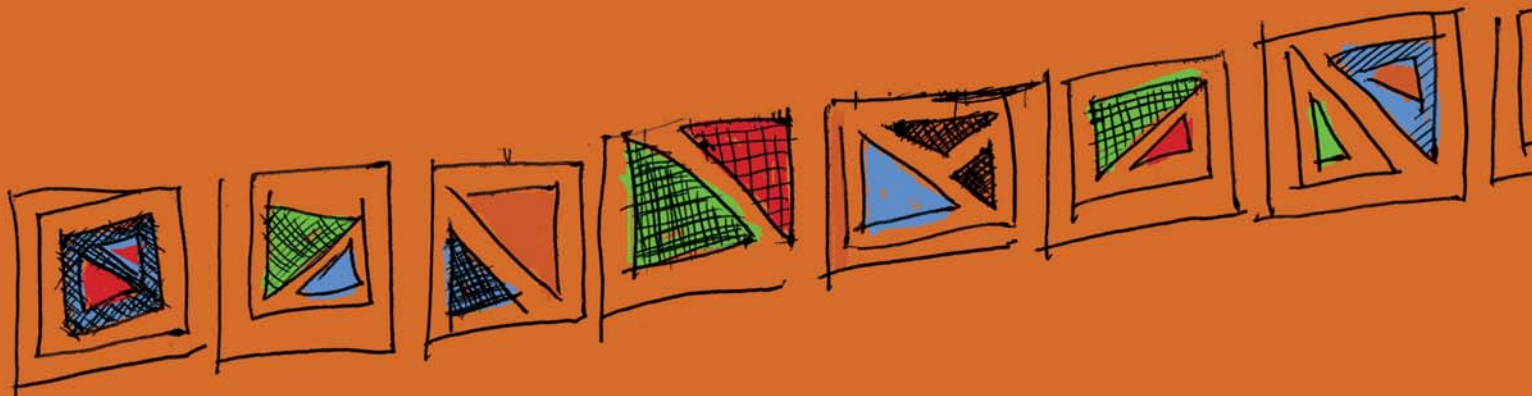


# UNLOCKING POTENTIAL FROM WITHIN



**INCA**

INFRASTRUCTURE FINANCE  
CORPORATION LIMITED

ANNUAL REPORT 08



## contents

<b>2</b>	Financial highlights
<b>4</b>	Our people
<b>6</b>	Chairman's statement
<b>8</b>	Directorate and shareholders
<b>10</b>	Chief executive officer's report
<b>20</b>	Chief financial officer's report
<b>24</b>	Corporate governance
<b>27</b>	Financial statements
<b>64</b>	Administration

Our MISSION is to be recognised as the **preferred financier** of public and private sector initiatives, focusing on the longer term **social and economic development of South Africa and its neighbours.**

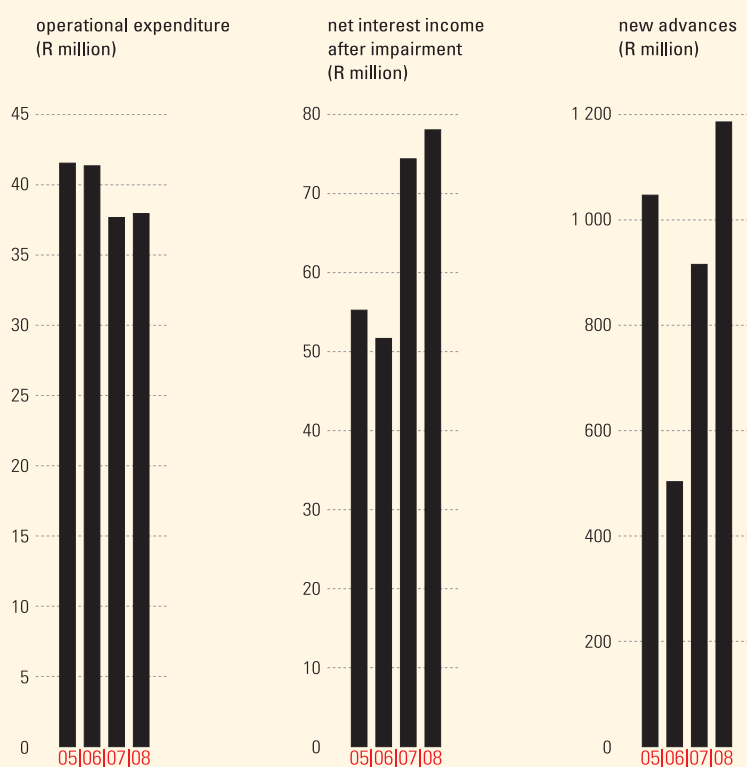
## our operational activities

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, who have to create and maintain much-needed infrastructure;
- ☆ Actively look to fund and support Public Private Partnerships that create, maintain and operate social and economic infrastructure in all sectors of the economy; and
- ☆ Fund private sector initiatives that augment public sector efforts to create a better life for all.

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 2008	12 months June 2007	12 months June 2006	12 months June 2005
<b>Performance</b>				
Net profit for the year (R'000)	52 381	35 499	174 131	70 316
Earnings per share (cents)	6 495	4 401	21 590	8 718
Net profit after tax per employee (R'000)	1 247	3 628	3 628	1 496
<b>Selected returns</b>				
Return on weighted average shareholders' funds (per cent)	10,77	7,43	54,18	25,50
Operating costs to total income (per cent)	46,23	27,00	43,70	42,91
<b>Capital adequacy</b>				
Funds distributed after capital redemptions (statutory body assets) (R'000)	4 627 305	5 037 663	5 362 183	6 514 449
Total shareholders' interest (R'000)	528 446	502 258	490 522	340 152
Capital adequacy ratio (capital/advances) (per cent)	13,42	12,00	11,03	7,99
<b>Official ratings</b>				
Official credit rating – senior debt (Moody's)	A2.za	A1.za	N/A	N/A
– short-term rating	P – 1.za	P – 1.za	N/A	N/A
<b>Value</b>				
Net asset value per share (Rands)	655	623	608	422

---

Profit for the year increased **48%** to **R52,4** million.

---

Impairments decreased from **R13,3** million to **R1,9** million.

---

Fee income increased **503%** to **R2,9** million.

---

Strong net interest income at **R80,0** million.

---

Operating expenditure contained at prior year levels **(1% increase)**.

---

Capital adequacy ratio (capital/advances) increased to **13%**.

---

New advances committed totalled **R1,1** billion.

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**good  
results  
despite  
harsh  
economic  
climate**



Asset generation and treasury



**quality | competency | values**

Exco



Support services and finance

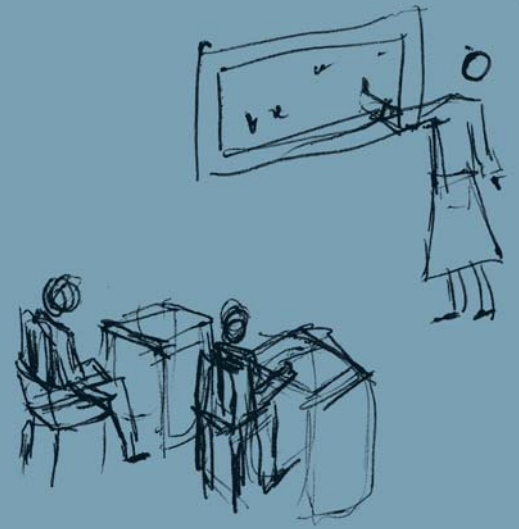


# resilience | commitment | passion

Back office and administration



## chairman's statement



INCA has **proven its ability** to contribute effectively to the **much-needed investment in infrastructure** in South Africa

In the past year the trading environment in the financial services sector has been tough. The domestic economy experienced rampant oil prices, rising transport and food costs and a resultant increase in interest rates, aimed at cooling consumption spending. The global effects of the sub-prime crisis also contributed to the challenging business environment. These factors impacted significantly on our sector, which has also become significantly more competitive.

It is against this backdrop that the directors of INCA are pleased to present a strong financial performance for the 2007/08 financial year. That we could disburse a record amount of R1 121 million, achieve a bad debt provision lower than in previous years and sharply lift profit, is testament to the company's resilience.

Although the nature of INCA's business and its lending activities are less sensitive to financial market turmoil in the short term, we are aware that the conditions of the past year may well be with us for longer than initially expected. As such, it is gratifying to note the positive results flowing from INCA's prudent diversification strategy to fund other related activities in addition to its traditional municipal lending business. The benefit of the company's cautious business approach in these challenging times has also been most pleasing.

INCA has proven its ability to contribute effectively to the much-needed investment in infrastructure in South Africa, which is enabling accelerated economic development and improved service delivery to communities across our country.

I thank my colleagues on the Board of Directors and its sub-committees for their commitment and counsel. A special word of thanks is due to the Chief Executive and his team for delivering a good financial performance and solid returns to shareholders, while contributing significantly to creating better living conditions for ordinary South Africans.

**MJN Njeke**

Chairman



# directorates and shareholders

## 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



## H van Wyk Director

Kagiso#\*  
BAcc (Hons) both at University of  
Stellenbosch  
CA(SA)  
Appointed to the board  
on 7 March 2008

## J Matlala Director

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

## JF Pouchous Director

Dexia  
Masters degree in  
Business from Audencia  
Business School  
Appointed to the Board  
on 20 June 2008

## MJN Njeke Chairman

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

## 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

## A Sangqu

Kagiso  
BCom, BCompt (Hons), Higher  
Diploma Tax Law, MBL  
(Unisa SBL), AMP (INSEAD)  
Appointed to the Board  
on 7 March 2008

**AC Canter**  
 Director  
 (American)  
 Futuregrowth\*□  
 BSc Finance, CFA  
 Appointed to the Board  
 on 24 February 1999

**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



**J Stals**  
 Director  
 Kagiso•  
 BCom (Hons), CA(SA)  
 Appointed to the Board  
 on 23 March 2004

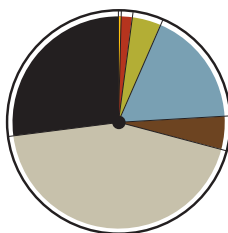
**PGM Truyens**  
 Director  
 (Dutch)  
 Independent†\*□  
 BA, BSc, BA (Hons), FIA  
 Appointed to the Board on  
 14 January 1997

**L Scholtz**  
 Director  
 Rand Merchant Bank  
 CA(SA)  
 Appointed to the Board on  
 7 March 2008

**AJ van Zyl**  
 Chief Executive Officer  
 INCA•#\*□  
 BCom (Hons)  
 Appointed to the Board  
 on 23 October 1996

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

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%	INCA Bond Rehabilitation Company



د. محمد بن عبد الله

## chief executive officer's report



The benefit of an **investment portfolio in infrastructure**, which performed exceptionally well, together with a **prudent diversification strategy** into lending activities which complement INCA's core business, resulted in a **pleasing performance for the year**.

### OVERVIEW

Reflecting on the past year, the speed at which positive economic sentiment and forecasts can turn negative is foremost on my mind. In the last year the impact of the global sub-prime crisis and the sharp rise in local interest rates on the availability and cost of liquidity as well as the consequent increase in the pricing of risk, has dominated the financial services sector.

Whereas these conditions mostly affected the "retail" side of the sector and less so longer term productive investments, it highlighted the need for prudence and emphasised the importance [in a resilient portfolio of assets] of lower-risk investments that produce lower but stable returns over an extended period of time.

In these very challenging conditions, INCA's performance in the last year showed an improvement on that of the past few years. The benefit of an investment portfolio in infrastructure, which performed exceptionally well, together with a prudent diversification strategy into lending activities which complement INCA's core business, resulted in a pleasing performance for the year.

The need for high levels of investment in economic and social infrastructure to underpin longer term economic growth both in South Africa and regionally augurs well for an infrastructure investor like INCA. The pipeline of potential investment opportunities supports our positive outlook.

The ability and speed with which INCA adapted to fast-changing market conditions, which benefited the company handsomely in the past year, will be of great assistance to us in the years ahead in our important role as a mobiliser of local and international investment resources for infrastructure development.

A policy of maintaining high levels of liquidity and our proactive approach to unlocking and employing diverse sources of funding enabled INCA to fund a record R1 121 million in new commitments during the 2007/08 financial year. This achievement was a major contributor to maintaining momentum during challenging funding conditions. The quality of our investment portfolio remains high and the exceptional performance of the loans extended by INCA resulted in minimal provisions for doubtful debt.

Although this annual report reflects INCA's sound performance and a predictable risk profile, the Board has taken a decision to increase the capital base of the company and retain capital to fund the future growth expected from the diversification strategy we adopted two years ago.

#### Asset generation

R1 121 million in new loans were extended during the year. INCA's advance portfolio at year end came to R4 627 305 million.

New commitments to the municipal sector totalled R512 million, while R281 million was extended to the first Public Private Partnership (PPP) projects funded by INCA. We funded R304 million worth of rental and lease discounting transactions in the past year, the most in any single year since adding this kind of transaction to our funding options. This confirms the growth potential in this part of the business.

INCA's traditional market (balance sheet loans to municipalities), were again dominated by the Development Bank of Southern Africa (DBSA), while the City of Johannesburg and the City of Cape Town issued R2 billion and R1 billion bonds respectively directly to the capital market. INCA's share of the municipal borrowings this year was in the order of 10% and we anticipate that it will settle in the order of 20% of the municipal funding market going forward. We also expect that the level of overall municipal borrowings will be maintained at R4 billion to R5 billion per annum.

Our diversification strategy announced in the previous financial year took effect during the year in review. The priority investment requirements in the health, education, energy, transport and water sectors provide a logical extension to INCA's lending activities in municipal infrastructure.

In its first PPP project, INCA underwrote the senior loan and equity bridge to Nalithemba Hospitals (Pty) Limited for an amount of R220 million. This project, sponsored by Netcare, entails upgrading and refurbishing the existing Port Alfred and Settlers Hospitals in the Eastern Cape and establishing co-located private healthcare facilities at both these hospitals. Financial close took place during October 2007 and drawdowns during the year amounted to R109 million.

INCA also participated in the financing of a cross-border PPP. A loan of USD9 million, approximately R61 million, was advanced to Bongwe Investments (Pty) Limited – with Stocks and Stocks as lead sponsor – to build new accommodation for SADC headquarters in Gaborone, Botswana. The transaction was concluded in October 2007. After financial close, an amount of R13,7 million was disbursed during the year.



## INCA TEAM PROJECT Focus on Healthcare



**INCA project team:** Karlien Chaplin – Assistant Portfolio Manager  
Mike Loverock – Head Asset Generation

### **The challenges faced in the healthcare sector in South Africa can, according to INCA's own assessment, best be addressed by way of close cooperation between the public and private sector.**

The important role played by healthcare in the quality of life enjoyed by people made INCA's involvement in this sector inevitable. INCA decided to build relationships with those institutions that are involved in providing appropriate healthcare on a sustainable basis. Realising its own limitations in the face of the challenges in this sector, INCA specifically focused on supporting Public Private Partnerships as an effective healthcare delivery model.

INCA was successful in funding two hospitals in the Eastern Cape, for an amount of R220 million, that involved a Public Private Partnership (PPP) agreement between the Eastern Cape Department of Health and Netcare as the service provider. **The Port Alfred and Settlers Hospital PPP is an innovative project designed to improve the quality of healthcare in the province**, especially for the communities between Port Elizabeth and East London. This will be achieved through better management of the facilities as a result of the PPP, supported by access to specialist skills and skills transfer over the contract period.

The project encompassed the upgrading and refurbishment of the existing Port Alfred Hospital and Settlers Hospital, as well as establishing co-located private hospital facilities at both hospitals. It also extends to facilities management and maintenance, food and replacement of selected equipment (including medical equipment, medical instrumentation and durables) and furniture at the two hospitals. Aside from the new private hospital facilities, both of these provincial hospitals are operated by the Netcare consortium in terms of the PPP agreement.

**INCA is actively considering other hospital projects with Netcare as its operating partner.** Each of these projects are considered on its own financial merits, but also in the context of its role in the broader provision of healthcare to the communities in the province or sub-region in which the hospitals are established.

We are looking forward to our future investments in the healthcare sector and hope to mobilise international investments to supplement our own resource flows to this sector.

INCA cautiously ventured into the property arena by advancing its first loan of R25 million for the development of a piece of land into some 340 mostly residential stands in Polokwane. The proceeds of the loan are being used to provide infrastructure for the benefit of low-to middle-income communities. An amount of R17 million was disbursed during the year.

INCA is conscious of the long lead times associated with project financing in general and PPPs in particular and spent considerable time building a pipeline of projects for future investment. Letters of interest, and in many cases term sheets, were submitted to sponsors of PPP projects in health, ICT and waste, property related projects in the residential and education sectors, as well as renewable energy.

In our last annual report, we reported that capacity constraints at the municipal level would compel institutions to be more proactive to maintain business flow. Recognising this constraint, during the year the Business Trust called for interested parties to manage a Project Preparation Fund, to assist municipalities in preparing infrastructure projects. The assignment was awarded to a joint venture between INCA and the Projects Preparation Trust of KwaZulu-Natal. We are currently preparing a business plan in this regard.

From a portfolio perspective, the following table reflects the type of activity and sector composition of the INCA portfolio:

Breakdown of loans/advances by sector – 30 June 2008

Municipal long-term loans	69%
Loans to Water Boards	4%
Loans to State Owned Enterprises	10%
Lending to educational institutions	5%
Rental and lease discount transactions	9%
PPP funded projects	3%
	100%

## INCA TEAM PROJECT **Knysna Municipality**



**INCA project team:**

Beatrice Mashimbye – Credit Analyst  
Nicolette Botha – Portfolio Manager

During the 2007/08 financial year, Knysna Municipality spent approximately R69 million on municipal infrastructure. Of this amount INCA funded R11 million, bringing our total funding to this municipality over the last few years to R32 million. The capital spending budgeted for the 2008/09 financial year is R69 million of which the municipality will borrow R31 million. The balance will be funded through the municipality's own resources and by way of capital grants.

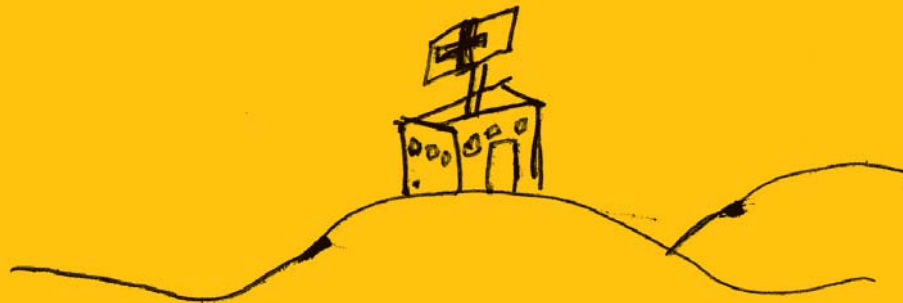
Knysna is a typical medium-size domestic municipality that compares to other coastal towns in South Africa. The municipality serves a community of around 56 000 people. **The greatest challenge the municipality faces is the provision of municipal services as the town continues to grow and develop.**

As part of our credit evaluation process prior to lending to a municipality, INCA undertakes an annual financial analysis. The analysis takes into account the municipality's multi-year financial planning framework and allows INCA to determine the municipality's borrowing capacity with the use of our cash flow forecast model. INCA's analysis on the financial sustainability of the municipality is given to key decision makers such as the Director of Finance.

**The financial discipline that INCA brings to the municipal market is regarded as of utmost importance to ensuring financial sustainability, by bringing a rigorous private sector perspective to municipal borrowing.**



As part of diversifying INCA's investment portfolio, we **advanced funding** to a **Public Private Partnership** project, in the **healthcare sector**, for the first time.



The credit quality of INCA's overall loan book remains high with 68% of the portfolio in the AAA to A risk categories, as reflected below:

Approximate credit risk	Percentage of advances	
	2007/08	2006/07
AAA to AA-	36%	24%
A+ to A-	32%	49%
BBB+ to BBB-	30%	26%
Non-investment grade (BB+ and lower)	2%	1%

The top 20 exposures in the advance portfolio represented 71% of advances at year end. The credit quality of these advances were 44% of entities with an AA- or higher credit rating, 34% of entities falling within the A risk category and 22% in the BBB risk category. (See financial note 21.6 on page 62 for more detail.)

## FUNDING AND TREASURY

Financial markets have been extremely volatile in the period. When the sub-prime crisis first started in the United States, South Africa seemed to be isolated from its effects, mainly due to exchange control regulations, the lack of a local sub-prime housing market and the introduction of the National Credit Act in 2007. However, the sub-prime crisis developed into a broader credit crunch and liquidity crisis.

Sovereign debt was re-priced in the offshore markets at higher spreads. The spreads of local companies that borrow offshore were also affected, which negatively impacted local pricing and sentiment.

Exacerbated by the uncertainty and negative sentiment that flowed from the global financial markets, local market fundamentals deteriorated in the period. Contributing factors were the Eskom electricity crisis and surging fuel and food prices which spurred inflation and inflation expectations. In turn, successive interest rate increases, which impacted on the financial health of individuals and corporates, resulted in institutional investors widening funding spreads.

In line with domestic and international pressures, the spreads on INCA bonds widened from the prior year. During the period under review, spreads on the INO3 rose from 120 basis points; to 247 basis points, on the INO7 from 145 basis points; to 240 basis points, and on the INO4 they increased by 28 basis points to 155 basis points. We also observed increased spreads on the advances in respect of INCA's clients. Moody's decision to change INCA's national scale issuer rating to A2.za contributed to the spread increases. Moody's indicated a high likelihood that INCA would honour its short-term commitments, assigning us a short-term rating of P-1.za.

INCA's interest rate risk policy is conservative, reflected in the limit being set at 3% of equity for a 200 basis point parallel shift in interest rates. During the period, INCA adhered to its policy of avoiding foreign exchange exposure and no foreign currency positions were taken.

INCA maintained a high level of liquidity (R975,4 million as at 30 June 2008), in effect INCA's pre-funding buffer. This exceeded the requirements of the liquidity policy of R380,6 million approved by the Board. The policy is based on INCA's expected cash outflows due to operational expenditure and capital and interest payments on liabilities, offset by the expected risk-weighted cash inflows from advances and investments.

During the year, INCA signed a loan agreement with Agence Française de Développement (AFD) for R387 million. An amount of R246 million has been disbursed during the year and it is anticipated that the balance of R141 million will be drawn in the first half of the next financial year. This cooperation with AFD demonstrates INCA's ability to attract foreign direct investment to South Africa. We successfully repaid our first loan from AFD in April 2008. Currently, we are engaging with AFD to secure further financial assistance for the municipal and broader government sectors in South Africa.

We are also in discussion with the European Investment Bank and other development finance institutions to source additional foreign funding for local infrastructure investment.

We have reduced our one-year floating rate note programme to R767 million, due to INCA's excess liquidity position at the beginning of 2008. We have had no problems in rolling this programme over and the maturity dates of the different notes are spread over the year and across a number of investors. INCA Treasury is gearing up for the repayment of the INO3 bond in June 2011. It is actively looking for opportunities to either reduce the net amount outstanding in terms of the INO3 bonds or to switch the bond to a longer maturity date.

INCA is confident that the support from international development finance institutions together with funding from local institutional investors will provide sufficient resources to fund anticipated advances. We also continue to diversify INCA's sources of funding with the use of more innovative approaches.

Investment in INCA bonds qualifies for Financial Sector Charter points as we are recognised as a financial intermediary that raises wholesale funding for investment in transformational infrastructure projects. For 2006, an audited score of 27,54% was achieved according to the Charter, and for 2007 our calculations indicate a score of 42,32%. INCA's operations continue to make a socially responsible impact.

**FINANCIAL RESULTS**

A 48% increase in net profit to R52,4 million is reflected in the consolidated income statement for the 2007/08 financial year (2006/07: R35,5 million).

More importantly, however, is INCA's performance for the year if the effects of fair value adjustments (realised and unrealised) are neutralised. On this basis, net income before operational expenditure comes to R80,9 million (2006/07: R74,9 million), an increase of 8% on the prior year.

Operational expenditure of R38,0 million was kept within budget and was marginally higher than in the year before. Operational expenditure includes provisions for the market value of the employee share incentive scheme and for profit share bonuses. Direct fixed operating costs, excluding incentive bonuses, were contained at R29,6 million (2006/07: R27,3 million).

The sharp increase in fee income to R2,9 million came as a direct result of the decision we made to focus on this type of income. Not only is fee income expected to increase going forward but it will be made up in part by asset management fees that will be earned annually over the next few years, making fee income more predictable.

The sharp drop in the provisions made for doubtful debt (impairment in advances) is a reflection of the quality of INCA's portfolio of advances and indicates that the increase in impairments in the 2006/07 financial year was exceptional and limited to an isolated transaction.

The decrease in the total value of advances in the balance sheet is mainly due to fair value adjustments, reflecting the increase in credit spreads.

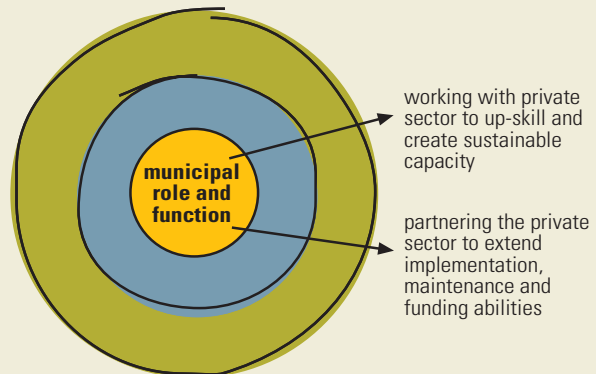
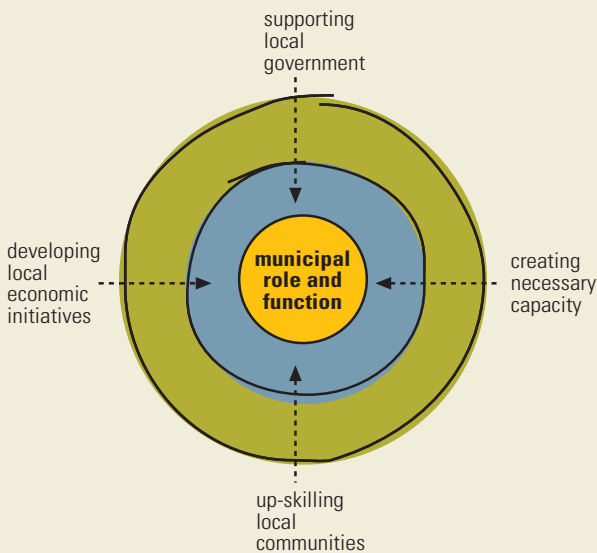
As at 30 June 2008, total shareholder interest came to R528,4 million, bringing the capital adequacy ratio to 13,42%, inclusive of fair value gains. With the support of shareholders, the Board agreed to increase the capital base of the company and specific actions will be taken in the 2008/09 financial year to implement this resolution.

A dividend of R26,1 million was distributed to shareholders during the year. To give effect to the decision to strengthen the company's capital base, it was recommended to the Board and shareholders that a lower dividend be paid in the 2008/09 financial year. Since the year end, a dividend of R15 million was recommended and approved by the Board on 26 September 2008, and distributed to shareholders in October 2008.

**Partnering Government for development**

**need for private sector involvement**

**involvement of private sector**



## ADMINISTRATION, OPERATIONAL SYSTEMS AND EMPLOYEE MATTERS

A high level of efficiency was maintained in general financial functions throughout the year. Debt collections in respect of the rental and lease discount book improved. The benefit of the investments we have made in information technology and a treasury system became more visible during the year, making it possible to process more transactions with less strain on human resources and system capacity.

Our interaction with Business Connexion as INCA's information and technology service provider was further enhanced during the year and we are confident that this arrangement significantly mitigates the risk of information and system failures.

In an intensely competitive job market, INCA largely managed to retain its complement of core staff. While the mobility of young professionals remains a challenge, it is pleasing that INCA was able to attract exceptional young people from the financial services sector to replace those that left our employ during the year. In this regard we have benefited from the more conservative hiring approach taken by banks in an effort to curtail costs given the challenging trading conditions.

## RISK MANAGEMENT AND CORPORATE GOVERNANCE

INCA maintained a high standard of corporate governance and transparency in the year, and Board and sub-committee meetings were well attended (more detail can be found in the Corporate Governance section on page 24). INCA's independent directors continue to play an active role in guiding the company. Subsequent to year end, Mr De Villiers Botha was appointed as an independent member of the credit committee. Mr Botha brings vast business and credit experience to the credit committee and will strengthen the capacity of this important sub-committee.

We initiated a review of INCA's key operational risk factors during the year. The decision to strengthen INCA's capital base was one of the outcomes of this review, as was our adoption of a more scientific approach to determine capital adequacy and liquidity requirements – based on international best practice.

## INCA TEAM PROJECT

### Zenzele Children's Home



Annually, INCA hosts 20 of its corporate clients/partners for a weekend of golf which is also a fundraiser for charity. Benefiting from this in 2007 was **Salam Baby Sanctuary** in East London.

**This year INCA raised R45 000 and selected Zenzele Children's Home in Finetown in the Vaal Triangle as the recipient of the funds.** Zenzele Children's Home caters for orphaned and vulnerable children in the community. Currently, 25 children live at the four-bedroom home with three full-time caregivers. The children range from the ages of three to eighteen and the home is their only safe haven as they have no other place to call home. The home receives no government support for food and relies on charity from churches and other organisations.

**The Home serves as a base for some 110 children in the community and provides a free crèche and aftercare to low-income earners in the community.** All the children are given lunch on a daily basis. Social services also have an office on the premises, supported by government from where they run a daily feeding scheme for the Finetown community.

After discussion with the caregivers it was decided that INCA could provide the following with the funds raised:

- A Christmas party for 100 children
- A Christmas lunch for the Zenzele Children's Home to the value of R1 000 on Christmas Day
- A gift valued at R100 for each child living at Zenzele Children's Home
- A monthly contribution of R1 750,00 over 18 months to buying groceries
- A fridge for Zenzele Children's Home.



## PROSPECTS

We expect the economic growth rate of the past few years to slow in the immediate future, but the high level of infrastructure spending to continue for a number of years to come. This will not only include creating new infrastructure, but also the vitally important spending needed to maintain existing infrastructure.

INCA's strong performance during the past year, which in every respect was very challenging for the financial services sector, demonstrates the soundness of the company's strategic position in the marketplace. We are confident that extending INCA's mandate and diversifying its lending activities to sectors and activities that complement our current lending profile, without unduly affecting the risk profile of the advance portfolio, is the correct course to follow.

The pipeline of transactions currently under consideration is a strong indication of the potential to grow the business into the future.

The single biggest challenge to grow will be our ability to continue to find affordable funding. INCA's longstanding relationships and presence in the local capital market for over a decade is expected to support our fundraising activities, together with our strong relationships with international providers of finance.

Furthermore, as was the case during the past year, it will be the capacity of our people to innovate that will make the difference in INCA's ability to excel in the face of tough market conditions. Our skills base, our focus on adding value to the institutions that we do business with and the support of our shareholders all contribute to our optimistic forecast.

I am personally very positive about INCA's business prospects and I thank the Board and our shareholders for the trust placed in management. A special word of thanks is due to our chairman, Mr JJ Njeke, and the chairpersons of the various sub-committees of the Board for their valued guidance.

In closing, I express my appreciation to my executive team and all the people of INCA for their focus and commitment to executing our role in bettering the living conditions of ordinary citizens in need of basic services. I trust that each of you will continue to contribute as positively to this noble cause in the year ahead.

**Attie van Zyl**

Chief Executive Officer

**The pipeline of transactions currently under consideration is a strong indication of the potential to grow the business into the future.**

## INCA TEAM PROJECT

### Project: Hattprop



**INCA Head Special Projects:**  
Helge Switala

#### HATTPROP DEVELOPMENTS – MAHLASEDI PARK, POLOKWANE

A loan of R25 million was advanced to Hattprop Developments (Pty) Limited for the development of a township of approximately 343 stands, known as Mahlasedi Park, in Polokwane. **The project will provide infrastructure that will benefit low- to middle-income communities.** The locality of the development, between the old Pietersburg and Seshego, will help to consolidate the urban landscape in the area.

The developer purchased the land and established the township, and the services infrastructure is currently being installed using the INCA loan. The project targets the "low-end bonded" market and the stands will be sold to individual purchasers. **The high level of interest shown by mortgage lenders indicates the commercial viability of the project.**

INCA's loan was structured in two tranches to best fit the capital requirements and revenue generation potential (the proceeds from the sale of the stands) of the project. The first tranche was for an amount of R17 million with a fixed interest rate. Repayment is scheduled after 18 months to two years, with interest and capital capitalised during this period. The drawdown profile and interest rate (whether fixed or floating) of the second tranche of R8 million will be determined at a time in the implementation phase when costs and revenues are more predictable.



INCA's focus on funding  
**essential infrastructure**  
now extends to priority investment requirements  
in a range of sectors, including **health,**  
**education and urban development.**



## chief financial officer's report



The income statement reflected a healthy **48% increase in profit** for the year and the Group continues to generate **healthy cash flows** to support the profit reported in the income statement.

### INTRODUCTION

The CEO's report has comprehensively covered the performance and operational activities of the Group for the year under review. This report highlights key aspects in analysing the financial performance and capital management of the Group.

### REPORTING

The Group has firmly embedded its reporting framework in terms of International Financial Reporting Standards (IFRS). The Group's disclosure on financial instruments was further enhanced and expanded to comply with the requirements of IFRS 7 Financial Instruments: Disclosures. The Group's monthly and quarterly reporting processes were improved to facilitate a stronger platform for financial management. The Group continues to introduce refinements to its information system to improve both the decision-making process and financial reporting function. There were no changes in the Group's accounting policies during the year under review.

### FINANCIAL OVERVIEW

The balance sheet size reflects a decrease of 8% largely attributable to the downward fair value adjustments on both the financial assets and the financial liabilities. The significant fair value adjustments resulted primarily from the widening of the credit spreads mentioned in detail below. Total equity reflected a 5% increase after a dividend payout of R26,1 million during the financial year.



## chief financial officer's report continued

The income statement reflected a healthy 48% increase in profit for the year as a result of robust net interest income; lower impairment charges, improved fee income, cost containment and a lower effective tax rate. The lower tax rate was due to high liquidity levels maintained during the financial year and invested in after-tax yielding investments.

The Group continues to generate healthy cash flows to support the profit reported in the income statement. Cash generated by operations of R46 million equates to 88% of the profit for the year.

### FAIR VALUE REPORTING

The Group continues to report most of its financial assets and financial liabilities at fair value through profit and loss in terms of IAS 39 Financial Instruments: Recognition and Measurement. The fair value process is largely driven by observable market data as well as management judgements and estimates where financial instruments are not quoted in an active market. The value process is monitored by the Market Value Verification Committee and subjected to external review as part of the audit of the annual financial statements.

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

Unrealised fair value adjustments of R19,5 million had a positive impact on the income statement compared to a negative impact of R55,9 million in the prior year. The unrealised fair value adjustments can be largely attributed to the widening of the credit spreads of the financial liabilities, and financial assets albeit to a lesser extent. The analysis of these unrealised fair value adjustments is outlined in note 15.2 to the annual financial statements.

To put the fair value adjustments into perspective, a sensitivity analysis is presented in note 21.6 to the annual financial statements. A 25 basis points credit spread widening on the advances without an equal corresponding movement on the liabilities will result in negative fair value adjustment of approximately R36 million (2007: R44 million). The Group's advances portfolio is most sensitive to credit spread movement in risk category 2 (A- to A+).

### CAPITAL MANAGEMENT

The Group's capital adequacy ratio (CAR) of 13,42% (2007: 11,93%) does not take into account the risk weighting of the assets. The CAR reported is inclusive of fair value adjustments both in the equity and assets of the Group. The subordinated liabilities are included in the CAR calculation as part of equity. The advances credit analysis, included in the CEO's report, reflects that 68% (2007: 73%) of the advances have an approximate credit rating of A- to AAA.

As alluded to by the CEO, the Group is embarking on a process to strengthen its capital base in the new financial year. The diversification strategy adopted by the Group in the last two years acted as a catalyst for the review of the Group's capital structure. The Group will adopt a more scientific method of calculating its capital adequacy during the forthcoming financial year. The method will be implemented in line with the Basel II capital adequacy framework. The capitalisation process will involve management engaging the rating agency and relevant stakeholders to ensure consistency and uniformity in the way the Group's capital structure is measured and assessed.

This process will include both a capital injection from investors as well as capital retention by way of lower dividend payouts. The dividend payout based on the current year's financial results will set the tone for future dividends in line with the Group's capitalisation strategy. Initial assessments based on the target capital structure indicate that the required initial capital injection will amount to approximately 20% of the Group's total equity. A cost effective instrument or a combination of instruments will be applied to raise the required capital.

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

**LOOKING AHEAD**

The Group will focus on the capitalisation strategy as well as capital management, taking into account the Group's risk appetite and the return required by shareholders. The Group's diversification of lending products will require vigilance to ensure that capital allocation and pricing will enhance the Group's performance against its financial targets.

The Group's information system will be further refined to facilitate best practice reporting as well as rapid decision-making. The Group will also continue to comply with new IFRS accounting standards as and when they are introduced.

**CONCLUSION**

The Group is well positioned to take up the opportunities and address the challenges that have become part of its industry in recent years. Management will continue to proactively measure and monitor the financial impact of the Group's activities in this dynamic business environment.

**Reggie Boqo**

Chief Financial Officer

# corporate governance

## INTRODUCTION

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

The high level of corporate discipline and transparency for which INCA is known was maintained during the 2007/08 financial year.

## FINANCIAL STATEMENTS

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

The annual financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS). Management has consistently applied appropriate accounting policies supported by reasonable and prudent judgements and estimates in preparing the financial statements.

## BOARD OF DIRECTORS

The Board of Directors retains full and effective control over the Group, monitors executive management and ensures material matters are subject to Board approval. Management reports to the Board on a quarterly basis.

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

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

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 independent directors. The chief executive officer, financial director and non-executive directors also attend all Audit Committee meetings as do the external auditors. External audit provides comment on the fair presentation of the financial statements, the application of accounting policies, the effectiveness of risk management processes, management information systems and other systems of internal control.

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

## CREDIT COMMITTEE

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

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

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

## 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 attends all ALCO meetings.

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

### **INTERNAL AUDIT**

Given the number of permanent staff employed by the Company, external expertise is employed to perform the internal audit function. The audit programme implemented by these external experts focuses on key business risks to ensure that the main risk factors are closely monitored. This programme is submitted to the Audit Committee for 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 AC 133. The committee consists of at least three non-executive directors and the chief executive officer. A member is drawn from each of the Credit, Audit and ALCO Committees.

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

The committee is mandated to:

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

### **HUMAN RESOURCES COMMITTEE**

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

- Labour legislation is complied with;
- INCA staff remuneration is comparable with other institutions;
- Key staff are retained;
- INCA upholds and supports the principle of equity in the workplace; and
- Succession planning is adequate to support continuing operations.

### **EMPLOYMENT EQUITY**

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

At 30 June 2008, INCA's staff composition was 43,9% male, and 56,1% female, while 46,3% of staff were from designated groups.

### **INTERNAL CONTROL**

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

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



# FINANCIAL STATEMENTS 08

INFRASTRUCTURE FINANCE CORPORATION LIMITED



## contents

<b>28</b>	Directors' responsibility statement
<b>28</b>	Certification by the company secretary
<b>29</b>	Independent auditor's report
<b>30</b>	Directors' report
<b>32</b>	Balance sheets
<b>33</b>	Income statements
<b>34</b>	Statements of changes in equity
<b>35</b>	Cash flow statements
<b>36</b>	Notes to the cash flow statements
<b>38</b>	Notes to the financial statements

## directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the Company and Group annual financial statements, comprising the balance sheets at 30 June 2008, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

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

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

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

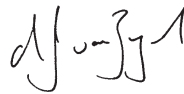
The external auditor is responsible for reporting on whether the Company and Group annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

### APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Company and Group annual financial statements set out on pages 30 to 63 were considered by the Audit Committee on 25 September 2008 and subsequently approved by the Board of Directors on 26 September 2008 and are signed on its behalf by:



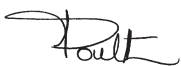
**JJ Njeke**  
Chairman



**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 2008, all such returns as are required by a public company in terms of the Companies Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.



**JM Poulter**  
26 September 2008

# 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 2008, 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 30 to 63.

## 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

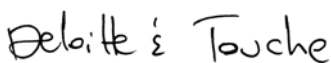
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 2008, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



### Deloitte & Touche

Per: Siyabonga Dube

Partner

26 September 2008

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MG Crisp Financial Advisory L Bam Strategy CR Beukman Finance TJ Brown Clients & Markets SJC Sibisi Public Sector and Corporate  
Social Responsibility NT Mtoba Chairman of the Board J Rhynes Deputy Chairman of the Board

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

## directors' report

### 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 the providers of services normally rendered by the public sector. The financing of movable assets that do not fall within the domain of consumables became more prevalent this year. INCA has also entered the Public Private Partnerships and project finance market, with the first projects reaching financial closure during the year.

### OPERATING RESULTS

The Group reflected net profits after tax of R52 million on a fair value basis (2007: R35 million) and the Company returned net profits after tax of R50 million (2006: R23 million) for the financial year. The reported fair values incorporated independent market information, and transparent pricing where available. In addition, and consistent with the previous four 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 year under review (2007 – 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 BORROWINGS

The fair value of total subordinated borrowings in issue at financial year end amounted to R92 million (2007: R99 million) and the maturity date of these subordinated borrowings is 2011.

### DIVIDENDS

A dividend of R27,5 million (2007: R25 million) was declared, of which R26,1 million (2007: R23,8 million) (net of dividend to the Share Incentive Trust) was distributed to shareholders in October 2007.

### DIRECTORS

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

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

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

M Hesketh resigned as director on 7 March 2008

L Scholtz was appointed as director on 7 March 2008

EG van den Berg resigned as director on 7 March 2008

H van Wyk was appointed as director 7 March 2008

MA Lallemand-Flucher resigned as director on 20 June 2008

JF Pouchous was appointed director on 20 June 2008

K Moloko resigned as director on 20 June 2008

### SECRETARY AND REGISTERED OFFICE

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

### SUBSIDIARY COMPANIES

INCA's 100% holding of the issued shares in INCA Bond Rehabilitation Company (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 R2 million (2007: R5 million).

## directors' report

### OWNERSHIP OF COMPANY

	Percentage holding	
	June 2008	June 2007
Chanson Investment Holdings (Proprietary) Limited	2,00	2,00
Dexia Credit Local	4,42	4,42
FirstRand Bank Limited	17,68	17,68
INCA Bond Rehabilitation Company (Proprietary) Limited	0,01	–
INCA Share Incentive Trust*	4,95	4,95
Momentum Group Limited (FutureGrowth Portfolio)	26,98	26,98
Proparco	–	0,01
Kagiso Financial Services Limited	43,96	43,96
	<b>100,00</b>	<b>100,00</b>

INCA Bond Rehabilitation Company (Proprietary), a 100% subsidiary of the Group, bought 100 INCA shares from Proparco on 3 December 2007. These shares are held as treasury shares.

#### \*INCA SHARE INCENTIVE TRUST

The Trust was formed for the purpose of the share incentive scheme. The details of the staff incentive scheme are disclosed on note 11.1. A total of 42 007 (2007: 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

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 2008

	Notes	Group		Company	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>ASSETS</b>					
Cash and cash equivalents	2	192 080	445 089	184 157	441 880
Other assets	3	101 926	507 309	101 429	506 312
South African Revenue Services		–	3 803	–	2 975
Investments	4	1 229 189	1 012 322	1 267 498	1 049 539
Derivative financial instruments	12	365 605	74 552	365 605	74 552
Advances	5	4 627 305	5 037 663	4 558 863	4 967 069
Property, plant and equipment	6	3 633	3 260	3 633	3 256
<b>Total assets</b>		<b>6 519 738</b>	<b>7 083 998</b>	<b>6 481 185</b>	<b>7 045 583</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	7	807	807	849	849
Share premium	8	99 045	99 057	105 988	105 988
Retained earnings		428 594	402 394	387 748	364 889
<b>Total equity</b>		<b>528 446</b>	<b>502 258</b>	<b>494 585</b>	<b>471 726</b>
<b>Liabilities</b>					
Subordinated borrowings	9	92 415	98 897	92 415	98 897
Long term borrowings	10	5 572 290	6 066 640	5 572 290	6 066 640
Trade and other payables	11	137 465	307 340	136 609	305 405
South African Revenue Services		5 568	2 202	4 351	–
Derivative financial instruments	12	136 300	54 714	136 300	54 714
Deferred taxation	17.3	47 254	51 947	44 635	48 201
<b>Total liabilities</b>		<b>5 991 292</b>	<b>6 581 740</b>	<b>5 986 600</b>	<b>6 573 857</b>
<b>Total equity and liabilities</b>		<b>6 519 738</b>	<b>7 083 998</b>	<b>6 481 185</b>	<b>7 045 583</b>

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

USD 1 = ZAR 7,8298 (2007 – USD 1 = ZAR 7,0143)

EUR 1 = ZAR 12,3382 (2007 – EUR 1 = ZAR 9,4987)

GBP1 = ZAR 15,6065 (2007 – GBP 1 = ZAR 14,0793)

## income statements

for the year ended 30 June 2008

	Notes	Group		Company	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
Interest and similar income	13	1 071 965	982 279	1 059 319	962 184
Interest expense and similar charges	14	992 008	894 519	991 939	893 128
<b>Net interest income</b>		<b>79 957</b>	<b>87 760</b>	<b>67 380</b>	<b>69 056</b>
Impairment on lease receivables and advances	5.8	1 889	13 360	1 889	13 360
<b>Net interest income after impairment</b>		<b>78 068</b>	<b>74 400</b>	<b>65 491</b>	<b>55 696</b>
Fair value adjustment – realised	15.1	(689)	62 827	(689)	62 803
– unrealised	15.2	19 548	(55 946)	26 598	(47 271)
Fee and other income		2 862	475	4 344	1 934
<b>Net income before operating expenditure</b>		<b>99 789</b>	<b>81 756</b>	<b>95 744</b>	<b>73 162</b>
Operating expenditure	16	37 969	37 694	37 708	47 266
<b>Profit before taxation</b>		<b>61 820</b>	<b>44 062</b>	<b>58 036</b>	<b>25 896</b>
Taxation	17.1	9 439	8 563	7 677	3 295
<b>Profit for the year</b>		<b>52 381</b>	<b>35 499</b>	<b>50 359</b>	<b>22 601</b>
<b>Attributable to:</b>					
Equity holders of the parent		52 381	35 499	50 359	22 601
		52 381	35 499	50 359	22 601
Earnings per share (cents)	23	6 495	4 401		
Dividend per share (cents)		3 241	2 946		

## statements of changes in equity

### for the year ended 30 June 2008

	Share capital R'000	Share premium R'000	Retained earnings R'000	Total equity R'000
<b>GROUP</b>				
Balance at 1 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
<b>Balance at 1 July 2007</b>	<b>807</b>	<b>99 057</b>	<b>402 394</b>	<b>502 258</b>
Dividend paid for 2007 net of dividend to Share Trust	–	–	(26 141)	(26 141)
Treasury shares acquired	–	(12)	(40)	(52)
Profit for the year	–	–	52 381	52 381
<b>Balance at 30 June 2008</b>	<b>807</b>	<b>99 045</b>	<b>428 594</b>	<b>528 446</b>
	Share capital R'000	Share premium R'000	Retained earnings R'000	Total equity R'000
<b>COMPANY</b>				
Balance at 1 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
<b>Balance at 1 July 2007</b>	<b>849</b>	<b>105 988</b>	<b>364 889</b>	<b>471 726</b>
Dividend paid for 2007	–	–	(27 500)	(27 500)
Profit for the year	–	–	50 359	50 359
<b>Balance at 30 June 2008</b>	<b>849</b>	<b>105 988</b>	<b>387 748</b>	<b>494 585</b>

## cash flow statements

### for the year ended 30 June 2008

	Notes	Group		Company	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from borrowers and customers	A.1	609 111	694 591	600 072	685 282
Cash paid to lenders, employees and suppliers	A.2	(1 014 657)	(911 786)	(1 014 331)	(920 013)
Cash receipts from investments and cash balances	A.3	451 501	340 238	451 176	336 079
Cash generated from operations	A.6	45 955	123 043	36 917	101 348
Normal taxation paid	A.4	(5 452)	(13 286)	(2 407)	(9 724)
Secondary taxation on companies paid		(1 511)	–	(1 511)	–
Dividends paid	A.5	(26 141)	(23 763)	(27 500)	(25 000)
<b>CHANGES IN OPERATING FUNDS</b>					
(Increase)/decrease in income earning assets	A.7	(201 330)	24 096	(195 286)	38 426
Decrease/(increase) in non income earning assets	A.8	405 383	(360 869)	404 883	(361 875)
(Decrease)/increase in borrowings, derivatives and other payables	A.9	(469 041)	541 150	(471 999)	556 971
Net change in operating funds		(264 988)	204 377	(262 402)	233 522
Net cash (outflow)/inflow from operating activities		(252 137)	290 371	(256 903)	300 146
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Additions to:					
• computer equipment		(342)	(54)	(342)	(54)
• furniture and fittings		(5)	(72)	(5)	(72)
• leasehold improvements		(70)	(122)	(70)	(122)
• motor vehicles		(412)	–	(412)	–
Total additions		(829)	(248)	(829)	(248)
Proceeds from disposal of:					
• computer equipment		9	1	9	3
Net cash outflow from investing activities		(820)	(247)	(820)	(245)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Purchase of minority shareholders' shares (treasury shares)		(52)	–	–	–
Net cash outflow from financing activities		(52)	–	–	–
(Decrease)/increase in cash and cash equivalents		(253 009)	290 124	(257 723)	299 901
Cash and cash equivalents at the beginning of the year		445 089	154 965	441 880	141 979
Cash and cash equivalents at the end of the year		192 080	445 089	184 157	441 880

## notes to the cash flow statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>A. CASH FLOW INFORMATION</b>				
<b>A.1 Cash receipts from borrowers and customers</b>				
Interest income	606 512	638 734	594 191	622 798
Realised profits on advances	1 475	60 644	1 475	60 644
Fee income	2 862	475	4 344	1 934
(Deduct)/add amortisation of discount income	(1 738)	(5 262)	62	(94)
<b>Total cash receipts from borrowers and customers</b>	<b>609 111</b>	<b>694 591</b>	<b>600 072</b>	<b>685 282</b>
<b>A.2 Cash paid to lenders, employees and suppliers</b>				
Interest expense	(992 008)	(894 519)	(991 939)	(893 128)
Realised losses on long-term borrowings	(12 816)	(2 372)	(12 816)	(2 396)
Add: amortisation of discount expense	27 687	22 295	27 687	22 295
<b>Operating expenses excluding depreciation</b>	<b>(977 137)</b>	<b>(874 596)</b>	<b>(977 068)</b>	<b>(873 229)</b>
	<b>(37 520)</b>	<b>(37 190)</b>	<b>(37 263)</b>	<b>(46 784)</b>
<b>Total cash paid to lenders, employees and suppliers</b>	<b>(1 014 657)</b>	<b>(911 786)</b>	<b>(1 014 331)</b>	<b>(920 013)</b>
<b>A.3 Cash receipts from investments and cash balances</b>				
Interest income	456 858	336 003	456 533	331 844
Preference and ordinary dividends	8 595	7 542	8 595	7 542
Realised profits on investments	10 652	4 555	10 652	4 555
Less: amortisation of discount income	(24 604)	(7 862)	(24 604)	(7 862)
<b>Total cash receipts from investments and cash balances</b>	<b>451 501</b>	<b>340 238</b>	<b>451 176</b>	<b>336 079</b>
<b>A.4 Normal taxation paid</b>				
Amounts over paid at the beginning of the year	1 601	17 235	2 975	16 821
Income statement charge	(12 621)	(28 304)	(9 733)	(23 570)
Under deduction from prior year	–	(616)	–	–
Amounts payable/(over paid) at the end of the year	5 568	(1 601)	4 351	(2 975)
<b>Normal tax paid</b>	<b>(5 452)</b>	<b>(13 286)</b>	<b>(2 407)</b>	<b>(9 724)</b>
<b>A.5 Dividends paid</b>				
Amounts unpaid at the beginning of the year	–	–	–	–
Dividend paid	(26 141)	(23 763)	(27 500)	(25 000)
Amounts unpaid at the end of the year	–	–	–	–
<b>Dividends paid</b>	<b>(26 141)</b>	<b>(23 763)</b>	<b>(27 500)</b>	<b>(25 000)</b>

## notes to the cash flow statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>A.6 Reconciliation of profit before taxation to cash generated from operations</b>				
Profit before taxation	61 820	44 062	58 036	25 896
Non-cash charges:				
Depreciation	449	485	445	483
Impairment on lease receivables and advances	1 889	13 360	1 889	13 360
Amortisation of discount income	(26 342)	(13 124)	(24 542)	(7 956)
Amortisation of discount expense	27 687	22 295	27 687	22 295
Revaluation of investments and advances	419 274	171 606	412 222	166 983
Revaluation of subordinated debt and long-term borrowings	(439 360)	(93 431)	(439 360)	(93 431)
Revaluation currency translation gains and losses	540	(22 261)	540	(26 304)
Revaluation of repurchase agreements	–	32	–	23
(Profit)/loss on disposal of equipment	(2)	19	(2)	(1)
Cash generated from operations	45 955	123 043	36 917	101 348
<b>A.7 (Increase)/decrease in income earning assets</b>				
Investments	(216 867)	(126 086)	(217 959)	(128 705)
Advances	410 358	324 520	408 206	342 014
Add: amortisation of discount income	26 342	13 124	24 542	7 956
Revaluation of advances and investments	(419 274)	(171 606)	(408 186)	(166 983)
Impairment on advances	(1 889)	(13 360)	(1 889)	(13 360)
Non-cash repayment of advance	–	(2 496)	–	(2 496)
Net (increase)/decrease in income earning assets	(201 330)	24 096	(195 286)	38 426
<b>A.8 Decrease in non-income earning assets</b>				
Accrued interest	24 422	(39 556)	23 565	(38 701)
Decrease/(increase) in other debtors	380 961	(321 313)	381 318	(323 174)
Net decrease/(increase) in non-income earning assets	405 383	(360 869)	404 883	(361 875)
<b>A.9 (Decrease)/increase in borrowings, derivatives and other payables</b>				
(Decrease)/increase in long term borrowings and derivative financial instruments	(703 817)	374 882	(703 817)	374 882
Add: amortisation of discount expense	(27 687)	(22 295)	(27 687)	(22 295)
Revaluation of long term borrowings and derivatives	432 338	113 803	428 300	117 846
Decrease in subordinated borrowings	(6 482)	(1 889)	(6 482)	(1 889)
Revaluation of subordinated borrowings	6 482	1 889	6 482	1 889
(Decrease)/increase in other payables	(169 875)	74 760	(168 795)	86 538
Net (decrease)/increase in borrowings, derivatives and other payables	(469 014)	541 150	(471 999)	556 971

# notes to the financial statements

## for the year ended 30 June 2008

### 1. ACCOUNTING POLICIES

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

#### **Adoption of new and revised standards**

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

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007.

The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 21).

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

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

- IFRS 2, Share Based Premiums
- IFRS 3, Business Combinations
- IFRS 8, Operating Segments
- 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, Comprehensive Revision including Requiring a Statement of Comprehensive Income
- IAS 23, Borrowing Costs
- IAS 27, Consolidated and Separate Financial Statements

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

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

There are standards and interpretations in issue and a number of amendments made to various existing standards that are not yet effective following the International Accounting Standards Board project in May 2008.

#### 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.

#### 1.2 Consolidation

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

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

#### 1.3 Revenue recognition

##### 1.3.1 ***Interest income and expense***

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

##### 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.

## notes to the financial statements

### for the year ended 30 June 2008

#### 1.3.3 *Fee and other income*

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

#### 1.3.4 *Dividends*

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

#### 1.4 **Foreign currency transactions**

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

#### 1.5 **Direct and indirect taxation**

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

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

STC credits are recognised as an asset.

#### 1.6 **Recognition of assets, liabilities and provisions**

##### 1.6.1 *Assets*

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

##### 1.6.2 *Contingent assets*

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

##### 1.6.3 *Liabilities and provisions*

The Group recognises liabilities, including provisions when:

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

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

##### 1.6.4 *Contingent liabilities*

The Group discloses a contingent liability where:

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

##### 1.6.5 *Sale and repurchase agreements*

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

#### 1.7 **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;
- There is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously;
- The maturity date for the financial asset and liability is the same; and
- The financial asset and liability is denominated in the same currency.

# notes to the financial statements

## for the year ended 30 June 2008

### 1. ACCOUNTING POLICIES (continued)

#### 1.8 Cash and cash equivalents

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

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

#### 1.9 Financial assets

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

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

##### 1.9.1 Effective interest method

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

##### 1.9.2 Financial assets at FVTPL

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

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

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

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

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

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

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

##### 1.9.3 Available for sale financial assets

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 21. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

##### 1.9.4 Loans and receivables

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

## notes to the financial statements

### for the year ended 30 June 2008

#### 1.9.5 Impairment of financial assets

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

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

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

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

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

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

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

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

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

#### 1.9.6 Derecognition of financial assets

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

### 1.10 Financial liabilities issued by the Group

#### 1.10.1 Financial guarantee contract liabilities

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

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

#### 1.10.2 Financial liabilities

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

#### 1.10.3 Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

# notes to the financial statements

## for the year ended 30 June 2008

### 1. ACCOUNTING POLICIES (continued)

#### 1.10.3 Financial liabilities at FVTPL (continued)

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

#### 1.10.4 Other financial liabilities

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

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

#### 1.10.5 Derecognition of financial liabilities

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

#### 1.11 Derivative financial instruments

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

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

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

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

#### 1.12 Property, plant and equipment

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

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

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.

#### 1.13 Intangible assets

##### 1.13.1 Computer software development costs

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

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

##### 1.13.2 Other intangible assets

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

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

## notes to the financial statements

### for the year ended 30 June 2008

#### 1.14 Deferred taxation

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

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

#### 1.15 Employee benefits

##### 1.15.1 Post employment benefits

The Group contributes to a defined contribution scheme for the benefit of some employees. The rest of the employees are responsible for their own retirement planning and as such are members of various South African Pension and Provident Fund Schemes. These funds are registered in terms of the Pension Funds Act, 1956, 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.

##### 1.15.2 Termination benefits

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

##### 1.15.3 Leave pay accrual

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

##### 1.15.4 Share appreciation rights obligation

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

#### 1.16 Related party transactions

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

#### 1.17 Fiduciary activities

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

#### 1.18 Borrowing costs

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

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

### 2.1 Use of estimates, assumption and judgements

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

### 2.2 Key sources of estimation uncertainty

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

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

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

#### 2.2.2 Fair value of derivatives and other financial instruments

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

## notes to the financial statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>2. CASH AND CASH EQUIVALENTS</b>				
Bank balances	91 962	246 396	88 494	243 237
Call deposits with financial institutions	100 118	198 693	95 663	198 643
	<b>192 080</b>	445 089	<b>184 157</b>	441 880
<b>3. OTHER ASSETS</b>				
Accrued interest	74 465	98 887	74 375	97 940
Other debtors	27 461	408 422	27 054	408 372
	<b>101 926</b>	507 309	<b>101 429</b>	506 312
<b>4. INVESTMENTS</b>				
4.1 Rand Merchant Bank	362 638	383 794	362 638	383 794
4.2 Loan to INCA Share Incentive Trust	–	–	22 816	22 816
4.3 Zero coupon bonds	134 395	127 501	134 395	127 501
Capital market stock	334 638	255 254	334 618	255 254
<b>Other investments:</b>				
4.4 Preference shares	73 243	76 183	73 243	76 183
Dividend income fund	179 684	139 975	179 684	139 975
<b>Investment in and loans to subsidiaries:</b>				
4.5 INCA Bond Rehabilitation Company (Proprietary) Limited				
• Investment in ordinary shares	–	–	14 000	14 000
• Inter-company loan	–	–	1 136	1
4.6 INCA Asset Finance (Proprietary) Limited				
• Investment in ordinary shares	–	–	253	253
• Inter-company loan	–	–	(116)	(149)
4.7 Infrastructure Finance Corporation Africa (Proprietary) Limited				
• Investment in ordinary shares	–	–	1	1
• Inter-company loan	–	–	239	93
<b>Money market investments with other banks:</b>				
• Maturing after one month but within three months	134 623	23 270	134 623	23 270
4.8 Retentions deposits held	9 968	6 345	9 968	6 547
	<b>1 229 189</b>	1 012 322	<b>1 267 498</b>	1 049 539

## notes to the financial statements

### for the year ended 30 June 2008

#### 4. INVESTMENTS (continued)

- 4.1 INCA received a loan of EUR40 million from the European Investment Bank. These funds were deposited with Rand Merchant Bank (a division of Firststrand Bank Limited.) in ZAR, with the exchange risks hedged through a common terms currency agreement.
- 4.2 The Company made an interest free loan, secured by the shares held in the Trust, to the INCA Share Incentive Trust to acquire shares in the Company. The loan has no fixed terms of repayment.
- 4.3 The zero coupon bonds represent deposits with financial institutions. These investments are partially offset by zero coupon liabilities to municipalities. (See note 10.3.) 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. INCA invested in R173 million (2007: R140 million) in a dividend income fund. This investment is redeemable on demand.
- 4.5 The Company acquired a 100% interest in INCA Bond Rehabilitation Company (Proprietary) Limited on 9 January 2000. The company is involved in the acquisition of non-investment grade municipal stock in the secondary market, which it will hold until rehabilitated and thereafter such stock 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 has since incorporated Infrastructure Asset Finance (Proprietary) Limited's operations into its own since the beginning of the previous financial year.
- 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.
-

## notes to the financial statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>5. ADVANCES</b>				
<b>5.1 Valuation profile</b>				
Advances at fair value	4 152 427	4 729 890	4 083 086	4 658 397
Lease receivables at cost	500 338	343 437	500 338	343 437
Impairment on lease receivables and advances	(25 460)	(35 664)	(24 561)	(34 765)
	<b>4 627 305</b>	<b>5 037 663</b>	<b>4 558 863</b>	<b>4 967 069</b>
The fair value of lease receivables is R496 107 951 (2007 – R353 777 438) for Group and Company.				
<b>5.2 Maturity profile</b>				
Maturing in 2008 to 2009	453 526	553 225	444 762	545 340
Maturing in 2010	173 848	169 590	173 393	168 857
Maturing in 2011	1 096 385	1 118 683	1 044 766	1 065 236
Maturing in 2012	377 973	242 118	377 537	233 589
Maturing after 2012	2 525 573	2 954 047	2 518 405	2 954 047
	<b>4 627 305</b>	<b>5 037 663</b>	<b>4 558 863</b>	<b>4 967 069</b>
<b>5.3 Geographic profile</b>				
Eastern Cape	208 614	258 966	208 614	258 966
Free State	216 741	266 812	198 079	245 932
Gauteng	1 574 957	1 634 734	1 534 501	1 596 894
KwaZulu-Natal	875 829	1 082 773	869 907	1 077 059
Limpopo Province	88 418	97 304	88 418	97 304
Mpumalanga	320 149	358 007	320 149	358 007
Northern Cape	46 841	50 284	46 841	50 284
North West	252 046	234 852	248 674	230 140
Western Cape	430 523	557 735	430 493	557 647
Southern African Development Community	12 533	–	12 533	–
Other:				
– National Government	335 737	184 237	335 737	182 877
– State Owned Enterprises	264 917	311 959	264 917	311 959
	<b>4 627 305</b>	<b>5 037 663</b>	<b>4 558 863</b>	<b>4 967 069</b>
<b>5.4 Repayment profile</b>				
Bonds (bullet payment profile)	1 441 535	1 464 437	1 389 916	1 412 071
Amortised loans	3 185 770	3 573 226	3 168 947	3 554 998
	<b>4 627 305</b>	<b>5 037 663</b>	<b>4 558 863</b>	<b>4 967 069</b>
<b>5.5 Loan commitments to advance funds</b>				
Nalitemba Hospital/Eastern Cape Provincial Health Department (2009)	216 058	–	216 058	–
Bongwe Investments/SADEC (2008 – 2009)	107 203	–	107 203	–
Rustenburg Local Municipality (2009)	50 000	–	50 000	–
Steve Tshwete Local Municipality (2009)	35 000	105 000	35 000	105 000
Emalahleni Local Municipality (2008 – 2009)	14 000	29 000	14 000	29 000
University of KwaZulu-Natal (2008)	–	156 089	–	156 089
	<b>422 261</b>	<b>290 089</b>	<b>422 261</b>	<b>290 089</b>

## notes to the financial statements

### for the year ended 30 June 2008

	2008 R'000	% of Advances	2007 R'000	% of Advances
<b>5. ADVANCES (continued)</b>				
<b>5.6 Concentration profile (Group and Company)</b>				
<b>Ten largest exposures (face value)</b>				
Tshwane Metropolitan Municipality	601 895	13,0	618 096	12,3
eThekweni Municipality	406 977	8,8	425 467	8,5
Ekurhuleni Metropolitan Council	354 971	7,7	376 510	7,5
South African Airways	274 825	5,9	310 214	6,2
City of Cape Town Metropolitan Municipality	212 899	4,6	235 990	4,7
City of Johannesburg Metropolitan Municipality	167 294	3,6	183 721	3,6
Eskom Group	146 947	3,2	– <sup>1</sup>	–
Buffalo City Local Municipality	114 386	2,5	119 306	2,4
University of KwaZulu-Natal	113 737	2,5	– <sup>1</sup>	–
Nalitemba Provincial Hospital	109 288	2,4	– <sup>*</sup>	–
uMhlathuze Local Municipality	– <sup>2</sup>	–	236 569	4,7
Sedibeng Water Board	– <sup>2</sup>	–	99 427	2,0
uMhlathuze Water Board	– <sup>2</sup>	–	87 399	1,7
<b>Total</b>	<b>2 503 219</b>	<b>53,9</b>	<b>2 692 699</b>	<b>53,6</b>
<b>Capital secured</b>	<b>(517 819)</b>	<b>(11,1)</b>	<b>(645 368)</b>	<b>(12,8)</b>
<b>Net exposure</b>	<b>1 985 400</b>	<b>42,8</b>	<b>2 047 331</b>	<b>40,8</b>

1. The exposures to University of KwaZulu-Natal of R59 million and Eskom Group of R2 million in 2007 were excluded because they did not qualify as the ten largest advances.

2. The exposures to uMhlathuze Local Municipality of R58 million in 2008, Sedibeng Water Board of R100 million and uMhlathuze Water Board of R54 million were excluded because they did not qualify as the ten largest advances.

\* New exposure in the current financial year.

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>5.7 Capital repayments secured</b>				
Secured by cession of a zero coupon bond or setoff against a deposit with the Company	1 046 474	1 007 735	1 046 474	1 002 035
Percentage of total book value before impairment	22,6%	20,0%	23,0%	20,2%

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

## notes to the financial statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>5. ADVANCES (continued)</b>				
<b>5.8 Impairment on lease receivables and advances</b>				
Balance at the beginning of the year	35 664	22 304	34 765	21 405
Impairment charge for the year	1 889	13 360	1 889	13 360
Impairment reversals for the year	(12 093)	–	(12 093)	–
Balance at the end of the year	25 460	35 664	24 561	34 765

	Cost	Accumulated	Net carrying
	R'000	depreciation R'000	value R'000
<b>6. PROPERTY, PLANT AND EQUIPMENT</b>			
<b>6.1 Group – 2008</b>			
Computer equipment	2 861	2 483	378
Furniture and fittings	3 336	640	2 696
Leasehold improvements	1 445	1 331	114
Motor vehicles	551	106	445
	<b>8 193</b>	<b>4 560</b>	<b>3 633</b>
<b>Group – 2007</b>			
Computer equipment	2 654	2 326	328
Furniture and fittings	3 330	574	2 756
Leasehold improvements	1 376	1 275	101
Motor vehicles	140	65	75
	<b>7 500</b>	<b>4 240</b>	<b>3 260</b>

	30 June 2007 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit/ (loss) R'000	Depreciation R'000	30 June 2008 Carrying value R'000
<b>Movements: 2007 to 2008</b>						
Computer equipment	328	342	(9)	2	(285)	378
Furniture and fittings	2 756	5	–	–	(65)	2 696
Leasehold improvements	101	70	–	–	(57)	114
Motor vehicles	75	412	–	–	(42)	445
	3 260	829	(9)	2	(449)	3 633
<b>Movements: 2006 to 2007</b>						
Computer equipment	659	54	(1)	(19)	(365)	328
Furniture and fittings	259	2 568	–	–	(71)	2 756
Leasehold improvements	–	122	–	–	(21)	101
Motor vehicles	103	–	–	–	(28)	75
	1 021	2 744	(1)	(19)	(485)	3 260

## notes to the financial statements

### for the year ended 30 June 2008

	Cost R'000	Accumulated depreciation R'000	Net carrying value R'000			
<b>6. PROPERTY, PLANT AND EQUIPMENT (continued)</b>						
<b>6.2 Company – 2008</b>						
Computer equipment	2 766	2 388	378			
Furniture and fittings	3 336	640	2 696			
Leasehold improvements	1 445	1 331	114			
Motor vehicles	551	106	445			
	<b>8 098</b>	<b>4 465</b>	<b>3 633</b>			
<b>Company – 2007</b>						
Computer equipment	2 540	2 216	324			
Furniture and fittings	3 330	574	2 756			
Leasehold improvements	1 376	1 275	101			
Motor vehicles	140	65	75			
	<b>7 386</b>	<b>4 130</b>	<b>3 256</b>			
	30 June 2007 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit/ (loss) R'000	Depreciation R'000	30 June 2008 Carrying value R'000
<b>Movements: 2007 to 2008</b>						
Computer equipment	324	342	(9)	2	(281)	378
Furniture and fittings	2 756	5	–	–	(65)	2 696
Leasehold improvements	101	70	–	–	(57)	114
Motor vehicles	75	412	–	–	(42)	445
	3 256	829	(9)	2	(445)	3 633
<b>Movements: 2006 to 2007</b>						
Computer equipment	635	54	(3)	1	(363)	324
Furniture and fittings	259	2 568	–	–	(71)	2 756
Leasehold improvements	–	122	–	–	(21)	101
Motor vehicles	103	–	–	–	(28)	75
	997	2 744	(3)	1	(483)	3 256

## notes to the financial statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>7. SHARE CAPITAL</b>				
<b>Authorised</b>				
1 000 000 ordinary shares of R1 each (2007: 1 000 000 ordinary shares of R1 each)	<b>1 000</b>	1 000	<b>1 000</b>	1 000
<b>Issued</b>				
848 532 ordinary shares of R1 each (2007: 848 532 ordinary shares of R1 each)	<b>849</b>	849	<b>849</b>	849
Shares held by the INCA Share Incentive Trust 42 007 ordinary shares of R1 each (2007 – 42 007)	<b>(42)</b>	(42)	–	–
Shares held by INCA Bond Rehabilitation Company 100 ordinary shares of R1 each (2007 – nil)	– <sup>1</sup>	–	– <sup>1</sup>	–
Balance at the end of the year	<b>807</b>	807	<b>849</b>	849
<i><sup>1</sup>Less than R1 000</i>				
In terms of the shareholders' agreement, shareholders have the power to issue the unissued shares.				
<b>8. SHARE PREMIUM</b>				
Balance at the beginning of the year	<b>105 988</b>	105 988	<b>105 988</b>	105 988
Share premium relating to the shares held by the INCA Share Incentive Trust	<b>(6 931)</b>	(6 931)	–	–
Share premium relating to the shares held by INCA Bond Rehabilitation Company	<b>(12)</b>	–	–	–
Balance at the end of the year	<b>99 045</b>	99 057	<b>105 988</b>	105 988

	Group				Company			
	30 June 2008 Face value R'000	30 June 2008 Fair value R'000	30 June 2007 Face value R'000	30 June 2007 Fair value R'000	30 June 2008 Face value R'000	30 June 2008 Fair value R'000	30 June 2007 Face value R'000	30 June 2007 Fair value R'000
<b>9. SUBORDINATED BORROWINGS</b>								
<b>INCA bonds issued to the market</b>								
INJ01 bond – redeemable 21 September 2011 Semi-annual coupon of 10,96% Coupons payable on 21 September and 21 March	<b>100 000</b>	<b>92 415</b>	100 000	98 897	<b>100 000</b>	<b>92 415</b>	100 000	98 897
	<b>100 000</b>	<b>92 415</b>	100 000	98 897	<b>100 000</b>	<b>92 415</b>	100 000	98 897

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

## notes to the financial statements

### for the year ended 30 June 2008

	Group				Company			
	30 June 2008	30 June 2008	30 June 2007	30 June 2007	30 June 2008	30 June 2008	30 June 2007	30 June 2007
	Face value	Fair value	Face value	Fair value	Face value	Fair value	Face value	Fair value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>10. LONG TERM BORROWINGS</b>								
<b>10.1 INCA bonds issued to the market:</b>								
IN03 bonds redeemable 30 June 2011 Semi annual coupons of 14,0%.	2 213 343	2 201 698	2 221 831	2 486 208	2 213 343	2 201 698	2 221 831	2 486 208
IN04 note – redeemable 15 March 2015 Semi annual coupons of 8,9%.	650 000	535 125	640 000	610 509	650 000	535 125	640 000	610 509
IN0605 note – redeemable 31 August 2007 Interest is payable quarterly at jibar plus 30 basis points.	–	–	200 000	199 831	–	–	200 000	199 831
IN0606U note – redeemable 26 October 2007 Interest is payable quarterly at jibar plus 25 basis points.	–	–	217 000	216 933	–	–	217 000	216 933
IN0607 note – redeemable 26 February 2008 Interest is payable quarterly at jibar plus 25 basis points.	–	–	250 000	249 655	–	–	250 000	249 655
IN0608 note – redeemable 05 May 2008 Interest is payable quarterly at jibar plus 25 basis points.	–	–	250 000	249 563	–	–	250 000	249 563
IN0609 note – redeemable 29 August 2008 Interest is payable quarterly at jibar plus 25 basis points.	200 000	199 923	–	–	200 000	199 923	–	–
IN0610U note – redeemable 24 October 2008 Interest is payable quarterly at jibar plus 30 basis points.	217 000	216 774	–	–	217 000	216 774	–	–
IN0611note – redeemable 25 February 2009 Interest is payable quarterly at jibar plus 50 basis points.	100 000	100 000	–	–	100 000	100 000	–	–
IN0612 note – redeemable 05 May 2009 Interest is payable quarterly at jibar plus 65 basis points.	200 000	200 020	–	–	200 000	200 020	–	–
IN0613note – redeemable 04 August 2008 Interest is payable quarterly at jibar plus 55 basis points.	50 000	49 977	–	–	50 000	49 977	–	–
IN07 bonds – redeemable 16 May 2013 Semi annual coupons of 14,0%.	110 000	93 722	110 000	105 135	110 000	93 722	110 000	105 135
	<b>3 740 343</b>	<b>3 597 239</b>	3 888 831	4 117 834	<b>3 740 343</b>	<b>3 597 239</b>	3 888 831	4 117 834

# notes to the financial statements

## for the year ended 30 June 2008

	Group				Company			
	30 June 2008	30 June 2008	30 June 2007	30 June 2007	30 June 2008	30 June 2008	30 June 2007	30 June 2007
	Face value	Fair value	Face value	Fair value	Face value	Fair value	Face value	Fair value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>10. LONG TERM BORROWINGS</b>								
<b>(continued)</b>								
<b>10.2 Long term foreign loans:</b>								
<ul style="list-style-type: none"> <li> <b>Agence Française de Developpement (AFD)</b>            EUR22,9 million. Capital is repayable in 16 equal semi annual instalments commencing on 31 October 2000 and ending 30 April 2008. Bears interest at 3,5% per annum (see note 5).         </li> </ul>	–	–	27 150	27 053	–	–	27 150	27 053
<ul style="list-style-type: none"> <li> <b>Blaylock &amp; Partners (USAID) USD49 200 000.</b>            Interest payable semi annually (26 March and 26 September) and principal on 26 March 2009. Interest varies from 2,54% to 5,11%. The loan is guaranteed by USAID.         </li> </ul>	385 226	383 640	345 104	349 105	385 226	383 640	345 104	349 105
<ul style="list-style-type: none"> <li> <b>European Investment Bank</b>            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.         </li> </ul>	200 000	200 144	200 000	211 703	200 000	200 144	200 000	211 703
<ul style="list-style-type: none"> <li> <b>European Investment Bank</b>            Euro40 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.         </li> </ul>	449 603	450 531	379 947	383 104	449 603	450 531	379 947	383 104
<ul style="list-style-type: none"> <li> <b>European Investment Bank</b>            R238 230 000 interest at Jibar payable semi-annually, the capital is repayable in equal semi annual instalments commencing on 15 September 2009 and ending on 15 March 2019.         </li> </ul>	238 230	225 069	238 230	232 983	238 230	225 069	238 230	232 983
<ul style="list-style-type: none"> <li> <b>Agence Française de Developpement (AFD)</b>            EUR15 882 353. Capital repayable in 16 equal Semi-annual instalments commencing on 31 October 2003 and ending on 30 April 2011. Bears interest at 3,5% per annum.         </li> </ul>	73 485	71 495	75 431	74 285	73 485	71 495	75 431	74 285
<ul style="list-style-type: none"> <li> <b>Agence Française de Developpement (AFD)</b>            EUR4 117 647. Capital repayable in 16 equal semi-annual instalments commencing on 31 October 2003 and ending on 30 April 2011. Bears interest at 3,5% per annum.         </li> </ul>	19 052	18 536	19 556	19 259	19 052	18 536	19 556	19 259

## notes to the financial statements

### for the year ended 30 June 2008

	Group				Company			
	30 June 2008	30 June 2008	30 June 2007	30 June 2007	30 June 2008	30 June 2008	30 June 2007	30 June 2007
	Face value	Fair value	Face value	Fair value	Face value	Fair value	Face value	Fair value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>10. LONG TERM BORROWINGS</b>								
(continued)								
<b>10.2 Long term foreign loans: (continued)</b>								
• <b>European Investment Bank</b>								
<b>R225 000 000</b>								
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.								
	198 712	184 740	207 266	202 191	198 712	184 740	207 266	202 191
• <b>European Investment Bank</b>								
<b>R238 419 000</b>								
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.								
	213 164	198 317	222 339	216 703	213 164	198 317	222 339	216 703
<b>10.3 Long term domestic loans:</b>								
• Zero coupon liabilities to municipalities (see note 3 below)								
	330 620	242 579	333 264	232 420	330 620	242 579	333 264	232 420
	<b>5 848 435</b>	<b>5 572 290</b>	5 937 118	6 066 640	<b>5 848 435</b>	<b>5 572 290</b>	5 937 118	6 066 640

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.

- INCA has ceded the Tshwane Metropolitan Municipality advance with a book value of R203 479 902 (2007: R212 239 560) to the European Investment Bank as collateral for the loan.
- INCA has ceded the eThekweni Metropolitan Municipality advance with a book value of R223 750 087 (207: R233 441 799) to the European Investment Bank as collateral for the loan.
- 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 2008:	INO 609U	31 August 2007	200 000	200 000
	INO 610U	26 October 2007	217 000	217 000
	INO 611U	26 February 2008	100 000	100 000
	INO 612U	05 May 2008	200 000	200 000
	INO 613U	05 May 2008	50 000	50 000
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

## notes to the financial statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>11. TRADE AND OTHER PAYABLES</b>				
Interest accrued on long term loans	104 224	248 902	104 211	248 899
Leave pay accrual	1 146	958	1 146	958
Share appreciation rights obligation	11 306	13 111	11 306	13 111
Other accounts payable	21 286	44 342	20 443	42 410
Funding under repurchase agreements	(497)	27	(497)	27
	<b>137 465</b>	<b>307 340</b>	<b>136 609</b>	<b>305 405</b>

#### 11.1 Share appreciation rights obligation

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

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

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

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

As at year-end, the Group had granted 35 150 (2007: 28 200) rights. During the financial year under review, 14 250 rights were granted at the prevailing price at the time of the grant whilst 7 300 rights (2007: 7 300 rights) vested.

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 21,27%

Risk Free Rate range 12,0% – 12,53%

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.

## notes to the financial statements

### for the year ended 30 June 2008

	Group				Company	
	Notional 30 June 2008	Notional 30 June 2007	Fair value 30 June 2008	Fair value 30 June 2007	Fair value 30 June 2008	Fair value 30 June 2007
<b>12. DERIVATIVE FINANCIAL INSTRUMENTS</b>						
<b>Derivative assets</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Currency swaps	738 505	323 149	184 235	22 719	184 235	22 719
Interest rate swaps	1 812 214	1 464 833	181 349	51 833	181 349	51 833
Foreign exchange contracts	1 515	–	21	–	21	–
	<b>2 552 234</b>	1 787 982	<b>365 605</b>	74 552	<b>365 605</b>	74 552
<b>Derivative liabilities</b>						
Currency swaps	90 336	102 458	10 511	9 558	10 511	9 558
Interest rate swaps	1 617 173	1 397 184	125 727	44 237	125 727	44 237
Foreign exchange contracts	1 910	4 263	62	919	62	919
	<b>1 709 419</b>	1 503 905	<b>136 300</b>	54 714	<b>136 300</b>	54 714

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

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>13. INTEREST AND SIMILAR INCOME</b>				
Advances	606 512	638 734	594 191	622 798
Investments	71 801	68 527	71 623	68 527
Cash and short term funds	21 482	12 847	21 371	12 731
Preference share dividends	8 595	7 542	8 595	7 542
Repurchase agreements	45 776	11 928	45 740	11 928
Derivative financial instruments	317 799	242 701	317 799	238 658
	<b>1 071 965</b>	982 279	<b>1 059 319</b>	962 184
<b>Attributable to:</b>				
Financial assets held for trading	384 468	288 513	384 431	284 470
Financial assets designated as FVTPL	620 353	648 423	607 855	632 514
Loans and receivables (including cash and bank balances)	67 144	45 343	67 033	45 200
	<b>1 071 965</b>	982 279	<b>1 059 319</b>	962 184

## notes to the financial statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>14. INTEREST EXPENSE AND SIMILAR CHARGES</b>				
INCA bonds	465 353	429 787	465 353	429 787
Long term loans	166 295	153 360	166 295	153 360
Intercompany			–	–
Subordinated liabilities	10 960	10 960	10 960	10 960
Repurchase agreements	534	17 060	465	15 668
Derivative financial instruments	348 866	283 352	348 866	283 353
	<b>992 008</b>	894 519	<b>991 939</b>	893 128
<b>Attributable to:</b>				
Loans and receivables (including cash and bank balances)	8	1 173	8	1 173
Financial liabilities held for trading	349 400	300 412	349 331	299 021
Financial liabilities designated as FVTPL	642 600	592 934	642 600	592 934
	<b>992 008</b>	894 519	<b>991 939</b>	893 128
<b>15. FAIR VALUE ADJUSTMENT</b>				
<b>15.1 Fair value adjustment – realised</b>				
1. Advances	1 475	60 644	1 475	60 644
Investments	10 652	4 555	10 652	4 555
2. INCA bonds	(11 319)	97	(11 319)	97
3. Long term loans	(1 497)	(2 469)	(1 497)	(2 493)
	<b>(689)</b>	62 827	<b>(689)</b>	62 803
<b>Attributable to:</b>				
Financial assets held for trading	11 940	4 555	11 940	4 555
Financial assets designated as FVTPL	1 475	60 644	1 475	60 644
Financial liabilities designated as FVTPL	(14 104)	(2 372)	(14 104)	(2 396)
	<b>(689)</b>	62 827	<b>(689)</b>	62 803
<b>15.2 Fair value adjustment – unrealised</b>				
4. Advances	(477 625)	(140 940)	(470 576)	(136 317)
5. Investments	(4 492)	(30 666)	(4 492)	(30 666)
6. INCA bonds*	375 193	103 288	375 193	103 288
7. Long term loans*	57 685	(11 746)	57 685	(11 746)
8. Subordinated liabilities*	6 482	1 889	6 482	1 889
9. Derivative financial instruments	61 782	22 261	61 782	26 304
Repurchase agreements	523	(32)	524	(23)
	<b>19 548</b>	(55 946)	<b>26 598</b>	(47 271)
<b>Attributable to:</b>				
Financial assets held for trading	60 903	11 176	60 904	15 228
Financial assets designated as FVTPL	(480 831)	(149 579)	(473 782)	(144 956)
Loans and receivables (including cash and bank balances)	117	(30)	117	(30)
Financial liabilities designated as FVTPL	439 359	82 487	439 359	82 487
	<b>19 548</b>	(55 946)	<b>26 598</b>	(47 271)

## notes to the financial statements

### for the year ended 30 June 2008

#### 15. FAIR VALUE ADJUSTMENT (continued)

##### \*Fair value on liabilities

The total fair value adjustments resulting from liabilities amounted to R439 million (2007: R82 million). The unrealised fair value adjustments are attributable to increases in base rates and credit spreads, the passing of time, growth and maturities in the portfolio.

1. Realised fair value adjustments on advances relate to the early settlement and disposal of certain advances. These amounts include breakage costs to compensate for the early settlement as well as the credit spread contractions observed on some advances. The 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 mainly to guarantee fees paid and other funding costs.
4. The base interest rates increased significantly during the year under review, resulting in a negative unrealised fair value adjustment on assets. The credit spreads also widened significantly due to the turmoil in financial markets.
5. Unrealised fair value adjustments on investments relate to the generally upward movement of base rates during the current year. The Group is hedged for interest rate movements in accordance to its Asset and Liability Management process.
6. IN03 bond spreads widened by 127 basis points during the year, whilst IN04 and IN07 widened by 28 points and 95 points respectively, resulting in the positive unrealised fair value adjustments of R375 million.
7. Liabilities are marked-to-market at INCA funding spreads, hence a positive 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.
9. Derivative financial instruments are used to hedge general market movements (movements in the credit spreads of assets and liabilities are not hedged).

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>16. OPERATING EXPENDITURE</b>				
Operating expenditure includes the following items:				
<b>16.1 Auditors' remuneration</b>				
Audit fees	2 177	1 730	2 087	1 640
Prior year under accrual	144	–	144	–
Other services	136	98	136	98
	<b>2 457</b>	1 828	<b>2 367</b>	1 738
<b>16.2 Depreciation</b>				
Computer equipment	285	365	281	363
Furniture and fittings	65	71	65	71
Leasehold improvements	57	21	57	21
Motor vehicles	42	28	42	28
	<b>449</b>	485	<b>445</b>	483
<b>16.3 Lease expenses</b>				
Office premises	1 604	1 880	1 579	1 877
Computer software	542	402	542	402
	<b>2 146</b>	2 282	<b>2 121</b>	2 279
<b>16.4 Professional fees</b>				
Technical and other services	1 905	1 989	1 903	1 973
	<b>1 905</b>	1 989	<b>1 903</b>	1 973

## notes to the financial statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>16. OPERATING EXPENDITURE (continued)</b>				
<b>16.5 Retirement benefits</b>				
Company provident fund contributions	171	186	171	186
	171	186	171	186
<b>16.6 Other staff costs excluding directors</b>				
Salaries and incentive payments	15 276	17 287	15 276	20 604
	15 276	17 287	15 276	20 604
<b>16.7 Directors' emoluments</b>				
Non-executive directors' fees	1 065	860	1 065	860
Executive directors' emoluments				
– salaries and incentive payments	5 564	5 337	5 564	5 337
– accrual made under INCA Staff Share Scheme	3 201	2 244	3 201	8 626
	9 830	8 441	9 830	14 823
<b>16.8 Other</b>				
Other sundry expenditure	5 735	5 196	5 595	5 180
Total expenditure	37 969	37 694	37 708	47 266
<b>17. TAXATION</b>				
<b>17.1 Taxation charge for the year</b>				
<b>17.1.1 Current year</b>				
South African current taxation				
Normal	12 621	28 304	9 733	23 570
Deferred	(4 693)	(19 741)	(3 567)	(20 275)
Secondary tax on companies	1 511	–	1 511	–
Total current year	9 439	8 563	7 677	3 295
<b>17.2 Tax rate reconciliation</b>				
Effective tax rate	15,3	19,4	13,2	12,7
Adjusted for:				
Disallowed expenditure	(1,4)	(1,1)	(1,5)	(1,9)
Non-taxable income	16,7	10,7	19,1	18,2
Secondary tax on companies	(2,6)	–	(2,8)	–
Standard tax rate	28,0	29,0	28,0	29,0
<b>17.3 Analysis of deferred taxation</b>				
Differences between tax and book values of:	R'000	R'000	R'000	R'000
Income and expenditure accruals	(25 721)	(15 150)	(25 721)	(15 150)
Unrealised profits and losses on assets and liabilities	72 975	67 097	70 356	63 351
	47 254	51 947	44 635	48 201

## notes to the financial statements

### for the year ended 30 June 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>17. TAXATION (continued)</b>				
<b>17.4 Movement in deferred taxation</b>				
Balance at the beginning of the year	51 947	71 688	48 201	68 476
Charge through the income statement:				
Current timing differences	(2 902)	(19 741)	(1 904)	(20 275)
Change in income tax rate	(1 791)	–	(1 662)	–
Balance at the end of the year	47 254	51 947	44 635	48 201
<b>17.5 Movement in STC</b>				
Balance at the beginning of the year	–	–	–	–
Applied in dividends paid	(1 511)	(3 125)	(1 511)	(3 125)
Credits from dividends received	1 511	3 125	1 511	3 125
Balance at the end of the year	–	–	–	–
<b>18. DIVIDENDS</b>				
A dividend of R15 million (2007: R27,5 million) is proposed for 2008.				
<b>19. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES</b>				
<b>19.1 Capital commitments</b>				
Authorised and contracted for: Operating lease rentals for office premises and software licence fees:				
2008	2 321	2 321	2 321	2 321
2009	2 287	2 287	2 287	2 287
2010	783	783	783	783
2011	911	911	911	911
2012 and after	1 053	1 053	1 053	1 053
	7 355	7 355	7 355	7 355
Commitments will be funded from the Group's own resources.				
<b>19.2 Contingent liabilities</b>				
Guarantee <sup>1</sup>	29 295	29 295	29 295	29 295
	29 295	29 295	29 295	29 295
<sup>1</sup> 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.				
<b>20. RELATED PARTY TRANSACTIONS</b>				
Deposit with shareholders				
Rand Merchant Bank a division of FirstRand Bank Limited	362 638	383 794	362 638	383 794
	362 638	383 794	362 638	383 794

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

## notes to the financial statements

### for the year ended 30 June 2008

#### 20. RELATED PARTY TRANSACTIONS (continued)

##### 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 R12 million (2007: R6,7 million). The current year amount includes payments made in respect of the share appreciation rights that vested and were exercised. During the year, 2 400 (2007: 2 400) share appreciation rights were granted to executive management. There were no share appreciation rights awarded to executive management subsequent to year end. The details of the share appreciation rights are disclosed in note 11.1.

##### Management by a third party

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

##### Contracts

FirstRand Bank Limited also act 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 sub-committees and the executive management prior to conclusion.

#### 21. FINANCIAL INSTRUMENTS

##### 21.1 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged from 2007.

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

##### 21.2 Valuation methods and significant accounting policies

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

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

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

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

## notes to the financial statements

### for the year ended 30 June 2008

#### 21. FINANCIAL INSTRUMENTS (continued)

##### 21.3 Categories of financial instruments

	Carrying value R'000	Fair value through profit and loss (FVTPL) R'000	Held for trading R'000	Loans and receivables R'000
<b>21.3.1 Group – 2008</b>				
<b>Financial assets</b>				
Cash and cash equivalents	192 080	–	–	192 080
Other assets	101 926	–	–	101 926
Investments	1 229 189	704 899	514 322	9 968
Derivative financial instruments	365 605	–	365 605	–
Advances	4 627 305	4 135 261	–	492 044
<b>Total financial assets</b>	<b>6 516 105</b>	<b>4 840 160</b>	<b>879 927</b>	<b>796 018</b>
<b>Financial liabilities</b>				
Subordinated borrowings	92 415	92 415	–	–
Long term borrowings	5 572 290	5 572 290	–	–
Derivative financial instruments	136 300	–	136 300	–
<b>Total financial liabilities</b>	<b>5 801 005</b>	<b>5 664 705</b>	<b>136 300</b>	<b>–</b>
<b>21.3.2 Group – 2007</b>				
<b>Financial assets</b>				
Cash and cash equivalents	445 089	–	–	445 089
Other assets	507 309	–	–	507 309
Investments	1 012 322	610 746	395 229	6 347
Derivative financial instruments	74 552	–	74 552	–
Advances	5 037 663	4 700 622	–	337 041
<b>Total financial assets</b>	<b>7 076 935</b>	<b>5 311 368</b>	<b>469 781</b>	<b>1 295 786</b>
<b>Financial liabilities</b>				
Subordinated borrowings	98 897	98 897	–	–
Long term borrowings	6 066 640	6 066 640	–	–
Derivative financial instruments	54 714	–	54 714	–
<b>Total financial liabilities</b>	<b>6 220 251</b>	<b>6 165 537</b>	<b>54 714</b>	<b>–</b>

The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables. Fair value changes attributable to changes in credit risk based on credit rating changes for advances held as FVTPL recognised during the period was R6 310 561 (2007 – (R46 487)) whilst the cumulative effect was R6 264 074 (2007 – (R46 487)). The concentration of credit risks for loans and receivables are analysed in notes 5 and 10 respectively.

#### 21.4 Financial risk management objectives

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

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

## notes to the financial statements

### for the year ended 30 June 2008

#### 21. FINANCIAL INSTRUMENTS (continued)

##### 21.5 Market risk

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

##### 21.6 Sensitivity analysis

Realised fair value adjustments relate primarily to the sale or early settlement of some advances and capital market stock sold for treasury reasons. Unrealised fair value adjustments represent the yearly marked-to-market revaluation movement of financial assets and financial liabilities that are measured at fair value in the balance sheet. The Group hedges its portfolio for interest rates movements in terms of the ALCO policy, however, credit spread movements are not hedged. The fair value adjustments generally result from interest rate movements, the passing of time and credit spread movements. Because the Group does not hedge itself for credit spread movements, any unequal credit spread movement on the financial assets and financial liabilities result in positive or negative fair value adjustments. The Group has remained within the ALCO limits in terms of its interest rate movement hedge. Market movements dictated fairly large movements in credit spreads for both financial assets and financial liabilities measured at fair value through profit or loss impacting an approximately R11 million on the negative fair value adjustment whilst the remainder is attributable to the passing of time as well as the growth and maturities in the portfolio during the year.

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

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

- Credit spreads on a substantial part of the advances portfolio were increased by 25 basis points whilst credit spreads on liabilities were kept constant. In the event of such occurrence, a negative unrealised loss before tax of R36 million (2007: R45 million) is observed. The Group is most sensitive for credit spread movements of advances in risk category 2 (A to A+) as illustrated below. A 25 basis points credit spread movement on the advances per risk category has the following outcome:

INCA Credit Rating Category	Fair value – 2008 Adjustment (R'000)	Fair value – 2007 Adjustment (R'000)
Category 1 (AA- to AAA)	2 805	323
Category 2 (A- to A+)	10 221	16 719
Category 3 (BBB)	7 477	6 773
Metropolitan municipalities (A to AA)	15 404	20 993
Total	35 907	44 808

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

##### 21.7 Foreign currency management

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

##### 21.8 Interest rate risk

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

##### 21.9 Credit risk

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

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

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

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

## notes to the financial statements

### for the year ended 30 June 2008

#### 21. FINANCIAL INSTRUMENTS ( continued)

##### 21.9 Credit risk (continued)

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

Ageing	2008 R'000
Less than 30 days	26 303
30 to 60 days	5 982
60 to 180 days	13 551
More than 180 days	6 550
Total	52 386

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

##### 21.10 Liquidity risk

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

##### Liquidity maturity analysis

Analysis as at 30 June 2008

R'000	<1 yr	1 – 2 yrs	2 – 5 yrs	5 – 8 yrs	> 8 yrs
<b>Assets</b>					
Interest receivable	1 063 900	990 824	1 930 820	1 104 807	1 078 431
Capital receivable	1 606 946	663 383	2 465 479	1 277 874	1 385 444
	2 670 846	1 654 207	4 396 299	2 382 681	2 463 875
<b>Liabilities</b>					
Interest payable	(1 068 427)	(905 443)	(1 531 418)	(724 964)	(475 670)
Capital payable	(2 236 458)	(252 019)	(3 504 371)	(1 011 831)	(446 423)
	(3 304 885)	(1 157 462)	(5 035 789)	(1 736 795)	(922 093)
Net cash flow	(634 039)	496 745	(639 490)	645 886	1 541 782

The treasury function's focus remains on the INO3 bond redemption in 2011. The cash flows from the Company's short-term funds are reflected in the year 1 bracket. The large amount of capital payable in "<1 yr", includes the redemption of the Company's 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 Company contributes to a defined contribution scheme for the benefit of some employees. The rest of the employees are responsible for their own retirement planning and as such are members of various South African Pension and Provident Fund Schemes. South African Pension Funds are governed by the Pension Funds Act of 1956. The Company does not administer any pension fund scheme and has no obligations in relation to any of the abovementioned funds.

#### 23. EARNINGS PER SHARE

The earnings per share has been calculated on the net profit attributable to ordinary shareholders of R52 381 000 (2007: R35 499 000) and the weighted average number of issued ordinary shares during the period of 806 525 shares (2007: 806 525 shares). Prior to the consolidation of the INCA Share Incentive Trust, 848 532 shares were used in the calculation.

# administration

## REGISTERED NAME

Infrastructure Finance Corporation Limited  
(Trading as INCA)  
Reg no: 1996/001482/06

## REGISTERED OFFICE

Building 3  
Pinewood Office Park  
33 Riley Road  
Woodmead  
Sandton, South Africa

## POSTAL ADDRESS

PO Box 1847  
Gallo Manor 2052  
South Africa

## TELEPHONE

+(27) (11) 202 2200

## TELEFAX

+(27) (11) 202 2232

## E-MAIL

reggie.boqo@inca.co.za

## WEBSITE

www.inca.co.za

## BANKERS

FNB Corporate

## TRUSTEE

Harrow Court Trustees (Pty) Limited

## SECRETARY

JM Poulter

## AUDITORS

Deloitte & Touche  
The Woodlands  
20 Woodlands Drive  
Woodmead, Sandton

## MARKET MAKERS

### Investec Bank

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+27 (11) 286 7352  
100 Grayston Drive  
Sandton 2196

### Rand Merchant Bank

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Cnr Fredman Drive and Rivonia Road  
Sandton 2196

### Standard Bank

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Johannesburg 2001

### Inca Treasury

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