregrowth *□
BSc Finance, CFA
Appointed to the Board
on 24 February 1999.

Directorate and shareholders

- Member of human resources committee
- # Member of credit committee
- † Member of audit committee
- * Member of asset liability committee
- Member of market value verification committee



K Moloko
Director

Futuregrowth #
BCom (Hons)
Appointed to the Board
on 23 March 2004.



MJN Njeke
Director

Kagiso
BCom, BCompt (Hons),
CA(SA), Higher Diploma
Tax Law
Appointed to the Board
on 23 March 2004.



J Stals
Director

Kagiso †•
BCom (Hons), CA(SA)
Appointed to the Board
on 23 March 2004.



PGM Truyens
Director
(Dutch)

Independent †*□
BA, BSc, BA (Hons), FIA
Appointed to the Board
on 14 January 1997.



EG van den Berg
Director

Kagiso #*□
BCom (Hons), MCom
Appointed to the Board
on 23 March 2004.



RW de Korte
Director
(Dutch)

Independent
PhD (Leiden University)
Appointed to the Board
on 15 August 2000.



D du-Pont-Bouma
Executive Director
(Dutch)

INCA *
MSc Finance, CFA
Appointed to the Board
on 21 September 2004.



M Hesketh
Director

Rand Merchant Bank
BCom (Hons); CFA
Appointed to the Board
on 9 March 2000.



MA Lallemand-Flucher
Director
(French)

Dexia Crédit Local
Phd (University of Paris
VII); Masters Degree
(University of Paris VIII)
Appointed to the Board
on 23 March 2004.



J Matlala
Director

Kagiso †
BCompt (Hons), CA(SA)
Appointed to the Board
on 9 March 2006.

Shareholders

	2,0%	Chanson Investment Holdings (Proprietary) 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%	Momentum Group Limited (held by Futuregrowth [Proprietary] Limited)
	0,01%	Societe De Promotion Et De Participation Pour La Cooperation Economique SA (Proparco)



AJ van Zyl
Chief Executive Officer

INCA •#†*□◇
BCom (Hons)
Appointed to the Board
on 23 October 1996.



ALTERNATES
LP Collet

Rand Merchant Bank•
BBusSc (Hons), MBA,
CFA, AMP
Appointed to the Board
on 28 June 2002.



P Rackstraw

Futuregrowth
CA(SA)
Appointed to the Board
on 23 March 2004.



“IT IS MOST REWARDING TO CONTRIBUTE TO THE CRITICAL PROCESS OF DEVELOPMENT IN A COMMERCIALY SOUND WAY THAT BENEFITS SHAREHOLDERS, STAKEHOLDERS AND THE PEOPLE MOST IN NEED OF IMPROVED INFRASTRUCTURE SERVICE DELIVERY – OUR COMMUNITIES.”

ATTIE VAN ZYL

Chief executive officer's report

INTRODUCTION

The past year, in many ways, marked a turning point in INCA's operational life. In this report, we comment on results that are markedly improved on those of the previous financial year. The improvement is specifically reflected in the increase in net interest income, an improved operational cost to income ratio and a sharp increase in the cash generated by operations.

This was the first year in which we made a concerted effort to leverage our relationships, calling on INCA's shareholders and other stakeholders to work with the Company to ensure it executes its role more effectively. The first indications of the effectiveness of this approach, reflected in this report, are very encouraging and augur well for the future.

Another significant development was the consensual decision and unanimous support by shareholders and the Board, to widen INCA's operational mandate. This decision was based on management's thorough analysis of the changes in INCA's traditional municipal market, and the current and future demand for INCA's expertise and resources in other sectors. It became clear that for the immediate future, inter-governmental transfers to municipalities, which are supplemented by non-commercially priced loans from the State's development bank, the DBSA, will tend to crowd the private sector out. This is expected to result in less support being required from the private sector and institutions like INCA.

These changes created the impetus for INCA to redefine its role in the municipal balance sheet funding market, and prompted us to

identify other sub-sectors in need of the support and services that INCA provides. Our new areas of focus do not mean that INCA will lose the benefit of its current market position as a public sector funder. It is already clear that many new opportunities will stem from our relationships and market presence. Part of INCA's early success in the new focus areas can be attributed to its shareholder relationships and its established position as a longer term funder.

It is with confidence and excitement for the future that we review the activities of INCA during financial year 2006/07.

New advances were again dominated by loans to the municipal sector at 65%, while asset financing transactions made up 21%, and advances in respect of property transactions to the education sector constituted 14%.

INCA's loan portfolio totalled R5 038 million at year end of which some 39% (2006: 41%) is exposure to metropolitan municipalities, 34% to category B and C municipalities, and the balance to various state owned entities, provincial governments (largely in respect of asset financing) and other related municipal entities.

“As anticipated in our interim financial statements, INCA's performance for the year was far better than in the previous year.”

While asset financing contributed 21% of the new advances, INCA's overall exposure to this business segment stands at approximately 9,5% of the total portfolio at year end. The dispute of the last two years between INCA and a provincial department on a contract that was discounted, was finally settled. As part of the settlement, both parties received less than originally anticipated and the total real and potential losses

suffered by INCA are included in this year's financial statements, resulting in the sharp increase in impairment on lease receivables and advances to R13,4 million. INCA's calculated capital and interest losses after settlement of this R77,1 million transaction came to R14,0 million.

The credit quality of the overall loan book remains high with 73% of the portfolio in the AAA to A- category as reflected below.

THE YEAR IN REVIEW

As anticipated in our interim financial statements, INCA's performance for the year was far better than in the previous year. New advances concluded were up and the asset generation team performed well. The funding activities of the Company were not as challenging as in the prior year and substantial support from the money market funds was experienced. Operational costs were kept within budget and the INCA Capacity Building Fund continued to make valuable contributions, providing practical assistance to a municipal sector under increasing capacity constraints.

Asset generation

Asset growth for the year was a pleasing 82% up on the previous year, with new advances totalling R915,6 million. Strong growth was again experienced in the second half of the year, accounting for 64% of overall new advances. Due to the nature of the multi-year capital budgets of many of our borrowers, actual disbursements for the year stood at R655,9 million. The undisbursed portion is scheduled for payout in the 2007/08 financial year .

Approximate credit risk	Percentage of advances	
	2006/07	2005/06
AAA to AA-	24%	(34%)
A+ to A-	49%	(44%)
BBB+ to BBB-	26%	(19%)
non-investment grade (BB+ and lower)	1%	(3%)

As highlighted in last year's annual report, INCA's traditional business of infrastructure loans to the municipal sector remains intensely competitive. While this business remains a core component of INCA's strategy, increased focus has been given to a

INCA project team:
 Koos Heymans – Portfolio Manager
 Myra Netshituni – Credit Analyst



**Project: Funding of capital budget –
 uMhlathuze Municipality**

number of new initiatives enabling INCA to maximise its competitive advantages. This approach has enabled us to position INCA in selected growth areas by developing alliances with strategic partners. Specifically, we have targeted the healthcare and education sectors, and are participating in leveraged debt initiatives. In the year under review we secured mandates for a number of significant transactions. These include the financing of university residences, the refurbishment and upgrading of two hospitals under a Public Private Partnership (PPP) deal as well as participating as co-funder in the PPP for the construction of the new SADC headquarters in Gaborone, Botswana.

Typical of transactions of this nature, lead times are long, and while the mandates were awarded in the year under review, a number of the transactions will only reach financial close in the current financial year.

To increase our penetration in defined target markets, the Board, with shareholder support, broadened INCA's mandate to facilitate an entry into the corporate market and specifically to support private sector initiatives associated with INCA's mission. Our approach has been phased, commencing with the rental and lease discounting business, which concentrates on high quality credits. Our intention is to develop this marketing thrust into a carefully selected loan business in our target sectors, as well as to pursue other opportunities that offer an appropriate risk-return relationship.

In line with our strategy of diversifying our sources of asset growth, INCA is a key participant and co-funder in the first provincial leveraged debt fund, and further mandates are expected in due course.

Funding and Treasury

During the year under review, we continued to strengthen INCA's ability to raise funding at different points on the swap curve and maintained high liquidity levels.

Approximately R390 million in capital repayments were received due to maturing advances. During the year INCA listed a new IN07 bond on the Bond Exchange of South Africa (BESA). The bond's maturity date (May 2013) was set in response to investors' demand for 5 to 6-year term credits. INCA's short-term funding (the IN06-series) was augmented by R300 million during the year and totalled

uMhlathuze is the third largest municipality in KwaZulu-Natal with an annual operational budget of R772,1 million (2006/07) and an estimated population of 289 189. Major towns in this municipality are Richards Bay and Empangeni. Richards Bay is a highly industrialised area and boasts two world-class smelters and the world's largest coal export terminal. Empangeni is a major agricultural centre with a focus on sugar cane and forestry.

uMhlathuze is currently one of the fastest growing municipalities in South Africa.

The INCA loan was to part fund the municipality's 2006/07 capital budget. The total capital budget amounted to R448,0 million.

To fund uMhlathuze, INCA mobilised international long-term funding from Agence Française de Développement (AFD). The successful conclusion of this loan therefore also enabled INCA to play a direct role in ensuring international long-term investments in local municipal infrastructure.

The loan will be used to fund the following categories of assets:

Description	Amount
Bulk infrastructure	98,810,100
Streets and storm water	47,147,000
Water supply and distribution	23,350,000
Vehicle fleet	13,760,500
Machinery and equipment	12,155,000
Electricity supply and distribution	9,580,600
IT equipment	4,156,400
Fencing	3,770,000
Pedestrian paving	2,500,000
Street lighting	1,640,000
Bus shelters	1,640,000
Traffic signals	1,000,000
	220,509,600

Financial snapshot

Loan value:
 R220 million.

Term:
 10-year loan with a two year capital grace period.

Interest rate:
 8,75%.

Repayment:
 Capital and interest will be repaid semi-annually in arrears.

INCA project team:

*Ben Pretorius – Portfolio Manager
Kenny Morare – Credit Analyst*



**Project: Municipal office accommodation –
Moses Kotane Municipality**

▣ *The local municipality of Moses Kotane is located on the boundary of North West Province, north of Rustenburg. It is a relatively new municipality, established in terms of the Demarcation Act, with challenges ranging from capacity building, education and infrastructure development to the provision of basic needs to its constituencies.*

INCA was involved in the initial phase of developing this municipality and was the first financial institution to provide infrastructure finance to it. Recently, the municipality took over water services (billings and collections) from the Magalies Water Board (MWB). Apart from this function, setting tariffs and developing IT systems, the municipality was faced with providing office accommodation for the staff adopted from MWB.

The new municipal offices immediately became inadequate, hence the need to expand office space. INCA's Credit Committee approved the additional funding with phased draw downs of R14 million in financial year 2006/07 and R10 million in 2007/08.

▣ **Financial snapshot**

Loan value:
R14 million and a further R10 million.

Term:
15 years and 20 years, respectively.

Interest rate:
11,40%.

Repayment:
Capital and interest semi-annually in arrears.

R917 million as at 30 June 2007. The drive to expand INCA's investor base continued and the number of major investors in INCA bonds increased to some 18 domestic institutional investors.

Agence Française de Développement, one of INCA's international partners, reconfirmed its long-standing relationship with INCA and agreed to extend a further R387 million to municipalities via INCA. The agreement was signed after 30 June 2007 and the benefit of this partnership will reflect in the results of financial year 2007/08.

Going forward, emphasis will be on unlocking different sources of funding, locally and internationally, and lowering INCA's average cost of funding.

With regard to the external interest rate environment, the inversion of the bond and swap curve became more pronounced during the period under review. In addition, the gap between the bond and the swap curve widened. This meant that, in general, there was more pressure on corporate bonds spreads as investors are demanding similar asset spreads for similar credit risk. In the main, the spreads on the INCA bonds remained the same, with the exception of the spread on the IN03 bond, which increased from 110 basis points at the beginning of the financial year to 120 basis points on 30 June 2007. That notwithstanding, the IN03 asset swap spread decreased from approximately 48 basis points at June 2006 to 37 basis points at the end of June 2007.

INCA's loan book currently generates healthy cash flows, which mitigates liquidity risk. No major bond redemptions are being scheduled until 2011. INCA's short-term funding activities (the IN06 series) have been limited to 20% of total funding. This programme is well managed and the maturities are staggered throughout the year. A specific strategy has been put in place for the redemption of the IN03 bond in June 2011.

INCA's low tolerance for market risk is evidenced by the interest rate risk levels set at 3% of equity for a 200 basis points parallel move in interest rates. This limit was not exceeded during the period under review.

From inception, the Board of Directors has had a policy that INCA is not allowed to incur foreign exchange risk. This risk is strictly

monitored and INCA's performance is not subject to foreign exchange movements.

In the current financial year, we will continue exploring the domestic and international markets for efficient funding opportunities.

Municipalities are at the forefront of delivering basic infrastructure services to the South African population. The scoring regime for transformational infrastructure, as set out by the Financial Sector Charter Council, is designed to encourage the provision of funding in this area. Due to the nature of INCA's business, INCA bonds attract a score in respect of the Financial Sector Charter. INCA's Charter rating is related to the rating of the recipients of its funding, on a look through basis, and based on the Charter Council's published transformational infrastructure index for each municipality. INCA's internal Charter rating of 27,5% has been audited by Price Waterhouse Coopers and this score has been forwarded to the Charter Council for approval. We believe this rating will continue attracting institutions to INCA Bonds.

Financial results

The consolidated income statement reflects a net profit of R35,5 million for the 2006/07 financial year (2005/06: R174,1 million). This was achieved despite an unrealised fair value adjustment loss of R55,9 million (2005/06: R179,1 million unrealised profit).

More importantly however, is the 67% increase in net interest income to R87,8 million (2005/06: R52,4 million). A closer analysis of this movement reveals that interest income year on year reduced by 5% while interest expense was 9% lower. It is important to note, however, that the interest received was generated by a smaller portfolio of advances.

Operational expenditure of R37,7 million reflects a decrease of 9% compared to the prior year. This amount included provisions for the market value of the Staff Share Incentive Scheme and for profit share bonuses. Operational costs excluding these incentive bonuses were curtailed to R27,3 million (2005/06: R28,8 million).

Cash generated by operations for the year was up 67% to R123,0 million (2005/06: R73,6 million).

INCA project team:
Karlien Chaplin – Assistant Portfolio Manager
Nicolette Botha – Portfolio Manager



Project: Infrastructure development – Municipality, Knysna

▢ *The Knysna Municipality lies within the southern region of the Western Cape, along the spectacular Garden Route, and stretches from Sedgfield in the west to Knoutzie in the east, including Belvidere Estate, Brenton, Knysna and Rheenendal.*

INCA provided a loan to fund sewer, electricity and water infrastructure in this fast-growing municipality. The two largest projects funded from the loan were the new 66kv electricity intake substation in Eastford, and the upgrading of the municipal water works. These projects will run over a number of financial years, requiring further funding. The municipality's capital budget for the 2006/07 year totalled R38,1 million.

▢ **Financial snapshot**

Loan value:
R18,6 million.

Term:
20-year loan.

Interest rate:
Floating interest rate linked to Jibar.

Repayment:
Capital and interest semi-annual in arrears.

The decrease in total advances, despite the increase in new transactions in the year, resulted mainly from fair value adjustments and the selling of R381 million of INCA's municipal advances to a third party to lower concentration risk, and to lock in the benefit of credit spread contractions associated with the municipal asset classes INCA is invested in.

As at 30 June 2007, total shareholder interest came to R502,3 million, which together with the R99 million sub-ordinated debt resulted in a capital adequacy ratio (capital/advances) of 11,93% (11,03% at 30 June 2006).

A dividend of R25 million based on the 2005/06 results was declared, of which R23,7 million was distributed to shareholders in October 2006. Since financial year end, a dividend declaration of R27,5 million was recommended by management and approved by the Board (9 October 2007), of which R26,1 million was distributed to shareholders during October 2007. The increase in

dividend was made possible by the performance of the Group in the 2006/07 financial year, which is highlighted by the increase in cash generated by operations to R123,0 million, the curtailment of operational costs reflected in a cost to total income ratio of 24,95%, and the high capital adequacy ratio at year end.

Due cognisance was taken of the potential change in INCA's lending book going forward, the increase in lending activities to the non-municipal sector and the quality of INCA's books in recommending the dividends.

Administration and operational systems

The improvement of systems to facilitate the provision of current information received specific attention during the year. Q-Risk, an interest rate risk model linked to INCA's Quantum database, now provides daily interest rate risk reports to the Treasury. This allows Treasury to manage its activities optimally.

INCA project team:
Johan van Huyssteen – Portfolio Manager
Koos Heymans – Portfolio Manager
Myra Netshituni – Credit Analyst



**Project: Funding moveable assets –
Metsimahole Local Municipality**

▣ *Metsimahole is a medium-sized municipality with an annual operational budget of R316,6 million (2006/07). Sasolburg is the major town in the municipality, which includes the villages of Deneysville, Oranjeville, Viljoensdrif and Vaalpark.*

The estimated population is 115 954. Sasolburg has a major chemicals plant (Sasol) in its area of jurisdiction as well as many other related industries, making it highly industrialised.

As part of INCA's moveable asset funding facility, the municipality purchased five Nissan Trucks (Tippers) for R4 million, and the balance (R1 million) will be utilised to build a rates hall in Sondela and to erect ablation facilities for waste removal personnel.

▣ Financial snapshot
Loan value: R5 million.
Term: 4-year unsecured loan.
Interest rate: 11,00%.
Repayment: Capital and interest monthly.

INCA project team:
 Myra Netshituni – Credit Analyst
 Koos Heymans – Portfolio Manager



Project: New municipal office building –
 Bela Bela Local Municipality

The Financial Administration division managed to further improve on their collection efforts, reducing outstanding debtors on the rental and lease discount book to around 60 days. This demonstrates the efficiency gains made by this division given the longer payment cycles in the government sector.

INCA's operational procedures and systems are well established, and we have introduced international requirements more strenuous than Financial Intelligence Centre Act (FICA) requirements.

The appointment of Business Connexion as INCA's information and technology service provider in the year was done to mitigate the operational risk associated with smaller service providers. We anticipate that the enhanced services available from Business Connexion will further improve INCA's information management capabilities.

Risk management and corporate governance

A high standard of corporate governance and transparency was maintained throughout the year. At Board level, the independent directors, shareholder representative directors and executive directors participated actively and worked well together in guiding the Company. Quarterly Board meetings were well attended, and the Board considered the operational performance of the Company against the approved business plan and budget at these meetings.

The five operational sub-committees of the Board ensured that the business of INCA during the period was conducted within acceptable risk limits set by the Board and delegated to these committees. The sub-committees, of which the Credit Committee is most active, are chaired by non-executive directors and comprise a combination of executive and non-executive directors. The scheduled meetings of these sub-committees were all well attended.

Audit Committee meetings were attended by our external auditors who also took note of the specific process followed by the Market Value Verification Committee in determining the basis to value the non-listed assets of the Company.

The Asset and Liability Management Committee executed its mandate throughout the year and ensured that Treasury did not take unauthorised positions and adhered to the risk guidelines and liquidity limits approved by the Board.

▷ *Bela Bela is a smaller municipality with an annual operational budget of R75 million (2006/07) and its major town is Warmbaths. Villages in the area are Pienaarsrivier, Radium, Rust de Winter and Settlers.*

The total estimated population in the area is 52 124 and tourism is the mainstay of the local economy. In recent times there has been a proliferation of housing estates targeting golf and wildlife enthusiasts.

The municipality's offices burnt down two years ago due to an electrical short circuit and the building was extensively damaged. They are currently housed in temporary offices in town, which are wholly inadequate. The estimated cost of a new building is in the order of R15 million, which would in the main be funded by INCA, as part of our portfolio of essential property funding.

▷ **Financial snapshot**

Loan value:
 R12 million.

Interest rate:
 10,49%.

Term:
 20-year loan.

Repayment:
 Capital and interest monthly.

INCA project team:

Mike Loverock – Head Asset Generation
Faried Manuel – Portfolio Manager
Johan van Huyssteen – Legal Specialist
Karabo Matentji – Credit Analyst



Project: Funding new student accommodation – UKZN

▣ The University of KwaZulu-Natal (UKZN) came about as a result of an amalgamation of the University of Durban Westville and the University of Natal. This institution of learning has approximate 43 000 registered students, of which less than 15% or 6 500 are residents at the University.

The Public Investment Corporation (PIC) won an open tender to provide a 1600-bed student accommodation facility to UKZN at its Durban-Westville campus, on a long-term lease basis, funded by INCA as part of its property investment focus.

A development finance facility was provided for the construction of the student accommodation, on land UKZN owned. The PIC/INCA/Crowie Projects consortium is currently busy with the project. After completion, targeted for February 2008, the complex will be leased by UKZN over a 20-year period.

Part of INCA's financial exposure will be sold to Futuregrowth as soon as the project is completed.

▣ **Financial snapshot**

Development facility:
R129 million.

Long-term loan:
R156 million.

Term:
20 years.

Interest rate:
10,73%.

Repayment:
Capital and interest semi-annual in arrears.

A capital adequacy ratio far higher than that stipulated in the Bond Trust Deed and higher than the 7,5% to 8,0% guideline set by the Board, was maintained over the year. A high level of liquidity was also maintained.

In June 2006, Moody's published its A1.za/Prime-1.za national scale issuer ratings assigned to INCA. Moody's reconfirmed INCA's rating in June 2007.

PROSPECTS

The increased spending on infrastructure is anticipated to continue for the foreseeable future. However, institutional and project implementation capacity at municipal level will remain a major challenge. We expect that these capacity constraints will continue to result in frustrations building within communities demanding better service delivery, as well as private sector funders and developers wanting to get involved in the business of infrastructure, housing and economic development.

The actions to be taken to address the capacity constraints at municipal level will take time to take root and yield improvements, and institutions will have to be more proactive to ensure that they maintain the business flow required.

The strategy developed by INCA to diversify its operational focus is anticipated to contribute to the Company's ability to maintain and even increase deal flow. Although INCA's lending book will for some time be dominated by exposures to the municipal sector, new initiatives are expected to create avenues for future growth.

Our strategy to leverage our partnerships with local and international institutions continue to gain ground. Our focus on project finance transactions with the assistance of our shareholders is expected to contribute strongly to growth in the future.

The positive results from INCA's sharper focus on the education and healthcare sectors started to become evident towards the end of the financial year. Given the number of transactions secured, but not yet finally concluded, it is realistic to expect INCA to perform strongly again next year.

Funding sources in addition to our traditional bond issues have been secured to enable INCA to participate in more sizable project finance transactions as a co-funder.

Acknowledging the importance of the right skills to grow the Company, we are further strengthening INCA's people capacity and will grow our core group of highly skilled individuals over the course of 2007/08. Notwithstanding the general shortage of specialised skills available, INCA has attracted new talent to augment its capacity. Increasing INCA's skills pool will be focused on addressing the skills requirements of lending activities outside the municipal sector, or within the municipal sector but in modalities other than balance sheet loans.

We continue to encourage our staff to further their studies and assist financially through a staff study programme, which benefited 21% of employees over the past year.

We remain committed to our focus on employment equity, and the Company's profile at financial year end was 52,38% black staff (African, Indian and Coloured) and 57,14% women.

To our shareholders and the Board, I express my appreciation for the guidance provided during the past year. As an executive team, we thank you for the trust and confidence placed in us to actively extend INCA's funding activities.

We remain committed to making a meaningful contribution to the development process in Southern Africa, and doing so in a way that benefits all our stakeholders. It is most rewarding to contribute to the critical process of development in a commercially sound way that benefits shareholders, stakeholders and the people most in need of improved infrastructure service delivery – our communities.



Attie van Zyl
Chief Executive Officer

INCA project team:

*Ben Pretorius – Portfolio Manager
Kenny Morare – Credit Analyst*



Project: Part funding –
Steve Tshwete capital programme

- ⊗ *Steve Tshwete Municipality, previously known as Middelburg, is situated on the banks of the Klein Olifants River on the Maputo Corridor, Mpumalanga. Middelburg is renown in the Southern Hemisphere for the production of stainless steel.*

The ongoing exploitation of coal in the district and the municipality's proximity to Eskom's giant power stations have contributed significantly to the establishment of Middelburg's fast-growing industrial complex.

External funding was required for the municipality's capital programme over a period of three years, the balance of which was financed internally. The funds were earmarked for much needed infrastructure such as water, electricity, sewerage, roads, health and other related services. This essential infrastructure is needed to stimulate economic activity and sustain local economic development, and in turn to uplift local communities.

The assets required in terms of the multi-year programme were grouped according to the lifespan of the assets, between fifteen and thirty years.

With the assistance of Agence Française de Développement, the capital has been secured for three years, and the transaction structured to provide the best financial solution to the municipality.

⊗ **Financial snapshot**

Loan value:

R105 million to be drawn down in increments of R35 million on 30 June of 2007, 2008 and 2009 respectively.

Term:

Amortised profile for 15 years, respectively for each draw down.

Interest rate:

9,59%, 9,29%, 9,02% (3 draw downs respectively).

Repayment:

Capital and interest semi-annual in arrears.



Chief financial officer's report

INTRODUCTION

The Group's performance and operational activities are comprehensively covered in the CEO's report. The CFO's report presents a high level overview of the Group's activities and challenges during the year under review.

REPORTING

The Group continues to report its financial statements in terms of International Financial Reporting Standards (IFRS). There were no

changes to the accounting policies during the year under review. The Group's monthly and quarterly reporting processes were improved to facilitate a better financial management platform. More effort was invested in implementing systems to assist in improving financial reporting and further resources will be channelled in this direction in the next financial year.

FAIR VALUE REPORTING

The Group reports its significant assets at fair value through profit and loss in terms of IAS 39 Financial Instruments: Recognition and Measurement. This accounting treatment was applied consistently as in the prior year. The majority of the Group's financial assets are unlisted financial instruments, whereas listed securities account for 68% of the total long-term liabilities of the Group. The significance of this is that listed financial instruments are quoted in the open market and their valuation is transparent. The fair value of unlisted financial instruments is determined in terms of the Group's valuation policy that has been in use for three years. The valuation policy was approved by the Board and is monitored by the Group's Market Value Verification Committee, chaired by a non-executive director. The valuation process is outlined in the annual financial statements in note 1.17.

As explained in the 2006 report, accounting for financial instruments at fair value through profit and loss brings about major volatilities in the Group's income statement. The volatility is as a result of the fair value adjustments in financial assets and financial liabilities not always offsetting each other. In line with the Group's principle of transparent reporting, the disclosure in the annual financial statements strives to unpack the fair value adjustments for the benefit of all users of the financial statements.

In the year under review, the unrealised fair value adjustments reflected a negative impact of R55,9 million on the income statement compared to a positive R179,1 million in the prior year. The major contributor to the fair value adjustments in the financial year under review is the "passing of time factor," as well as growth and maturities in the portfolio. The impact of credit spreads and base interest rate movements were insignificant to the unrealised fair value adjustments. The transfer to realised fair value adjustments, due to the sale of advances referred to in the CEO's report, also had a negative impact on unrealised fair value adjustments in the income statement for the financial year under review.

A sensitivity analysis is presented in note 21.8 of the annual financial statements to demonstrate the sensitivity of the portfolio to credit spread movements. The sensitivity analysis was performed on the Group's advances assuming credit spread movements of 25 basis points. The result of this scenario is a fair value adjustment of R44 million (2006: R49 million). The Group's advances portfolio is most sensitive to credit spread movements in risk category 2 (A- to A+).

CAPITAL MANAGEMENT

The Group's capital adequacy ratio (CAR) of 11,93% (2006: 11,03%) is reported on a risk unweighted basis. The CAR is reported inclusive of fair value adjustments both in the equity and assets of the Group. The Group's CAR is expected to show great improvement on a risk weighted basis considering that 73% of the Group's assets are rated equivalent to single A or above. The current capital base should be adequate for the portfolio growth anticipated in the coming financial year. The Group's objective is to maintain an optimal capital structure, while addressing the requirements of our shareholders, debt holders and the rating agency.

LOOKING AHEAD

The Group will focus on capital management considering the widening of INCA's mandate, explained in the CEO's report. In view of the additional financing products the Group will be providing, capital management becomes even more crucial to ensure the Group is adequately capitalised for the different types of risk in its portfolio. The Group strives to strike a good balance between capital adequacy and return on shareholders' funds. To this end, the Group will adopt a risk weighting approach in reporting its capital adequacy ratio. Risk management processes will also be improved where necessary to accommodate the new financing products to be introduced. The Group's systems will be improved and streamlined on an ongoing basis to facilitate best practice reporting.

The introduction of new accounting standards will add additional workload to the Group. It is anticipated that IFRS 7 Financial Instruments: Disclosures will present challenges in the current financial year. Adequate preparation will be undertaken to ensure that all new accounting standards are implemented as applicable. The Group will also focus on further streamlining reporting processes and reducing reporting timelines.

CONCLUSION

The Group remains determined to be proactive in monitoring and forecasting the financial impact of its various initiatives and operations in a changing business environment.



Reggie Boqo
Chief Financial Officer

SINCE INCEPTION, THE COMPANY HAS MAINTAINED A HIGH LEVEL OF CORPORATE DISCIPLINE AND TRANSPARENCY. THE 2006/07 FINANCIAL YEAR WAS NO EXCEPTION.

INTRODUCTION

Since inception, the Company has maintained a high level of corporate discipline and transparency and the 2006/07 financial year was no exception. The directors endorsed the King Code of Corporate Practices and Governance (“the Code”) as set out in the first and second King Reports

The directors, who include non-executive shareholder representatives, executive directors and non-executive independent directors, specifically report on the following matters.

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 have consistently applied appropriate accounting policies supported by reasonable and prudent judgments and estimates in preparing the financial statements.

BOARD OF DIRECTORS

The Board of Directors retains full and effective control over the Group, monitors executive management and ensures that any decisions on material matters are subject to board approval.

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 non-executive independent directors to provide a measure of balance and independence to the Board.

Details of executive and non-executive directors are provided on pages 8 and 9 of this report.

AUDIT COMMITTEE

The Audit Committee is composed of the chief executive officer and four non-executive directors (one of whom acts as chairperson). The external auditors attend meetings of this committee by invitation. 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 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 has standard scheduled meetings that take place twice a month. The Credit Committee consists of the chief executive officer and three non-executive directors, one of whom acts as chairperson.

Credit approvals must be carried unanimously, effectively giving any member of the credit committee a veto.

Decisions on credit exposures of less than R5 million, or increases of 10% in existing exposures, have been delegated to the chief executive officer, who approves these exposures after consultation with the executive.

ASSET LIABILITY COMMITTEE (“ALCO”)

ALCO meets quarterly and is chaired by a non-executive director, with two further non-executive directors, the chief executive officer and the treasurer serving on the committee. The chief financial officer also attends all committee 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 fashion. 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 utilised to perform an 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 committee for its approval.

MARKET VALUE VERIFICATION COMMITTEE

This committee was convened for the first time in 2004. The committee was established to address market valuation issues emanating from the implementation of AC133. The committee consists of at least three non-executive directors and the chief executive officer. A member is drawn from Credit, Audit and ALCO Committees.

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

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 on a consistent basis.
- ✧ Ensure that any change required to the procedure (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.
- ✧ 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

Four non-executive directors as well as 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 all staff at all levels within the Group and providing staff with the necessary training and support to ensure they are capable of achieving their highest aspirations.

A key driver behind the staff appointment process is to ensure that the staff composition will ultimately mirror the demographics of the country. Significant progress has been made in this regard at all levels within the Group.

INCA's programme of internship has continued to provide members of previously disadvantaged communities with the opportunity of entering the financial sector and gaining work experience. Three interns completed an eighteen-month internship with the Company in August 2007, and a further two or three interns will be selected in January 2008.

INTERNAL CONTROL

The directors have the responsibility for maintaining an effective system of internal control, which provides reasonable assurance of effective and efficient operations and internal financial control.

Risk management is dealt with in an integrated way by the chief executive officer and the executive team, with regular reporting to the responsible sub-committees of 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.

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INFRASTRUCTURE FINANCE CORPORATION LIMITED

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Directors' responsibility statement

The directors are responsible for the financial statements and the integrity of the information included in this report. The financial statements are prepared in all material respects in accordance with International Financial Reporting Standards. The financial statements are based on the appropriate accounting policies that are consistently applied, except as otherwise stated, supported by reasonable and prudent judgements and estimates.

The directors believe that the Group will be a going concern in the year ahead. Based on this belief, the financial statements are prepared on a going-concern basis.

The controls throughout the Group are directed towards risk areas. These areas are identified by management and, where applicable, relied upon by the independent auditors. All controls relating to critical risk areas are closely monitored.

The directors report that the Group's internal financial controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect material fraudulent financial reporting. Such controls are based on written policies and procedures. They are implemented by trained, skilled personnel with an appropriate segregation of duties, and are monitored throughout the Group. All employees are required to maintain the highest ethical standards and the Group's business practices are required to be conducted in a manner that is above reproach.

Nothing has come to the attention of directors to indicate that any material breakdown in the functioning of these internal financial controls occurred during the period. The independent auditors concur with the above statement by the directors.

The financial statements on pages 28 to 61 were approved by the Board of Directors on 9 October 2007, signed on its behalf by:



JJ Njeke
Chairman



AJ van Zyl
Chief Executive Officer

Certification by the Company Secretary

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 2007, all such returns as are required of 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
Company Secretary

9 October 2007

Independent auditor's report

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 2007, 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 pages 28 to 61.

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 2007, 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: Mgcinisihlalo Jordan
Partner

9 October 2007

Deloitte & Touche
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A full list of partners and directors is available on request

NATURE OF BUSINESS

The main business of Infrastructure Finance Corporation Limited ("INCA" or "the Company") remains that of providing largely unsecured debt finance to infrastructure providers and providers of services normally rendered by the public sector. The financing of movable assets not falling within the domain of consumables became more prevalent in the year under review. INCA has also become involved in Public Private Partnerships and the project finance market, with the first projects reaching financial closure subsequent to year end.

OPERATING RESULTS

The Group reflected net profits after tax of R35 million on a fair value basis (2006: R174 million) and the Company returned net profits after tax of R23 million (2006: R171 million) for the financial year. The reported fair values incorporate independent market information and transparent pricing where available. In addition, and consistent with the previous three years, in the case of valuations of advances where no transparent market pricing exists, management used internally-generated historical data, recent transaction 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 period under review (2006 – 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 the total subordinated liabilities in issue at financial year end amounted to R99 million (2006: R101 million) and the maturity date of these subordinated liabilities is 2011.

DIVIDENDS

A dividend of R25 million (2005: R25 million) was declared, of which R23,7 million (net of dividend to the share incentive trust) was distributed to shareholders in September 2006. A dividend payment of R27,5 million has been proposed by management.

DIRECTORS

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

MS Brown resigned on 21 June 2007.

JF Howard appointed on 21 June 2007.

PE Rackstraw resigned as director and appointed alternate director on 28 September 2007.

K Moloko resigned as alternate director and appointed director on 28 September 2007.

SECRETARY AND REGISTERED OFFICE

The address of the Company Secretary, JM Poulter, and of the registered office of the Company is recorded on page 62 of this report.

SUBSIDIARY COMPANIES

INCA's 100% holding of the issued shares in INCA Bond Rehabilitation Company (Proprietary) Limited, INCA Asset Finance (Proprietary) Limited and Infrastructure Finance Corporation Africa (Proprietary) Limited did not change during the year under review. Details relating to INCA's subsidiary companies are reflected in note 4 of the financial statements. The interest of INCA in the after tax profits of its subsidiary companies for the year is R5 million (2006: R7 million).

Directors' report

OWNERSHIP OF COMPANY

	Percentage holding	
	June 2007	June 2006
Chanson Investment Holdings (Proprietary) Limited	2,00	2,00
Dexia Credit Local	4,42	4,42
FirstRand Bank Limited	17,68	17,68
INCA Share Incentive Trust*	4,95	4,95
Momentum Group Limited (Futuregrowth Portfolio)	26,98	26,98
Proparco	0,01	0,01
Kagiso Financial Services Limited	43,96	43,96
	100,00	100,00

As reflected above, shareholdings in the Company did not change during the year.

***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 to the financial statements. A total of 42 007 (2006: 42 007) INCA ordinary shares are currently held by the INCA Share Incentive Trust. Members of the HR committee are trustees of the INCA Share Incentive Trust and JM Poulter is the compliance officer.

BORROWING POWERS

The Company has unlimited borrowing powers.

SUBSEQUENT EVENTS

On 23 August 2007 INCA signed a funding participation agreement with Agence Française de Développement of R387 million. The funding will mature in 15 years from the date of the draw down. On 31 August 2007 INCA issued R200 million in senior notes maturing on 29 August 2008. There were no other events subsequent to year end which would impact on the reported figures.

COUNTRY OF INCORPORATION

Republic of South Africa.

Balance sheets at 30 June

	Notes	Group		Company	
		2007 R'000	2006 R'000	2007 R'000	2006 R'000
ASSETS					
Cash and short-term funds	2	445 089	154 965	441 880	141 979
Other assets	3	507 309	146 440	506 312	144 437
South African Revenue Services		3 803	17 235	2 975	16 821
Investments	4	1 012 322	886 236	1 049 539	920 834
Derivative financial instruments	12	74 552	59 471	74 552	59 471
Advances	5	5 037 663	5 362 183	4 967 069	5 309 083
Property, plant and equipment	6	3 260	1 021	3 256	997
Total assets		7 083 998	6 627 551	7 045 583	6 593 622
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	7	807	807	849	849
Share premium	8	99 057	99 057	105 988	105 988
Retained earnings		402 394	390 658	364 889	367 288
Total equity		502 258	490 522	471 726	474 125
Liabilities					
Subordinated liabilities	9	98 897	100 786	98 897	100 786
Long-term liabilities	10	6 066 640	5 671 239	6 066 640	5 671 239
Accounts payable and other liabilities	11	307 340	232 548	305 405	218 844
South African Revenue Services		2 202	616	–	–
Derivative financial instruments	12	54 714	60 152	54 714	60 152
Deferred taxation	17.3	51 947	71 688	48 201	68 476
Total liabilities		6 581 740	6 137 029	6 573 857	6 119 497
Total equity and liabilities		7 083 998	6 627 551	7 045 583	6 593 622

Approximate rates of exchange ruling at the end of the year:

USD1 = ZAR 7,0143 (2006 – USD1 = ZAR 7,1500)

EUR1 = ZAR 9,4987 (2006 – EUR1 = ZAR 9,1248)

GBP1 = ZAR 14,0793 (2006 – GBP1 = ZAR 13,2089)

Income statements for the year ended 30 June

	Notes	Group		Company	
		2007 R'000	2006 R'000	2007 R'000	2006 R'000
Interest and similar income	13	982 279	1 038 256	962 184	1 012 512
Interest expense and similar charges	14	894 519	985 824	893 128	968 340
Net interest income		87 760	52 432	69 056	44 172
Impairment on lease receivables and advances	5.8	13 360	762	13 360	1 285
Net interest income after impairment		74 400	51 670	55 696	42 887
Fair value adjustment – realised	15.1	62 827	41 204	62 803	41 237
– unrealised	15.2	(55 946)	179 072	(47 271)	173 321
Fee and other income		475	1 031	1 934	2 583
Net income before operating expenditure		81 756	272 977	73 162	260 028
Operating expenditure	16	37 694	41 374	47 266	33 560
Profit before taxation		44 062	231 603	25 896	226 468
Taxation	17	8 563	57 471	3 295	55 770
Profit for the year		35 499	174 132	22 601	170 698
Attributable to:					
Equity holders of the parent		35 499	174 132	22 601	170 698
		35 499	174 132	22 601	170 698
Earnings per share (cents)	23	4 401	21 590		
Dividend per share (cents)		2 946	2 946		

Statements of changes in equity for the year ended 30 June

	Share capital R'000	Share premium R'000	Retained earnings R'000	Total equity R'000
GROUP				
Balance at 01 July 2005	807	99 057	240 288	340 152
Dividend paid for 2005 net of dividend to Share Trust	–	–	(23 762)	(23 762)
Profit for the year	–	–	174 132	174 132
Balance at 01 July 2006	807	99 057	390 658	490 522
Dividend paid for 2006 net of dividend to Share Trust	–	–	(23 763)	(23 763)
Profit for the year	–	–	35 499	35 499
Balance at 30 June 2007	807	99 057	402 394	502 258
	Share capital R'000	Share premium R'000	Retained earnings R'000	Total equity R'000
COMPANY				
Balance at 01 July 2005	849	105 988	221 590	328 427
Dividend paid for 2005	–	–	(25 000)	(25 000)
Profit for the year	–	–	170 698	170 698
Balance at 01 July 2006	849	105 988	367 288	474 125
Dividend paid for 2006	–	–	(25 000)	(25 000)
Profit for the year	–	–	22 601	22 601
Balance at 30 June 2007	849	105 988	364 889	471 726

Cash flow statements for the year ended 30 June

	Notes	Group		Company	
		2007 R'000	2006 R'000	2007 R'000	2006 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from borrowers and customers	A.1	694 591	782 255	685 282	768 339
Cash paid to lenders, employees and suppliers	A.2	(911 786)	(1 007 469)	(920 013)	(982 211)
Cash receipts from investments and cash balances	A.3	340 238	298 797	336 079	288 190
Cash generated from operations	A.6	123 043	73 583	101 348	74 318
Normal taxation paid	A.4	(13 286)	(3 433)	(9 724)	(2 936)
Secondary taxation on companies paid		–	(1 809)	–	(1 809)
Dividends paid	A.5	(23 763)	(23 762)	(25 000)	(25 000)
CHANGES IN OPERATING FUNDS					
Decrease in income earning assets	A.7	24 096	1 288 081	38 426	1 169 223
Increase in non-income earning assets	A.8	(360 869)	(18 782)	(361 875)	(2 381)
Increase/(decrease) in liabilities, derivatives and other accounts payable	A.9	541 150	(1 584 002)	556 971	(1 459 812)
Net change in operating funds		204 377	(314 703)	233 522	(292 970)
Net cash inflow/(outflow) from operating activities		290 371	(270 124)	300 146	(248 397)
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to:					
• computer equipment		(54)	(290)	(54)	(350)
• furniture and fittings		(72)	(48)	(72)	(166)
• leasehold improvements		(122)	(2)	(122)	(6)
Total additions		(248)	(340)	(248)	(522)
Proceeds from disposal of:					
• computer equipment		1	22	3	–
Net cash outflow from investing activities		(247)	(318)	(245)	(522)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net cash inflow/(outflow) from financing activities		–	–	–	–
Increase/(decrease) in cash and cash equivalents		290 124	(270 442)	299 901	(248 919)
Cash and cash equivalents at the beginning of the year		154 965	425 407	141 979	390 898
Cash and cash equivalents at the end of the year		445 089	154 965	441 880	141 979

Notes to the cash flow statements for the year ended 30 June

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
A. CASH FLOW INFORMATION				
A.1 Cash receipts from borrowers and customers				
Interest income	638 734	756 983	622 798	740 813
Realised profits on advances	60 644	21 408	60 644	21 408
Fee income	475	1 101	1 934	2 583
(Deduct)/add: amortisation of discount income	(5 262)	2 763	(94)	3 535
Total cash receipts from borrowers and customers	694 591	782 255	685 282	768 339
A.2 Cash paid to lenders, employees and suppliers				
Interest expense	(894 519)	(985 824)	(893 128)	(968 340)
Realised losses on long-term liabilities and derivatives	(2 372)	(8 623)	(2 396)	(8 623)
Add: amortisation of discount expense	22 295	27 726	22 295	27 726
Total operating expenses	(874 596)	(966 721)	(873 229)	(949 237)
Total cash paid to lenders, employees and suppliers	(911 786)	(1 007 469)	(920 013)	(982 211)
A.3 Cash receipts from investments and cash balances				
Interest income	336 003	263 577	331 844	254 003
Preference and ordinary dividends	7 542	17 696	7 542	17 696
Realised profits on investments	4 555	28 419	4 555	28 452
Less: amortisation of discount income	(7 862)	(10 895)	(7 862)	(11 961)
Total cash receipts from investments and cash balances	340 238	298 797	336 079	288 190
A.4 Normal taxation paid				
Amounts over paid at the beginning of the year	17 235	6 638	16 821	6 224
Income statement charge	(28 304)	(2 585)	(23 570)	(2 088)
Under deduction from prior year	(616)	9 749	-	9 749
Amounts over paid at the end of the year	(1 601)	(17 235)	(2 975)	(16 821)
Normal taxation paid	(13 286)	(3 433)	(9 724)	(2 936)
A.5 Dividends paid				
Amounts unpaid at the beginning of the year	-	-	-	-
Dividend	(23 763)	(23 762)	(25 000)	(25 000)
Amounts unpaid at the end of the year	-	-	-	-
Dividends paid	(23 763)	(23 762)	(25 000)	(25 000)

Notes to the cash flow statements for the year ended 30 June

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
A.6 Reconciliation of profit before taxation to cash generated from operations				
Profit before taxation	44 062	231 603	25 896	226 468
Non-cash charges:				
Depreciation	485	626	483	586
Impairment on lease receivables and advances	13 360	762	13 360	1 285
Amortisation of discount income	(13 124)	(8 132)	(7 956)	(8 426)
Amortisation of discount expense	22 295	27 726	22 295	27 726
Revaluation of investments and advances	171 606	361 594	166 983	353 404
Revaluation of subordinated debt and long-term liabilities	(93 431)	(425 175)	(93 431)	(418 202)
Revaluation of derivative financial instruments	(22 261)	(115 572)	(26 304)	(108 612)
Revaluation of repurchase agreements	32	81	23	89
Loss on disposal of equipment	19	70	(1)	-
Cash generated from operations	123 043	73 583	101 348	74 318
A.7 Decrease in income earning assets				
Investments	(126 086)	490 038	(128 705)	423 037
Advances	324 520	1 152 266	342 014	1 092 449
Add: amortisation of discount income	13 124	8 132	7 956	8 426
Revaluation of advances and investments	(171 606)	(361 593)	(166 983)	(353 404)
Impairment on lease receivables and advances	(13 360)	(762)	(13 360)	(1 285)
Non-cash repayment of advance	(2 496)	-	(2 496)	-
Net decrease in income earning assets	24 096	1 288 081	38 426	1 169 223
A.8 Increase in non-income earning assets				
Accrued interest	(39 556)	54 835	(38 701)	54 323
Increase in other debtors	(321 313)	(73 617)	(323 174)	(56 704)
Net increase in non-income earning assets	(360 869)	(18 782)	(361 875)	(2 381)
A.9 Increase/(decrease) in liabilities, derivatives and other accounts payable				
Increase/(decrease) in long-term liabilities and derivative financial instruments	374 882	(1 651 925)	374 882	(1 511 993)
Add: amortisation of discount expense	(22 295)	(27 726)	(22 295)	(27 726)
Revaluation of long-term liabilities and derivatives	113 803	533 718	117 846	519 778
Decrease in subordinated liabilities	(1 889)	(79 754)	(1 889)	(79 754)
Revaluation of subordinated liabilities	1 889	6 947	1 889	6 947
Increase/(decrease) in accounts payable	74 760	(365 262)	86 538	(367 064)
Net increase/(decrease) in liabilities, derivatives and other accounts payable	541 150	(1 584 002)	556 971	(1 459 812)

1. ACCOUNTING POLICIES

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

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 South African Companies Act. 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.

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

- IFRS 7, Financial Instruments: Disclosure
- IFRS 8, Operating Segments
- IFRIC 10, Interim Financial Reporting and Impairment
- IFRIC 11, IFRS 2: Group Treasury Share transactions
- IFRIC 12, Service Concession Arrangements
- IFRIC 13, Customer Loyalty Programmes
- IFRIC 14, The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IAS 1, Amendment to IAS1 with regard to capital disclosures
- IAS 23, Borrowing Costs

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

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 inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies.

1.3 Revenue recognition

1.3.1 Interest income and expense

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

1.3.2 Fair value adjustments (realised and unrealised)

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

1.3.3 Fee and other income

The Group recognises fee and other income on an accrual basis when the service is rendered to clients and the amount of revenue from the transaction or service can be reliably measured. The Group recognises revenue for services rendered to customers based on the estimated outcome of the transactions. When the outcome can be reliably estimated, transaction revenue is recognised by

Notes to the financial statements | for the year ended 30 June

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, 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 an asset.

Indirect taxes include Value Added Tax (VAT).

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 long-term liabilities 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. ACCOUNTING POLICIES (continued)

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.

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 instruments

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in subsidiary and associated companies, fixed assets, deferred taxation, taxation payable, finance lease receivables and intangible assets. Financial Instruments are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement and IAS 32 Financial Instruments: Disclosure and Presentation.

1.9.1 Initial recognition and measurement

The Group recognises financial instruments on the balance sheet when it becomes a party to the contractual provisions of a financial instrument. Financial assets that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date on which the Group commits to purchase the asset. Transactions that are not considered to have a market convention delivery date are treated as derivatives until settlement takes place.

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or financial liability not designated at fair value through profit or loss, transaction costs that are incremental to the Group and directly attributable to the acquisition or issue of the financial asset or financial liability.

1.9.2 Subsequent measurement

Financial instruments are either measured at fair value or amortised cost, depending on their classification:

- Financial assets and financial liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss consist of trading instruments and instruments that the Group has elected, on initial recognition date, to designate as fair value through profit or loss.

Trading instruments are financial assets or financial liabilities that were acquired or incurred principally for the purpose of sale or repurchase in the near term, form part of a portfolio with a recent actual pattern of short-term profit-taking or are derivatives that do not form part of a designated and effective hedging relationship. The Group's derivative transactions include foreign exchange contracts and interest rate and currency swaps.

Financial assets and financial liabilities that the Group has elected, on initial recognition date, to designate as at fair value through profit or loss are those that meet any one of the following criteria:

- Where fair value through profit or loss designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from using different bases to measure and recognise the gains and losses on financial assets and financial liabilities; or
- The instrument forms part of a group of financial instruments that is managed, evaluated and reported on using a fair value basis in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, which significantly modifies the cash flows of the host contract or where the embedded derivative would clearly require separation.

Notes to the financial statements | for the year ended 30 June

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, with fair value gains or losses reported in fair value adjustments as they arise. Impairment losses calculated on the amortised cost basis are recognised in the income statement in impairment losses on lease receivables and advances. The majority of the Group's financial assets and financial liabilities are classified as at fair value through profit or loss.

- *Lease and other receivables*

Lease and other receivables are non-derivative financial assets with fixed or determinable cash flows that are not quoted in an active market, other than those classified by the Group as at fair value through profit or loss. Financial assets classified as lease and other receivables are carried at amortised cost, with the interest revenue recognised in the income statement.

1.9.3 *Embedded derivatives*

Certain derivatives embedded in other financial and non-financial instruments are treated as separate derivatives and recognised on a standalone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with unrealised gains and losses reported in profit or loss. If it is not possible to determine the fair value of the embedded derivative, the entire hybrid instrument is categorised as at fair value through profit or loss and measured at fair value, with changes in fair value being recognised in profit or loss.

1.9.4 *Measurement basis of financial instruments*

- *Amortised cost*

Amortised cost financial assets and financial liabilities are measured at fair value on initial recognition, plus or minus the cumulative amortisation of discount or premium using the effective interest rate method of any difference between the initial amount and the maturity amount, less any cumulative impairment losses.

- *Fair value*

Direct and incremental transactions cost are included in the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss. The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions in the same instrument or based on a valuation technique whose variables include mainly market observable data.

Where quoted market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities that are measured at fair value. Mid-market prices are used to measure fair value of financial assets and financial liabilities except for the listed instruments.

Where quoted prices are not available, the fair value of financial assets and financial liabilities is estimated using the discounted cash flow techniques. The future cash flows are based on the contractual agreements and the discount rate used is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

1.9.5 *Derecognition of financial instruments*

All financial assets and financial liabilities are derecognised on trade date, which is when the Group commits to selling a financial asset or redeeming a financial liability. The Group derecognises a financial asset when and only when:

- The contractual rights to the cash flows arising from the financial asset have expired or have been forfeited by the Group; or
- It transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

The Group derecognises a financial liability when and only when the liability is extinguished. (when the obligation specified in the contract is discharged, cancelled or has expired)

1.9.6 *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event(s) has an impact on the estimated future cash flow of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that come to the attention of the Group about the following loss events:

1. ACCOUNTING POLICIES (continued)

1.9.6 *Impairment of financial assets* (continued)

- A breach of contract, such as a default or delinquency in interest or principal payments;
- Significant financial difficulty of the issuer or obligor;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- Observable data indicating that there is measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
 - Adverse changes in the payment status of borrowers in the Group; or
 - National or local economic conditions that correlate with defaults on the assets in the Group.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The Group first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that there is no objective evidence of impairment for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the borrower's credit rating), the previously recognised impairment loss is reversed by adjusting the financial asset. The reversal does not result in the carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date on which the impairment is reversed. The amount of the reversal is recognised in profit or loss for the year.

1.10 **Property, plant and equipment**

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

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

The periods of depreciation used are as follows:

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

The Group impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset. Repairs and maintenance costs are charged to the 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.

1.11 **Intangible assets**

1.11.1 *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.

Notes to the financial statements | for the year ended 30 June

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset, but not exceeding 3 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.

1.11.2 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.

1.12 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.

1.13 Employee benefits

1.13.1 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, and membership is compulsory for all Group employees. 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.

1.13.2 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.

1.13.3 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.

1.13.4 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.

1.14 Related party transactions

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

1.15 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.

1.16 Borrowing costs

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

1.17 Critical judgements

The fair values 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.

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
2. CASH AND SHORT-TERM FUNDS				
Bank balances	246 396	154 965	243 237	141 979
Call deposits with financial institutions	198 693	–	198 643	–
	445 089	154 965	441 880	141 979
3. OTHER ASSETS				
Accrued interest	98 887	59 331	97 940	59 239
Other debtors	408 422	87 109	408 372	85 198
	507 309	146 440	506 312	144 437
4. INVESTMENTS				
4.1 Rand Merchant Bank International (EIB)	383 794	370 721	383 794	370 721
4.2 Loan to INCA Share Incentive Trust			22 816	22 816
Loan to INCA Capacity Building Fund	–	58	–	58
4.3. Zero coupon bonds	127 501	117 987	127 501	117 987
Capital market stock	255 254	300 684	255 254	300 684
Other investments:				
4.4 Preference shares	76 183	76 767	76 183	76 767
Dividend fund	139 975	–	139 975	–
Investment in and loans to subsidiaries:				
4.5 INCA Bond Rehabilitation Company (Proprietary) Limited				
• Investment in ordinary shares			14 000	14 000
• Inter-company loan			1	(2 476)
4.6 INCA Asset Finance (Proprietary) Limited				
• Investment in ordinary shares			253	253
• Inter-company loan			(149)	23
4.7 Infrastructure Finance Corporation Africa (Proprietary) Limited				
• Investment in ordinary shares			1	1
• Inter-company loan			93	–
Money market investments with other banks:				
• Maturing after 1 month but within 3 months	23 270	20 019	23 270	20 000
4.8 Retentions deposits held	6 345	–	6 547	–
	1 012 322	886 236	1 049 539	920 834

Notes to the financial statements | for the year ended 30 June

4. INVESTMENTS (continued)

- 4.1 INCA received a loan of EUR40 million from the European Investment Bank. These funds were deposited with and pledged to Rand Merchant Bank International.
- 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) 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 to INCA by the borrowers.
- 4.4 On 29 July 2005 INCA invested in R73 116 000 in non-cumulative redeemable preference shares in Sechold Financial Services (Proprietary) Limited. These shares will be redeemed on 20 March 2017. On 16 May 2007 INCA invested in R140 million in a Dividend Income Fund. This investment is redeemable on demand.
- 4.5 The Company acquired a one hundred percent interest in INCA Bond Rehabilitation Company (Proprietary) Limited on 09 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 (Proprietary) 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 incorporated Infrastructure Asset Finance (Proprietary) Limited's operations into its own since the beginning of the current financial year under review.
- 4.7 Infrastructure Finance Corporation Africa (Proprietary) Limited commenced operations in January 2004. The 1 000 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.
- 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.
-

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
5. ADVANCES				
5.1 Valuation profile				
Advances at fair value	4 729 890	5 073 829	4 658 397	5 019 830
Lease receivables at cost	343 437	310 658	343 437	310 658
Impairment on lease receivables and advances	(35 664)	(22 304)	(34 765)	(21 405)
	5 037 663	5 362 183	4 967 069	5 309 083
The fair value of lease receivables is R353 777 438 (2006: R318 580 706) for Group and Company.				
5.2 Maturity profile				
Maturing in 2007	–	57 619	–	83 745
Maturing in 2008 to 2009	553 225	696 679	545 340	688 900
Maturing in 2010	169 590	116 107	168 857	115 242
Maturing in 2011	1 118 683	1 311 122	1 065 236	1 249 768
Maturing after 2011	3 196 165	3 180 656	3 187 636	3 171 428
	5 037 663	5 362 183	4 967 069	5 309 083
5.3 Geographic profile				
Eastern Cape	258 966	252 431	258 966	250 943
Free State	266 812	131 482	245 932	107 414
Gauteng	1 634 734	2 195 095	1 596 894	2 189 961
KwaZulu-Natal	1 082 773	919 912	1 077 059	913 293
Limpopo	97 304	86 569	97 304	86 570
Mpumalanga	358 007	394 915	358 007	394 915
Northern Cape	50 284	27 009	50 284	27 009
North West	234 852	267 332	230 140	249 994
Western Cape	557 735	497 653	557 647	497 526
Southern African Development Community	–	1 029	–	1 029
Other:				
– National Government	184 237	75 514	182 877	77 187
– State Owned Entities	311 959	513 242	311 959	513 242
	5 037 663	5 362 183	4 967 069	5 309 083
5.4 Repayment profile				
Bonds (bullet payment profile)	1 464 437	1 840 043	1 412 071	1 805 545
Amortised loans	3 573 226	3 522 140	3 554 998	3 503 538
	5 037 663	5 362 183	4 967 069	5 309 083
5.5 Loan commitments to advance funds				
Steve Tshwete Local Municipality (2008 – 2010)	105 000	–	105 000	–
Emalahleni Local Municipality (2008)	29 000	–	29 000	–
University of KwaZulu-Natal (2008)	156 089	–	156 089	–
	290 089	–	290 089	–

Notes to the financial statements for the year ended 30 June

Group and Company

2007 R'000	% of Advances	2006 R'000	% of Advances
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5. ADVANCES (continued)

5.6 Concentration profile (Group and Company)

Ten largest exposures (Face value)

Tshwane Metropolitan Municipality	618 096	12,3	599 857	11,2
eThekweni Metropolitan Municipality	425 467	8,5	442 550	8,3
Ekurhuleni Metropolitan Municipality	376 510	7,5	455 413	8,5
South African Airways	310 214	6,2	344 414	6,4
UMhlathuze Local Municipality	236 569	4,7	– ¹	
City of Cape Town Metropolitan Municipality	235 990	4,7	248 372	4,6
City of Johannesburg Metropolitan Municipality	183 721	3,6	428 278	8,0
Buffalo City Local Municipality	119 306	2,4	120 553	2,2
Sedibeng Water Board	99 427	2,0	99 454 ¹	1,9
uMhlathuze Water Board	87 399	1,7	94 500	1,8
Msunduzi Local Municipality	– ²		93 700	1,7
Total	2 692 699	53,6	2 927 091	54,6
Capital secured	(645 368)	(12,8)	(782 674)	(14,6)
Net exposure	2 047 331	40,8	2 144 417	40,0

1. The exposure to uMhlathuze Local Municipality of R18 million in 2006 was excluded because it did not qualify as one of the ten largest advances.

2. The exposure to Msunduzi Local Municipality of R84 million in 2007 is excluded because it does not qualify as one of the ten largest advances.

Group

Company

2007 R'000	2006 R'000	2007 R'000	2006 R'000
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5.7 Capital repayments secured

Secured by cession of a zero coupon bond or set off against

a deposit with the Company

Percentage of a total advances (%)

1 007 735	1 441 377	1 002 035	1 441 377
20,0	26,9	20,2	27,1

The Company has ceded and pledged advances of R27,1 million (2006: R51,6 million) to FirstRand Bank made with the proceeds of the euro loan from Agence Française de Développement as security for a guarantee. (See note 10.2) The Company has also ceded to the European Investment Bank advances of R225 million and R250 million made to the eThekweni Metropolitan Municipality and Tshwane Metropolitan Municipality respectively. (See note 10.2)

The Company has since terminated a committed liquidity facility from FirstRand Bank of R500 million which was secured by metropolitan municipalities advances with a combined face value of R506 million. The facility was obtained during the prior financial year.

Due to the sector that the Group largely lends to, there are very limited observable market rates for the advances therefore the fair value of advances is arrived at using the discounted cash flow valuation technique. The cash flows and the duration of advances can be reliably measured however the discount rates or yield curves required to discount the cash flows requires various inputs mainly from the market and some professional judgement from management. The entire valuation process is managed and monitored by a Board subcommittee 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 markets and there are minimal assumptions and estimates included in the valuation process. The policy was adopted to ensure consistency and adequate governance on valuation inputs, particularly where estimates are required.

5. ADVANCES (continued)

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. The fair value of the exposure is determined using the same process described in the preceding paragraph.

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
5.8 Impairment on lease receivables and advances				
Balance at the beginning of the year	22 304	21 542	21 405	20 120
Impairment charge for the year	13 360	2 387	13 360	2 387
Impairment reversals for the year	-	(1 625)	-	(1 102)
Balance at the end of the year	35 664	22 304	34 765	21 405

	Accumulated Cost R'000	depreciation R'000	Net carrying value R'000
--	------------------------------	-----------------------	--------------------------------

6. PROPERTY, PLANT AND EQUIPMENT

6.1 Group – 2007

Computer equipment	2 654	2 326	328
Furniture and fittings	3 330	574	2 756
Leasehold improvements	1 376	1 275	101
Motor vehicle	140	65	75
	7 500	4 240	3 260

Group – 2006

Computer equipment	2 606	1 947	659
Furniture and fittings	763	504	259
Leasehold improvements	1 254	1 254	-
Motor vehicle	140	37	103
	4 763	3 742	1 021

Notes to the financial statements for the year ended 30 June

	30 June 2006 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit/(loss) R'000	Depreciation R'000	30 June 2007 Carrying value R'000
6. PROPERTY, PLANT AND EQUIPMENT (continued)						
6.1 Group (continued)						
Movements: 2006 to 2007						
Computer equipment	659	54	(1)	(19)	(365)	328
Furniture and fittings	259	2 568	–	–	(71)	2 756
Leasehold improvements	–	122	–	–	(21)	101
Motor vehicle	103	–	–	–	(28)	75
	1 021	2 744	(1)	(19)	(485)	3 260
Movements: 2005 to 2006						
Computer equipment	830	290	(14)	(70)	(377)	659
Furniture and fittings	281	48	–	–	(70)	259
Leasehold improvements	157	2	(8)	–	(151)	–
Motor vehicle	131	–	–	–	(28)	103
	1 399	340	(22)	(70)	(626)	1 021
6.2 Company – 2007					Accumulated Cost R'000	Net carrying value R'000
Computer equipment					2 540	324
Furniture and fittings					3 330	2 756
Leasehold improvements					1 376	101
Motor Vehicle					140	75
					7 386	3 256
Company – 2006						
Computer equipment					2 492	635
Furniture and fittings					763	259
Leasehold improvements					1 254	–
Motor Vehicle					140	103
					4 649	997

	30 June 2006 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit/ (loss) R'000	Depreciation R'000	30 June 2007 Carrying value R'000
6. PROPERTY, PLANT AND EQUIPMENT (continued)						
6.2 Company (continued)						
Movements: 2006 to 2007						
Computer equipment	635	54	(3)	1	(363)	324
Furniture and fittings	259	2 568	–	–	(71)	2 756
Leasehold improvements	–	122	–	–	(21)	101
Motor Vehicle	103	–	–	–	(28)	75
	997	2 744	(3)	1	(483)	3 256
Movements: 2005 to 2006						
Computer equipment	622	350	(1)	1	(337)	635
Furniture and fittings	163	166	–	–	(70)	259
Leasehold improvements	145	6	–	–	(151)	–
Motor Vehicle	131	–	–	–	(28)	103
	1 061	522	(1)	1	(586)	997

Group		Company	
2007 R'000	2006 R'000	2007 R'000	2006 R'000

7. SHARE CAPITAL				
Authorised				
1 000 000 ordinary shares of R1 each (2006: 1 000 000 ordinary shares of R1 each)	1 000	1 000	1 000	1 000
Issued				
848 532 ordinary shares of R1 each (2006: 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 (2006: 42 007)	(42)	(42)		
Balance at the end of the year	807	807	849	849

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

Notes to the financial statements for the year ended 30 June

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
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)		
Balance at the end of the year	99 057	99 057	105 988	105 988

	Group				Company			
	2007 Face value R'000	2007 Fair value R'000	2006 Face value R'000	2006 Fair value R'000	2007 Face value R'000	2007 Fair value R'000	2006 Face value R'000	2006 Fair value R'000

9. SUBORDINATED LIABILITIES**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	98 897	100 000	100 786	100 000	98 897	100 000	100 786
	100 000	98 897	100 000	100 786	100 000	98 897	100 000	100 786

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

Group				Company			
2007 Face value R'000	2007 Fair value R'000	2006 Face value R'000	2006 Fair value R'000	2007 Face value R'000	2007 Fair value R'000	2006 Face value R'000	2006 Fair value R'000

10. LONG-TERM LIABILITIES

10.1 INCA Bonds issued

to the market:

INO3 bonds redeemable

30 June 2011

Semi-annual coupons

of 14,0%.

2 221 831 2 486 208 2 468 231 2 885 233 2 221 831 2 486 208 2 468 231 2 885 233

INO4 note – redeemable

15 March 2015

Semi-annual coupons of 8,9%.

640 000 610 509 250 000 211 801 640 000 610 509 250 000 211 801

INO602 note – redeemable

31 August 2006

Interest is payable quarterly at

jibar plus 12 basis points.

– – 200 000 199 216 – – 200 000 199 216

INO603 note – redeemable

31 October 2006

Interest is payable annually at

jibar plus 13 basis points.

– – 217 000 216 298 – – 217 000 216 298

INO604 note – redeemable

27 February 2007

Interest is payable quarterly at

jibar plus 25 basis points.

– – 200 000 199 661 – – 200 000 199 661

INO605 note – redeemable

31 August 2007

Interest is payable quarterly at

jibar plus 30 basis points.

200 000 199 831 – – 200 000 199 831 – –

INO606U note – redeemable

26 October 2007

Interest is payable quarterly at

jibar plus 25 basis points.

217 000 216 933 – – 217 000 216 933 – –

INO607 note – redeemable

26 February 2008

Interest is payable quarterly at

jibar plus 25 basis points.

250 000 249 655 – – 250 000 249 655 – –

INO608 note – redeemable

05 May 2008

Interest is payable quarterly at

jibar plus 25 basis points.

250 000 249 563 – – 250 000 249 563 – –

INO7 bonds – redeemable

16 May 2013

Semi-annual coupons of 14,0%.

110 000 105 135 – – 110 000 105 135 – –

3 888 831 4 117 834 3 335 231 3 712 209 3 888 831 4 117 834 3 335 231 3 712 209

Notes to the financial statements for the year ended 30 June

Group				Company			
2007 Face value R'000	2007 Fair value R'000	2006 Face value R'000	2006 Fair value R'000	2007 Face value R'000	2007 Fair value R'000	2006 Face value R'000	2006 Fair value R'000

10. LONG-TERM LIABILITIES (continued)

10.2 Long-term foreign loans:

<ul style="list-style-type: none"> • Agence Française de Développement (AFD) EUR22,9 million. Capital is repayable in 16 equal semi-annual instalments commencing on 31 October 2000 and ending on 30 April 2008. Bears interest at 3,5% per annum (see note 5). 	27 150	27 053	51 679	49 315	27 150	27 053	51 679	49 315
<ul style="list-style-type: none"> • Blaylock & Partners (USAID) USD49,2 million Interest payable semi-annually (26 March and 26 September) and principal on 26 March 2009. Interest varies from 5,06% to 5,94%. The loan is guaranteed by USAID. 	345 104	349 105	349 320	344 313	345 104	349 105	349 320	344 313
<ul style="list-style-type: none"> • European Investment Bank R100 million, interest at 15% payable annually capital repayable on 23 February 2009. R100 million, interest at 13,8% payable annually, capital repayable on 19 May 2009. 	200 000	211 703	200 000	221 511	200 000	211 703	200 000	221 511
<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 March 2008 and ending on 15 March 2017. 	379 947	383 104	361 601	357 211	379 947	383 104	361 601	357 211
<ul style="list-style-type: none"> • European Investment Bank R238,2 million, 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	232 983	238 230	229 062	238 230	232 983	238 230	229 062

Group				Company			
2007	2007	2006	2006	2007	2007	2006	2006
Face	Fair	Face	Fair	Face	Fair	Face	Fair
value	value	value	value	value	value	value	value
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000

10. LONG-TERM LIABILITIES (continued)

10.2 Long-term foreign loans (continued)

<ul style="list-style-type: none"> • Agence Française de Développement (AFD) EUR15,9 million. 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. 	75 431	74 285	89 736	84 696	75 431	74 285	89 736	84 696
<ul style="list-style-type: none"> • Agence Française de Développement (AFD) EUR4,1 million. Capital repayable in 16 equal semi-annual instalments commencing on 31 October 2003 and ending 30 April 2011. Bears interest at 3,5% per annum. 	19 556	19 259	23 265	21 958	19 556	19 259	23 265	21 958
<ul style="list-style-type: none"> • European Investment Bank R225 million, 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. 	207 266	202 191	215 109 ¹	205 899	207 266	202 191	215 109	205 899
<ul style="list-style-type: none"> • European Investment Bank R238,4 million, 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. 	222 339	216 703	230 753 ²	220 525	222 339	216 703	230 753	220 525

10.3 Long-term domestic loans:

<ul style="list-style-type: none"> • Infrastructure Software (Proprietary) Limited Interest and capital payable in 10 instalments commencing on 10 December 2002 and ending on 10 June 2007. Bears interest at 13,13% per annum. 	–	–	7 199	7 417	–	–	7 199	7 417
<ul style="list-style-type: none"> • Aludi 	–	–	140	140	–	–	140	140
<ul style="list-style-type: none"> • Zero coupon liabilities to municipalities (See note 3 below) 	333 264	232 420	333 264	216 983	333 264	232 420	333 264	216 983
	5 937 118	6 066 640	5 435 527	5 671 239	5 937 118	6 066 640	5 435 527	5 671 239

Notes to the financial statements for the year ended 30 June

10. LONG-TERM LIABILITIES (continued)

INCA Bonds were issued in terms of a prospectus and incur interest at a fixed rate linked to the government bond rate at the time of issue as follows: INO3 bonds: R153, INO4 bonds: R157, INJO1 bond: R153 and INO6 notes: Jibar.

1. INCA has ceded the eThekweni Metropolitan Municipality advance with an initial face value of R225 million to the European Investment Bank as collateral for the loan.
2. INCA has ceded the Tshwane Metropolitan Municipality advance with an initial face value of R250 million 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 2007:	INO 605	31 August 2006	200 000	200 000
	INO 4	13 September 2006	400 000	372 093
	INO 606U	31 October 2006	217 000	217 000
	INO 607	27 February 2007	250 000	250 000
	INO 608U	04 May 2007	250 000	250 000
	INO 7	16 May 2007	110 000	109 375
	The following INCA Bonds and Notes were issued in 2006:	INO 602	26 August 2005	200 000
INO 603		26 October 2005	217 000	217 000
INO 4		09 December 2005	100 000	102 375
INO 604		23 February 2006	200 000	200 000

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Turnover in INCA Bonds:				
INO 2	–	3 380 509	–	3 380 509
INO 3	8 416 453	13 561 454	8 416 453	13 561 454
INO 4	1 184 000	3 450 000	1 184 000	3 450 000
INO 7	182 000	–	182 000	–
	9 782 453	20 391 963	9 782 453	20 391 963

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Interest accrued on long-term loans	248 902	75 294	248 899	75 279
Leave pay accrual	958	1 125	958	1 125
Share appreciation rights obligation	13 111	9 700	13 111	–
Other accounts payable	44 342	109 823	42 410	105 834
Funding under repurchase agreements	27	36 606	27	36 606
	307 340	232 548	305 405	218 844

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. The employees are allowed to hold the rights for a period not exceeding five years after which the share appreciation rights will become available to be newly granted.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES (continued)

11.1 Share appreciation rights obligation (continued)

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 28 200 (2006: 25 350) rights. During the financial year under review 6 750 rights were granted at the prevailing price at the time of the grant. 3 900 rights were forfeited during the year under review. Of the total rights granted, 21 900 were granted with effect from 01 July 2004 a third of which vested on 30 June 2007. 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 21,37%

Risk Free Rate range 9,83% – 10,29%

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 seven days from the balance sheet date.

	Group		Company			
	Notional	Notional	Fair value	Fair value	Fair value	Fair value
	2007	2006	2007	2006	2007	2006
	R'000	R'000	R'000	R'000	R'000	R'000

12. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative assets

Currency swaps	323 149	342 309	22 719	14 374	22 719	14 374
Interest rate swaps	1 464 833	1 241 198	51 833	45 097	51 833	45 097
	1 787 982	1 583 507	74 552	59 471	74 552	59 471

Derivative liabilities

Currency swaps	102 458	128 072	9 558	17 590	9 558	17 590
Interest rate swaps	1 397 184	1 060 184	44 237	41 574	44 237	41 574
Foreign exchange contracts	4 263	4 509	919	988	919	988
	1 503 905	1 192 765	54 714	60 152	54 714	60 152

The notional principal gives an indication 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.

Notes to the financial statements for the year ended 30 June

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
13. INTEREST AND SIMILAR INCOME				
Advances	638 734	756 983	622 798	740 813
Investments	68 527	93 366	68 527	89 321
Cash and short-term funds	12 847	29 997	12 731	23 767
Preference share dividends	7 542	17 696	7 542	17 696
Repurchase agreements	11 928	4 662	11 928	4 677
Derivative financial instruments	242 701	135 552	238 658	136 238
	982 279	1 038 256	962 184	1 012 512
14. INTEREST EXPENSE AND SIMILAR CHARGES				
INCA bonds	429 787	594 891	429 787	594 891
Long-term loans	153 360	149 099	153 360	131 220
Inter-company			-	394
Subordinated liabilities	10 960	17 497	10 960	17 497
Repurchase agreements	17 060	11 406	15 668	11 406
Derivative financial instruments	283 352	212 931	283 353	212 932
	894 519	985 824	893 128	968 340
15. FAIR VALUE ADJUSTMENT				
15.1 Fair value adjustment – realised				
1. Advances	60 644	21 408	60 644	21 408
Investments	4 555	28 419	4 555	28 452
2. INCA bonds	97	(5 385)	97	(5 385)
3. Long-term loans	(2 469)	(3 238)	(2 493)	(3 238)
	62 827	41 204	62 803	41 237
15.2 Fair value adjustment – unrealised				
4. Advances	(140 940)	(301 152)	(136 317)	(293 228)
5. Investments	(30 666)	(60 442)	(30 666)	(60 176)
6. INCA bonds*	103 288	341 151	103 288	341 151
7. Long-term loans*	(11 746)	77 077	(11 746)	70 104
8. Subordinated liabilities*	1 889	6 947	1 889	6 947
9. Derivative financial instruments	22 261	115 572	26 304	108 612
Repurchase agreements	(32)	(81)	(23)	(89)
	(55 946)	179 072	(47 271)	173 321

***Fair value on liabilities**

The total fair value adjustments resulting from liabilities amounted to R93 million (2006: R425 million). The unrealised fair value adjustments are mainly attributable to increase in base interest rates, the passing of time, growth and maturities in the portfolio.

15. FAIR VALUE ADJUSTMENT (continued)

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 positive 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 to certain costs relating to the raising of long-term loans.
4. The base interest rates increased during the year under review resulting in a negative unrealised fair value adjustment on assets. The credit spreads on advances remained largely flat for the year under review.
5. Unrealised fair value adjustments on investments relate to the generally upward movement of base interest rates during the current year. The Group is hedged for interest rate movements in accordance to its Asset and Liability Management process.
6. INO3 bond spreads widened by 10 basis points during the year resulting in positive unrealised fair value adjustments of R7 million. INO4 bond spreads remained constant during the year.
7. Liabilities are marked-to-market at INCA funding spreads hence a negative fair value movement was reflected.
8. The positive unrealised fair value adjustment on subordinated debt is attributable to the fact that the subordinated liability is valued using INCA's funding curve hence the positive unrealised fair value adjustment.
9. Derivative financial instruments are used to hedge general market movements (movements in the credit spreads of assets and liabilities are not hedged). During the year currency swaps with a combined nominal of EUR5,4 million were repaid and the fair value adjustments from prior years reversed in the current year.

Group		Company	
2007	2006	2007	2006
R'000	R'000	R'000	R'000

16. OPERATING EXPENDITURE

Operating expenditure includes the following items:

16.1 Auditors' remuneration

Audit fees	1 730	1 767	1 640	1 678
Prior year under accrual	–	100	–	100
Other services	98	21	98	21
	1 828	1 888	1 738	1 799

16.2 Depreciation

Computer equipment	365	377	363	337
Furniture and fittings	71	70	71	70
Leasehold improvements	21	151	21	151
Motor vehicles	28	28	28	28
	485	626	483	586

Notes to the financial statements for the year ended 30 June

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
16. OPERATING EXPENDITURE (continued)				
16.3 Lease expenses				
Office premises	1 880	1 317	1 877	1 317
Computer software	402	354	402	354
	2 282	1 671	2 279	1 671
16.4 Professional fees				
Technical and other services	1 989	2 890	1 973	2 753
	1 989	2 890	1 973	2 753
16.5 Retirement benefits				
Company provident fund contributions	186	269	186	269
	186	269	186	269
16.6 Other staff costs excluding directors				
Salaries and incentive payments	17 287	12 376	20 604	12 376
	17 287	12 376	20 604	12 376
16.7 Directors' emoluments				
Non-executive directors' fees	860	1 087	860	1 087
Executive directors' emoluments				
– salaries and incentive payments	5 337	5 732	5 337	5 732
– accrual made under INCA Staff Share Scheme	2 244	7 617	8 626	–
	8 441	14 436	14 823	6 819
16.8 Other				
Other sundry expenditure	5 196	7 218	5 180	7 287
Total expenditure	37 694	41 374	47 266	33 560
17. TAXATION				
17.1 Taxation charge for the year				
17.1.1 Current year				
South African current taxation				
Normal	28 304	2 585	23 570	2 088
Deferred	(19 741)	61 696	(20 275)	60 492
Under deduction from prior year	–	(9 749)	–	(9 749)
Secondary tax on companies paid	–	1 809	–	1 809
Secondary tax on companies credits	–	1 130	–	1 130
Total current year	8 563	57 471	3 295	55 770

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
17. TAXATION (continued)				
17.2 Tax rate reconciliation	%	%	%	%
Effective tax rate	19,4	24,8	12,7	24,6
Adjusted for:				
Disallowed expenditure	(1,1)	(8,4)	(1,9)	(8,5)
Under deduction from prior year	-	4,2	-	4,3
Non-taxable income	10,7	7,6	18,2	7,8
Secondary tax on companies	-	0,8	-	0,8
Standard tax rate	29,0	29,0	29,0	29,0
17.3 Analysis of deferred taxation				
Differences between tax and book values of:				
Income and expenditure accruals	(15 150)	(14 687)	(15 150)	(11 612)
Unrealised profits and losses on assets and liabilities	67 097	86 375	63 351	80 088
	51 947	71 688	48 201	68 476
17.4 Movement in deferred taxation				
Balance at the beginning of the year	71 688	9 176	68 476	6 854
Charge through the income statement	(19 741)	56 225	(20 275)	55 335
Under deduction from prior year	-	5 157	-	5 157
Secondary tax on companies credits	-	1 130	-	1 130
Balance at the end of the year	51 947	71 688	48 201	68 476
17.5 Movement in STC				
Balance at the beginning of the year	-	1 130	-	1 130
Applied in dividends paid	(3 125)	(1 130)	(3 125)	(1 130)
Credits from dividends received	3 125	-	3 125	-
Balance at the end of the year	-	-	-	-
18. DIVIDENDS				
A dividend of R27,5 million (2006: R25 million) is proposed for 2007.				
19. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES				
19.1 Capital commitments				
Authorised and contracted for: Operating lease rentals for office premises and software licence fees:				
2007	-	978	-	978
2008	2 321	773	2 321	773
2009	2 287	869	2 287	869
2010	783	858	783	858
2011 and after	1 964	1 515	1 964	1 515
	7 355	4 993	7 355	4 993

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

Notes to the financial statements for the year ended 30 June

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
19. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)				
19.2 Contingent liabilities				
Guarantee ¹	29 295	29 295	29 295	29 295
	29 295	29 295	29 295	29 295
<i>1. 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.</i>				

20. RELATED PARTY TRANSACTIONS**Loans to shareholders**

Rand Merchant Bank International (EIB)	383 794	370 721	383 794	370 721
	383 794	370 721	383 794	370 721

Other inter-company balances are reflected under Investments (note 4) and Accounts Payable (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 R6,7 million. During the year 2 400 share appreciation rights were granted to executive management. No share appreciation rights were awarded to executive management subsequent to year end. The details of the share appreciation rights are disclosed on 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 bankers to the Group. All of these related party transactions were concluded on an arm's length basis. At no stage during the financial year were any contracts concluded by the Group in which a director had an interest except as disclosed above.

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

21. FINANCIAL RISK MANAGEMENT**21.1 Foreign currency management**

Foreign liabilities are hedged on a back-to-back basis with foreign assets or are swapped out, which effectively eliminates any currency exposure.

21.2 Derivative instruments

The Company does not use derivative instruments for speculative purposes. The primary derivative instruments used are interest rate and currency swaps.

21.3 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.

21. FINANCIAL RISK MANAGEMENT (continued)

21.4 Loans receivable

The terms and conditions of loans to the INCA Share Incentive Trust are included in note 4. The maturity profile for advances is set out in note 5.2.

21.5 Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of cash, short-term deposits and advances. The Group'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 geographic profile of advances is disclosed in note 5.3.

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.

21.6 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 static reprice gap analysis and point-in-time interest income stress test for parallel interest rate moves. In addition, "twists" scenarios are used to focus on the impact on the value of the portfolio caused by changes to the shape of the yield curve. All hedging activities and balance sheet mismatches are monitored by the Group's Asset and Liability Committee ("ALCO"), chaired by a non-executive director.

21.7 Market risk

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

21.8 Sensitivity analysis

Realised fair value adjustments relate primarily to the sale 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 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 the interest rates movements, the passing of time and the credit spread movements. Because the Group does not hedge itself for credit spread movements, any unequal credit spread movements on the financial assets and financial liabilities results in positive or negative fair value adjustments. The Group has remained within the ALCO limits in terms of its interest rate movement hedge and the credit spreads for both financial assets and financial liabilities measured at fair value through profit or loss have remained fairly stable, therefore, it can be logically concluded that a significant portion of the negative fair value adjustments of R56 million 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, the credit spreads of advances as well as those of the liabilities and INCA bonds remained stable. The only noticeable movement was the widening of the INO3 credit spreads by 10 basis points. The 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.

As evidenced in the prior financial year's reported fair value adjustments, 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. To illustrate the sensitivity for such an event, the following scenario utilising the figures at year end was run:

- 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 R44 million (2006: R49 million). The Group is most sensitive for credit spread movements of advances in risk category 2 (A to A+) as illustrated below. A 25 basis points credit spread movement on the advances per risk category has the following outcome:

Notes to the financial statements for the year ended 30 June

21. FINANCIAL RISK MANAGEMENT (continued)

INCA Credit Rating Category	Fair Value – 2007 Adjustment (R'000)	Fair Value – 2006 Adjustment (R'000)
Category 1 (AA- to AAA)	292	465
Category 2 (A- to A+)	16 186	18 334
Category 3 (BBB)	6 836	7 153
Metropolitan municipalities (A to AA)	20 993	23 286
Total	44 307	49 238

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

21.9 Liquidity maturity analysis

R'000	Group R'000				
	<1 yr	1 – 2 yrs	2 – 5 yrs	5 – 8 yrs	> 8 yrs
Assets					
Interest receivable	1 051 992	896 981	1 959 658	974 175	739 481
Capital receivable	2 512 723	691 379	2 713 347	1 121 437	1 226 095
	3 564 715	1 588 360	4 673 005	2 095 612	1 965 576
Liabilities					
Interest payable	(983 523)	(904 945)	(1 889 562)	(751 265)	(381 845)
Capital payable	(2 349 712)	(662 529)	(3 583 184)	(940 199)	(414 651)
	(3 333 235)	(1 567 474)	(5 472 746)	(1 691 464)	(796 496)
Net cash flow	231 480	20 886	(799 741)	404 148	1 169 080

The treasury function's focus remains on the INO3 bond redemption in 2011. The "cash flow gap" has shifted materially from last year. The cash flows from the Group's short-term funds are reflected in the year 1 bracket. The large amount of capital payable in the "<1 yr", includes the redemption of the Group's INO6 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 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. South African Pension Funds are governed by the Pension Funds Act of 1956. The Group does not administer any Pension Fund Scheme and has no obligations in relation to any of the abovementioned funds.

23. EARNINGS PER SHARE

The earnings per share has been calculated on the net profit attributable to ordinary shareholders of R35 499 000 (2006: R174 132 000) and the weighted average number of issued ordinary shares during the period of 806 525 shares (2006: 806 525 shares). Prior to the consolidation of the INCA Share Incentive Trust, 848 532 shares were used in the calculation.

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