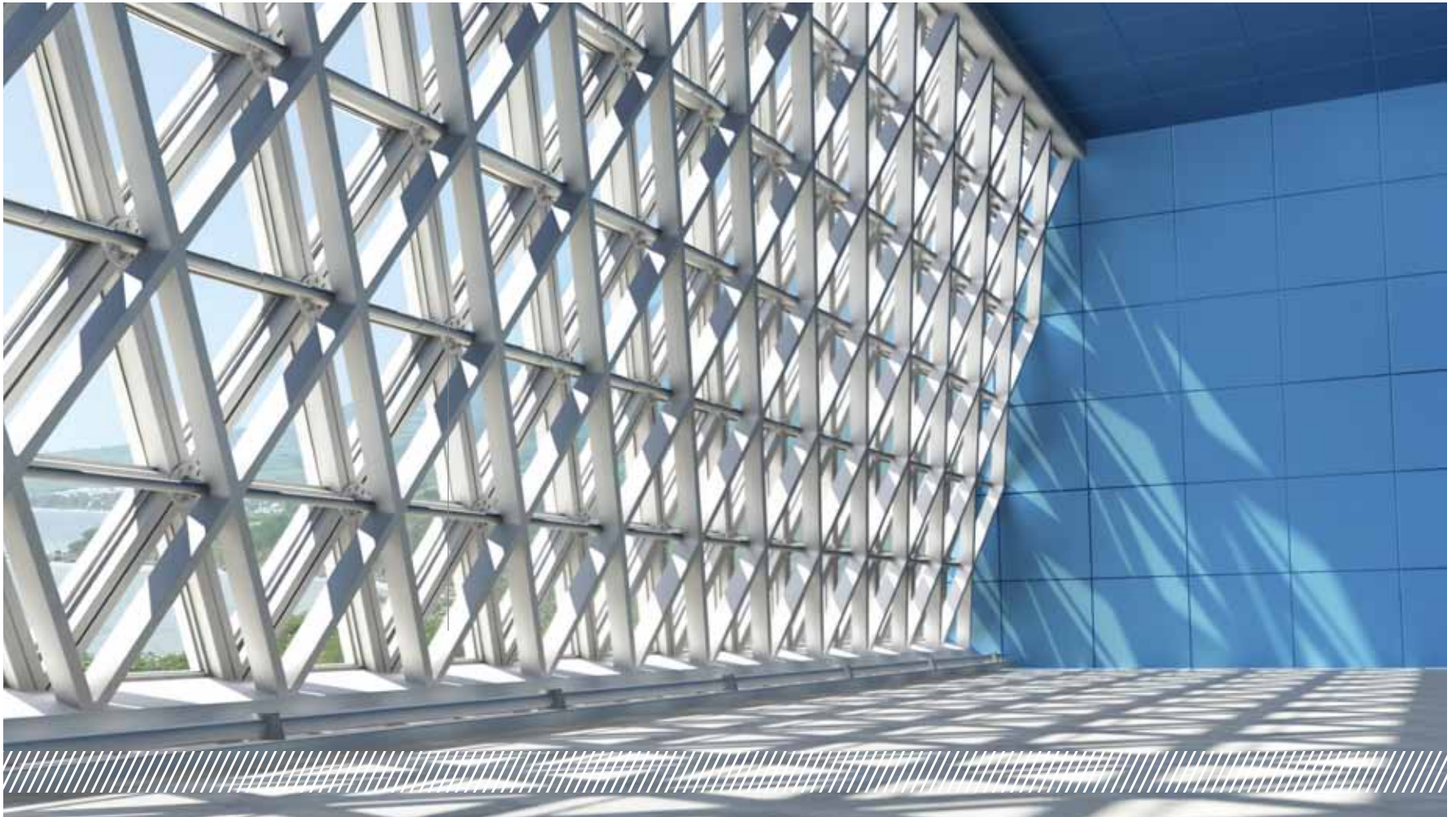




INCA TIMES

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A CHANGE IN THE GAME PLAN



NEW GAME PLAN HELPS INCA ACHIEVE ITS GOALS

It is most pleasing if, at the end of the financial year, a company can report that it has achieved what it set out to do. Infrastructure Finance Corporation Limited (INCA) has done just that.

We are proud to report that our new strategic plan, carefully crafted during the previous reporting period and implemented over the past 12 months, has helped achieve all goals for the financial year ended 30 June 2010.

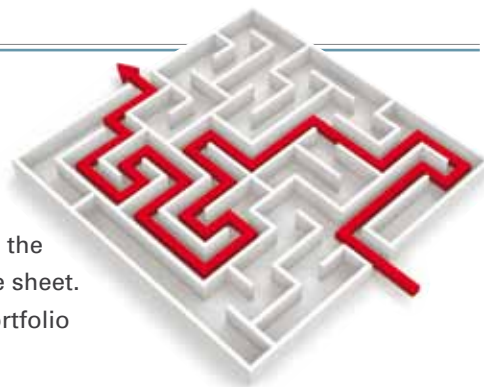
Through this game plan, INCA dramatically **improved its capital adequacy ratio (with equity plus subordinated debt/**

advances increasing to 22,4%), decreased its net external debt commitment **by R992 million,** strengthened its **liquidity position to cover all commitments for the next 12 months and rebalanced its asset and liability profile.** Additionally, the Group generated **profit pre-tax of R96,4 million.**

These achievements show that INCA is well positioned to maintain profitability and redeem all external loan commitments on time, and reflects the Group's greatly improved risk profile.

Infrastructure Finance Corporation Limited's (INCA)

Main business during the past year remained the issuing of subordinated, as well as senior, long term debt together with the selling of advances as part of the deleveraging of the balance sheet. However, specific focus was placed on managing the loan portfolio and keeping liquidity at a high level.



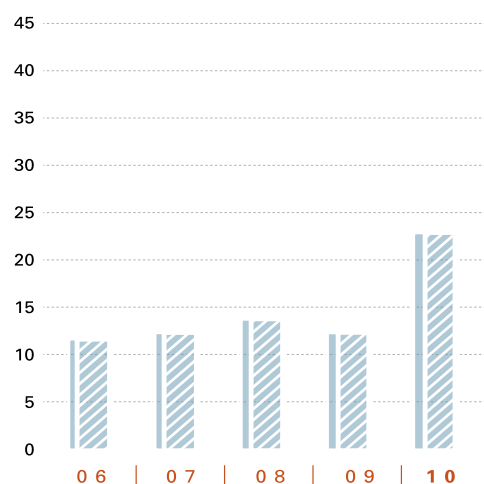
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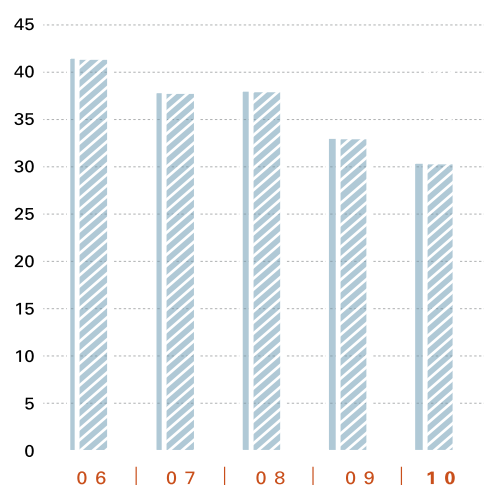
- 02... **Financial highlights** Capital adequacy ratio nearly doubled to 22,4%
- 04... **Chairman's statement** The Board remains committed to maintaining INCA's sound financial performance and the Group is financially more robust.
- 05... **Corporate governance** A high level of corporate discipline and transparency was maintained.
- 06... **Directorate** The Board of directors and the five subcommittees of the Board all functioned well.
- 07... **Chief executive officer's report** INCA managed to successfully address the asset and liability mismatch as well as redeem its debt by R1 683 million during the year.
- 13... **Chief financial officer's report** INCA maintained its sound financial position and strength for the financial year and the cash generated by operations remains a core feature of the Group.
- 16... **Financial statements** The Group continues to enhance its reporting framework by complying with IFRS and further expanding on its disclosure.

FINANCIAL highlights

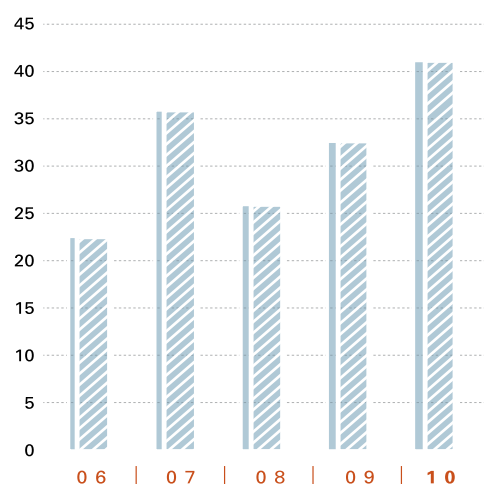
capital adequacy ratio (equity and sub-debt/advances) (%)



operational expenditure (R million)



impairments (R million)



Our operational activities

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

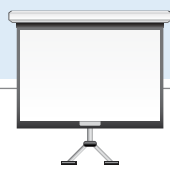
- * Issuing new subordinated debt to the value of R160 million and raising a further R350 million in senior long term debt.
- * Selling advances with a face value of R933 million as part of deleveraging the balance sheet and working towards the redemption of the IN03 bond which matures on 30 June 2011.
- * Repaying and repurchasing external debt to the value of R2 110 million.
- * Actively managing the loan portfolio to keep non-performing loans to a minimum, and managing the asset and liability portfolio to achieve better balance between the two.

- * Finalising institutional changes and concluding a multi-year management contract between INCA's Board and the executive and staff of INCA to assure management stability.



Key figures and ratios

	Group Audited 12 months June 2010	Group Audited 12 months June 2009
PERFORMANCE		
Profit/(loss) for the period (R'000)	71 676	(54 455)
Profit for the period (excluding unrealised fair value adjustment) (R'000)	48 323	86 395
Earnings/(loss) earnings per share (cents)	8 887	(6 752)
Profit/(loss) for the period per employee (R'000)	2 389	(1 433)
SELECTED RETURNS		
Return on weighted average shareholders' funds (per cent)	15,98	(10,52)
Operating costs to total income (per cent)	29,52	22,90
CAPITAL ADEQUACY		
Advances (R'000)	3 472 946	4 728 450
Total equity (R'000)	517 153	459 734
Risk weighted assets – Basel II (R'000)	1 621 692	1 966 580
Tier 1 capital – Basel II (R'000)	458 355	424 288
Capital adequacy ratio (equity and subordinated debt/advances) (per cent)	22,44	11,90
Capital adequacy ratio (Basel II – tier 1) (per cent)	28,26	21,57
OFFICIAL RATINGS		
Official credit rating – senior debt (Moody's)	Baa1.za	A3.za
– short term (Moody's)	P-2.za	P-2.za
VALUE		
Net asset value per share (Rands)	641	570



R5 037,9 million balance sheet
– deleveraged by R 1592,3 million or **24,0%**

Impairments **R8,6** million increase
resulting in total impairments of **R40,9** million

R517,1 million equity – an increase of **12,5%**

Operational expenditure decreased with a further **8,0%**
to **R30,4** million

R107,1 million cash generated by operations



Capital adequacy ratio nearly doubled to **22,4%**

R640,3 million cash and cash equivalents
– an increase of **5%**

Profit for the year of **R71,7** million

CHAIRMAN'S *statement*

Successful repositioning strengthens INCA

We successfully implemented our strategy formulated in the previous reporting period, which helped INCA to protect its profitability and rebalance its asset and liability position.



I am pleased to report that INCA remained resilient despite persisting challenges in financial markets during the past year. We successfully implemented our strategy formulated in the previous reporting period, which helped INCA to protect its profitability and rebalance its asset and liability position.

The Group's capital base has been strengthened substantially, through deleveraging the balance sheet and raising additional subordinated debt. With an above average capital adequacy ratio, a loan book that continues to perform excellently and high levels of liquidity, INCA's overall risk profile showed much improvement.

The Board and I remain committed to maintaining INCA's sound financial performance and, despite a much smaller balance sheet, the Group is financially more robust.

Having finalised a fixed term contract with our staff, we are supporting them in establishing INCA Portfolio Managers, an independent portfolio management company. As of 1 July 2010, INCA Portfolio Managers are responsible for managing the INCA portfolio, in

addition to making their services and advice available to municipalities and third parties seeking to invest in this important sector of the economy.

I strongly believe that investors and financial analysts, in studying INCA's performance (presented in the CEO's report hereafter) will concur that we have successfully achieved what we set out to do.

For this, I would like to thank my colleagues on the Board of Directors, and extend particular thanks to those directors who serve on the Board subcommittees, for their guidance. To our CEO and his executive team, thank you for your robust management of INCA during these challenging times, and to all our staff, thank you for your dedication and commitment to INCA's cause.

JM Matlala
Chairman

CORPORATE *governance*

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

The high level of corporate discipline and transparency for which INCA is known was maintained during the 2009/10 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 judgments and estimates in preparing the financial statements.

BOARD OF DIRECTORS

The Board of Directors retains full and effective control over the Group, monitors executive management and ensures 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.

Two independent non-executive directors provide a measure of balance and independence on the Board. In line with the new Companies Act, the Audit, Risk and Compliance Committee consists only of independent directors.

Details of executive and non-executive directors are provided on page 6 of this report.

AUDIT, RISK AND COMPLIANCE COMMITTEE

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

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

INVESTMENT AND REVIEW COMMITTEE

The primary responsibility of the Investment and Review Committee (previously called the Credit Committee) is to control the extent of credit exposure to any entity or related group of entities. This committee meets a minimum of four times a year. The Investment and Review Committee consists of the chief executive officer and three non-executive directors, one of whom is the chairperson. An additional independent outside resource is appointed to the committee to strengthen its capacity.

ASSET LIABILITY COMMITTEE

The Asset Liability Committee (ALCO) meets quarterly and is chaired by a non-executive director, with one further non-executive director, one independent director, the chief executive officer and the treasurer serving on the committee. The chief financial officer attends all ALCO meetings.

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

INTERNAL AUDIT

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

MARKET VALUE VERIFICATION COMMITTEE

The committee was established to address market valuation issues emanating from the implementation of AC133. The committee consists of at least two non-executive directors, one independent director and the chief executive officer. A member is drawn from each of the Investment and Review Committee, Audit, Risk and Compliance Committee and ALCO.

The committee meets twice a year before the finalisation of interim and annual financial statements. For the period under review, the committee met in February and June of 2010.

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.) have been considered and implemented appropriately;
- * Ensure that any subjectivity within the procedure is kept to a minimum; and,
- * Ensure that the application of the procedure, as approved, has been audited by the external auditors. The external auditors review the procedure independently to determine fair values of non-listed assets and liabilities.

HUMAN RESOURCES COMMITTEE

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

- * Labour legislation is complied with;
- * Staff remuneration is comparable with other institutions;
- * Succession planning is adequate to support continuing operations.

INTERNAL CONTROL

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

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

GOING CONCERN

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

DIRECTORATE



L Gwabe // Director
Kagiso



G McKenzie // Director
Rand Merchant Bank#



RN Boqo // Executive Director
INCA



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

H van Wyk // Director
Kagiso#*□



J Matlala // Chairperson
Kagiso



PGM Truyens // Director
Independent*†



L Scholtz // Director
Rand Merchant Bank



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



AC Canter // Director
Futuregrowth*□



JF Howard // Director
Futuregrowth•#



RW de Korte // Director †
Independent



JF Pouchous // Director
Dexia



J Stals // Director
Kagiso•

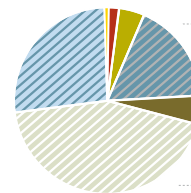


R Kalaichelvan // Director
Kagiso



IM Ayob // Director
Chanson Investments

P Rackstraw
Futuregrowth



* Held by Futuregrowth (Pty) Limited

Alternate

Shareholders

(Absent)

W Oudenhoven // Alternate Director
Rand Merchant Bank

- Member of Human Resources Committee
- # Member of Investment & Review Committee
- † Member of Audit, Risk and Compliance Committee
- * Member of Asset Liability Committee
- Member of Market Value Verification Committee



CHIEF EXECUTIVE OFFICER'S *report*

A change in INCA's game plan

INCA faced a number of challenges entering into the year under review, the most pressing being its high level of short term debt and the projected redemption gap for the IN03 bond when it matures on 30 June 2011. In addition, INCA's Board and shareholders had taken the strategic decision not to grow the INCA portfolio but to carefully manage it down.

In March 2010, ratings agency Moody's downgraded the Group's long term rating to Baa1.za and placed INCA under review for potential further downgrades. Considering market conditions and various strategic options, it was decided that the best course of action would be to:

- * Raise new long term senior and subordinated funding to boost liquidity and capital adequacy levels;
- * Increase committed liquidity lines from banks to support the liquidity position; and
- * Sell longer-dated advances to correct the mismatch between assets and liabilities, as well as cater for debt redemptions and support capital adequacy levels.

Despite difficult market conditions and the downgrade in INCA's long term rating, the Group successfully implemented this course of action, overcoming a number of challenges.



COVERING THE FIELD

ASSET AND LIABILITY MANAGEMENT

The mismatch between assets and liabilities was a major concern for INCA at the beginning of the year under review. Under normal circumstances the Group could raise funds and refinance debt as required, but changes in liquidity levels and the downgrading of INCA's rating by Moody's impacted the number of options available to rebalance the asset and liability portfolio.

INCA's total short term debt (including funding under repurchase agreements) amounted to R1,6 billion, whereas the IN03 bonds still in issue to the market amounted to R1,9 billion. This resulted in INCA needing to redeem debt of R3,5 billion maturing in the next 24 months. The conservative assumption was made that the Group would not be able to refinance any debt.

Consequently, INCA embarked on its strategy to rebalance the portfolio, raising R350 million senior long term debt (IN08U and IN09) with a term of three to six years. To improve capital adequacy levels and support liquidity, INCA raised an additional R160 million of subordinated debt (INJ02) with a term of five years.

A process was also initiated through which a substantial portion of the advance book was offered to the market, further raising liquidity and boosting capital adequacy levels. To this end, INCA sold advances with a face value of R933 million and received cash of R994,7 million. The advances were sold on a competitive bid basis between four parties, two of whom are shareholders. This was well supported and bolstered by a shortage of credit assets in the market.

The proceeds of the senior and subordinated issues and the sale of assets were used to settle short term debt (including all funding under repurchase agreements) and to repurchase IN03, IN07 and IN04 bonds. As a result, INCA's short term debt at year end reduced by R882,3 million to R743 million, and the IN03 bonds issued to the market reduced by R800,4 million to R1,1 billion. As at 30 June 2010, INCA's cash flow forecast reflects a projected R172 million cash shortfall in the second half of 2011, mitigated by the Group's liquidity reserves of R531,6 million.

INCA has thus managed to successfully address the asset and liability mismatch, as well as redeem its debt by R2 110 million during the year. The Group is now much better positioned than at the start of the year under review.

CHIEF EXECUTIVE OFFICER'S *report (continued)*

THE GOAL POSTS

IN03 REDEMPTION

INCA successfully repurchased a further R800,4 million worth of IN03 bonds during the year, reducing its liability under this note to R1,1 billion. A substantial portion of INCA's advances book is maturing at the same time as the IN03 bonds and INCA expects to receive R859,2 million in capital from these advances. Of this, R212,1 million is secured by INCA's own zero coupon bonds and R197,3 million is secured by zero coupon bonds from other South African financial institutions with a credit rating of A+ and higher.

INCA has successfully managed two large bond redemptions in the past, namely the IN01 and the IN02 bonds. The Group will engage with its clients from an early stage to ensure that they honour their obligations in terms of INCA's advances in good time.

INCA's liquidity reserves ensure that, even in the unlikely event of technical problems with payments, the Group will be able to redeem the IN03 bond in full.

Notwithstanding various views on its credit quality by analysts, INCA is proud that it is positioned to fully redeem the IN03 bond (that was part of the All Bond Index for many years), and more so because it is able to redeem this bond well before its maturity date.



Ball possession

CAPITAL ADEQUACY

Capital adequacy is an indication of the buffer available to meet capital requirements and payment obligations before senior note holders are affected. For INCA, all three measures of capital adequacy show an improvement compared to the previous year, with the raising of additional subordinated debt, the sale of a significant portion of advances and the Group making a profit during the year under review.

Under Basel II, INCA's risk-weighted assets reduced from R1 967 million to R1 621 million, whereas tier 1 capital increased from R424,3 million to R458,4 million. Therefore, the Group's capital adequacy ratio has improved from 21,57% for 2008/09 to 28,26% for the period under review.

When capital adequacy ratio is assessed by considering the ratio of equity plus subordinated debt over total assets, the ratio reflects a substantial improvement from 8,49% to 15,47%. Note that in this measure INCA is penalised for its large liquidity reserves, as it is expected to hold capital against these types of assets. The ratio of equity plus subordinated debt over advances has improved dramatically from 11,90% to 22,44%.

The sharp improvement in INCA's capital adequacy ratios should provide assurance to investors currently holding INCA bonds. It also indicates that the decision to pay shareholders a dividend on their investments based on the previous year's results was part of a well-managed process.

RESERVES ON CALL

Liquidity position

INCA has consistently maintained high levels of liquidity over the years. The reduction in INCA's credit rating and the high redemption amounts anticipated for the next 12 months have required the Group to further improve its liquidity position.

INCA successfully raised R212 million in committed liquidity facilities from one of South Africa's top five banking institutions, the use of which is not subject to INCA's rating. As at the end of the financial period under review, these facilities have not been utilised.

INCA's liquidity policy requires that six months of operational expenditure and capital plus interest obligations under liabilities minus six months of risk-weighted cash received from advances must be covered by the Group's liquidity position. INCA has always adhered to this policy and ideally strives to cover a similar benchmark for a period of 12 months.

As at 30 June 2010, the requirement according to this policy was R627,4 million for six months, with twelve months at R1,096 billion. INCA's liquidity position for 2009 and 2010 shows a strong improvement:

	30 June 2010 R'm	30 June 2009 R'm
24-hour notice:		
Bank balances	44,6	109,5
Call deposits with financial institutions	595,7	502,2
Dividend income fund	42,8	40,3
Investments (market value):		
Capital market stock (unencumbered)	319,6	243,8
Committed liquidity facilities:		
	212,0	100,0
Total	1 214,7	995,8

Notwithstanding the turmoil in financial markets at the beginning of the year and the challenges INCA faced after its rating downgrade, the liquidity position has improved by R218,9 million to R1 214,7 million. This comfortably covers INCA's requirements for the next 12 months, with no concerns regarding the Group's liquidity position.

Fitness and endurance

CREDIT QUALITY OF THE ASSET BOOK

INCA's asset book consists of the term book totalling R3 billion (fair value) and the rental book amounting to R512,3 million (book value). During the year under review, INCA only advanced funds with respect to committed facilities and rental discount transactions. As of May 2010, no new rental discounting has been entered into. With the term book, no new funding commitments have been entered into, as per the Group's revised business strategy.

The rental and lease transactions relate mainly to the provision of moveable assets by key suppliers to national and provincial governments on a rental and lease basis which was discounted with INCA. On the rental book, R34,4 million was outstanding for 90 days or longer as at the end of the financial year under review. The Group has launched a programme to recover these outstanding amounts and an additional R8 million has been impaired, bringing the total impairment for rentals to R21,7 million. The bulk of the rental book will mature in 2011.

The dominant exposure on the term book remains with the municipal sector at 62%. Some exposures relating to municipalities, state-owned enterprises and water boards were sold during the year.

Sector	% as at 30 June 2010	% as at 30 June 2009
Local, district and metropolitan municipalities	62,0	61,3
State-owned enterprises	9,2	17,2
Public-private partnerships (PPP)	7,2	6,3
Tertiary education	8,5	6,2
Water boards	5,0	5,2
Project finance	7,2	2,8
Property	0,9	1,0

The INCA portfolio was deleveraged in a balanced way and the credit quality of its term book was maintained. INCA's top 30 exposures are reflected in the table below. Due to the sale of advances, the concentration in the book has increased, with the top 30 exposures now representing 90% of the total term book, an increase from 84% last year. The single biggest exposure is to Ekurhuleni Metropolitan Municipality, accounting for 10% of the term book. This municipality has an Aa2.za rating from Moody's. Metropolitan municipalities represent 35% of the term book, a slight increase on last year's 34%.

The recession in the local economy during the year under review had a negative impact on the municipal sector. Revenue collection remains a challenge and the shortage of capable management persists. Due to the economic cycle, rating agencies in general have kept credit ratings of municipalities at current levels, or downgraded the ratings by one notch.

The percentage of INCA's term book rated as investment grade (BBB- and above) remained constant at 98%. Of INCA's advances, 29% are rated as a Category 1 (equivalent to AA- to AAA), 39% as Category 2 (A- to A+) and 30% as a Category 3 (BBB- to BBB+). The selection of assets sold as part of rebalancing the portfolio and increasing liquidity was done in such a way that the overall credit quality of the portfolio was not negatively impacted.

Changes in the risk composition of the portfolio during the past year

Risk category	Face value (in R'm)	% as at 30 June 2010	% as at 30 June 2009
Category 1 (AA- to AAA)	836,9	28	38
Category 2 (A- to A+)	1 101,5	36	33
Category 3 (BBB- to BBB+)	783,9	26	27
Below BBB- (non investment grade)	307,7	10	2
Total	3 030,0	100	100

The credit quality of the portfolio is also reflected in the low number of amounts in arrears for 90 days or longer of R1,9 million as at 30 June 2010. The arrears are mainly the result of smaller municipalities experiencing cash flow difficulties following the recession. INCA is not averse to taking legal action against a municipality, where necessary. However, INCA's hands-on management of exposures to the municipal sector together with rigorous collection processes ensure that the municipalities remain committed to paying their obligations to INCA on time.



CHIEF EXECUTIVE OFFICER'S *report (continued)*

TOP 30 EXPOSURES TO TOTAL LONG TERM LOAN PORTFOLIO

Counterparty	Senior/ Subordinated	Security	Official Rating	Credit Rating	30 June 2010		31 December 2009	
					Face Value	% of Total book	Face Value	% of Total book
G-Ekurhuleni MM	Senior	ZCB	Aa2 Moody's 2010	1	296 490 383,96	10%	359 369 589,61	9%
G-Tshwane MM	Senior	ZCB	Aa3 Moody's 2010	2	262 614 626,76	9%	307 017 369,36	8%
G-South African Airways	Sub Debt	2nd mortgage on aircraft		3	216 235 180,75	7%	275 806 672,61	7%
G-Neotel (Pty)Ltd	Senior	Security Package		2	206 079 545,45	7%	263 085 277,48	7%
G-Ethekwini MM	Senior	None	AA- za GCR 2010	1	201 443 029,00	7%	229 869 895,77	6%
G-Netcare Consortium	Senior & Debt	Security Package		2	193 222 696,47	6%	209 807 030,86	5%
G-KwaZulu Natal University	Senior	Cession of lease agreement		2	172 092 045,31	6%	207 473 366,58	5%
G-Johannesburg MM Group	Senior	None	Aa3 Moody's 2010	1	164 220 660,94	5%	183 352 272,72	5%
G-City of Cape Town MM	Senior	None	Aa2 Moody's 2010	1	128 452 652,35	4%	171 009 065,51	4%
G-Sedibeng Water	Senior	ZCB		3	99 310 000,00	3%	145 000 000,00	4%
G-Govan Mbeki LM	Senior	ZCB		3	70 000 000,00	2%	99 310 000,00	3%
G-SADC	Senior	Guarantee by Botswana Gov		3	64 542 522,21	2%	70 000 000,00	2%
G-Emalahleni LM	Senior	None		3	56 188 388,78	2%	69 554 741,50	2%
G-Emfuleni LM	Senior	ZCB		3	54 186 313,00	2%	65 602 262,40	2%
G-Umhlatuze LM	Senior	None		2	53 662 434,27	2%	59 119 766,36	1%
G-Transnet Limited	Senior	None	Aa3 Moody's 2009	1	46 270 889,70	2%	57 799 237,84	1%
G-Steve Tshwete LM	Senior	None		2	42 538 303,08	1%	55 550 773,44	1%
G-Merafong LM	Senior	None		3	40 282 179,04	1%	54 186 313,00	1%
G-Moses Kotane LM	Senior	None		3	36 149 969,40	1%	49 144 740,56	1%
G-Westonaria LM	Senior	None	Baa2 Moody's 2010	3	35 512 887,64	1%	51 000 000,00	1%
G-Kwadukuza LM	Senior	ZCB	A3 Moody's 2010	2	35 344 084,30	1%	30 462 975,08	1%
G-Kouga LM	Senior	ZCB	A3 Moody's 2010	3	33 392 787,22	1%	34 514 267,64	1%
G-Witwatersrand Technikon	Senior	None		2	31 771 086,73	1%	31 842 331,07	1%
G-Msunduzi LM	Senior	None		3	31 419 115,30	1%	41 341 241,49	1%
G-Mhlathuze Water	Senior	None		2	31 000 000,00	1%	42 842 658,46	1%
G-Uthungulu DM	Senior	ZCB		2	26 726 601,86	1%	41 130 014,13	1%
G-Nkangala DM	Senior	None	AA Fitch 2010	2	26 181 316,80	1%	27 059 065,87	1%
G-Knysna LM	Senior	None	Baa2 Moody's 2010	3	25 340 522,11	1%	37 736 765,40	1%
G-Greater Tzaneen Municipality	Senior	None	Baa2 Moody's 2010	3	21 357 971,15	1%	22 066 650,27	1%
G-Ugu DM	Senior	ZCB		2	20 300 000,00	1%	20 300 000,00	1%
Sub Total					2 722 328 193,58	90%	3 312 354 345,01	84%
TOTAL BOOK (excl Rentals)					3 030 019 257,27	100%	3 953 924 492,33	100%

INCA's exposures to Eskom, Bloem Water, Rustenburg Municipality, Mogale City Municipality, Breede Valley Municipality, Stellenbosch University and Mbombela Municipality have been reduced/sold as part of the assets sold by Treasury. Kwadukuza Municipality, Kouga Municipality, Witwatersrand Technikon, Uthungulu District Municipality, Nkangala District Municipality, Greater Tzaneen Municipality and Ugu District Municipality have been added to the list. There were no further changes, however clients may have moved in their ranking on the list.

The result at full time

GAME PLAN FOR THE NEXT SEASON

EXPECTATIONS FOR THE YEAR AHEAD

As communicated in last year's annual report, the Board of Directors with the support of shareholders has decided not to grow the INCA portfolio. The strategy will continue to rebalance and create a much more matched portfolio as it relates to assets and liabilities.

The selective selling of advances to the market to create a much more liquid portfolio is also set to continue.

It is anticipated that the redemption of the IN03 bond on 30 June 2011 will be a non-event from a risk perspective, as most of the positioning for this redemption took place during the 2009/10 financial year.

The agreement in which INCA's previous executive and staff formed an independent portfolio management company to manage the INCA portfolio on a fixed term contract for the next three years is expected to become fully operational during the current year. This will result in operational expenses levelling off at INCA, and the extension of services of INCA Portfolio Managers (IPM) to third parties will benefit the municipal and infrastructure finance sector at large.

The focus for the next year will mainly be on maintaining the credit quality of INCA's portfolio and ensuring that all advances perform satisfactorily.

At the end of the forthcoming financial year, the IN03 bond will be redeemed in full. The Group will ensure that, although smaller, the INCA portfolio is even more liquid and that the assets invested in are all of a high credit quality.

I look forward to a portfolio that reflects a far lower risk profile but that still delivers a reasonable return to shareholders. I have no doubt that we will achieve this, specifically due to the guidance and support from the Board of Directors and the continued dedication of IPM's staff.

I extend my thanks to all role players involved who have made it possible for INCA to achieve the goals set at the outset of the financial year.

Another year of sound financial results

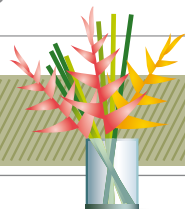
An after tax profit of R71,7 million is reflected in the income statement for the financial year ended 30 June 2010 (2009: loss of R54,5 million). This major swing in the bottom line is once again attributable to the volatility associated with fair value adjustments. The negative unrealised fair value adjustment of R195,6 million that was reflected in the 2008/9 financial results were reversed, with an unrealised fair value gain of R32,4 million reflected in the 2009/10 financial results.

When the effect of both realised and unrealised fair value adjustments are neutralised, the Group's performance for the year is as follows:

- * Net interest income after impairments decreased by R15,1 million (17,9%) to R69,4 million. The advances book however decreased by R1 255,5 million (27%) during the year.
- * The impairment on lease receivables and advances of R8,6 million was more than offset by the net interest income received during the year.
- * Operational expenditure was reined in, resulting in total operational costs decreasing by R2,6 million to R30,4 million.
- * As at 30 June 2010, total shareholders' interest increased by 13% compared to the previous year, reaching R517,1 million as at 30 June 2010. This was achieved notwithstanding the payment of a dividend of R14,2 million to shareholders during the year.
- * It is also positive to note that cash generated from operations for the year, at R107,1 million, was more than three times greater than operational expenses of R30,4 million.
- * As reflected in the key figures and ratios, Tier 1 capital (as per Basel II) increased to 28,3%. The deleveraging of the portfolio and the increase in shareholders' interest, as well as the increase in subordinate debt, also resulted in the increase of the capital underpin provided to senior debt holders. Total capital plus subordinated debt to advances increased from 11,9% at the beginning of the year to 22,4% at 30 June 2010.



The shareholders and the Board of Directors remained committed to the plan to keep the capital underpin provided to senior debt holders at a comfortable level. Notwithstanding the improved levels of capital adequacy, the Board of Directors decided not to declare a dividend at a meeting held on 16 September 2010, after financial year end.



Putting smiles on the faces of our future

Every year INCA invites clients and partners to attend a golf weekend in the Drakensberg where funds are raised for a charitable cause. This year the weekend was hosted by INCA Portfolio Managers (IPM) and a remarkable R54 000,00 was raised.

Last year the beneficiaries of the funds were Mama Florinah's House and four child-headed households. After careful consideration, and taking into account that both Mama Florinah's House and the child-headed households receive no other support, we decided to once again lend support to both.

Child-headed households are homes in which one child accepts responsibility for raising his/her siblings due to the absence of their parents, often due to the effects of HIV/Aids. These children have to provide food, basic necessities and care to their siblings, often while

trying to complete their own schooling. Mama Florinah is a pensioner who provides care and support to nine children, relying only on her state pension. Through this event, INCA was able to provide support to a total of 35 children for a period of 12 months.

In addition, IPM will again sponsor a Christmas function for 100 children in the Finetown community, where IPM staff and their children will assist with organising the event and providing entertainment for the day.

INCA is proud to be associated with clients and partners who are generous in supporting these worthy causes, not only as companies but in their personal capacity as well. It is a pleasure and privilege to be able to put smiles on the faces of our future.



CHIEF FINANCIAL OFFICER'S *report*

Maintaining strength through a focused strategy



Maintaining strength through a focused strategy

INCA has maintained its sound financial position and strength for the financial year ending 30 June 2010, despite persisting challenges and continuing uncertainty in the economy.

The Group's core focus for the year under review was to realign its portfolio by reducing the historical mismatch between its assets and liabilities. The annual financial statements bear testimony to this deliberate strategic action by the Board, which was discussed in more detail in the chief executive officer's report.

The results of the successful implementation of the strategy are most notable in the Group statement of financial position, with total assets decreasing by 24% to R5 038 million. Total liabilities decreased 27% to R4 521 million, largely due to the repurchase of listed bonds. The Group's capital adequacy increased substantially, while liquidity reserves have been increased to cover high anticipated redemptions for the coming year.

FINANCIAL REVIEW



The Group's annual financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), and no changes to the accounting policies were noted during the year under review.

The contraction in total assets is largely attributable to a reduction of R1 515 million in advances and investments. Advances with a face value of R933 million were disposed of profitably on a competitive basis during the year, with proceeds largely utilised to reduce the Group's borrowed funds. Liabilities were further settled through cash flows emanating from maturities in advances, which totalled some R576 million, as well as from the realisation of capital market stock included in

investments. Cash and cash equivalents increased by 5% to R640,3 million, supported by R107,1 million in cash generated from operations as shown in the cash flow statement.

The Group's equity increased by 12% to R517 million despite the declaration and payment of a net dividend of R14,2 million during the reporting period. Included in equity is a fair value reserve of R58,8 million (2009: R35,4 million) resulting from cumulative fair value adjustments to date. The fair value reserve accounts for 11% of total equity. Excluding the fair value reserve, retained earnings increased 11% to R358,9 million which reflects the underlying capital strength of the Group.

The Group's robust operations during the year is revealed in a profit of R71,7 million (2009: R54,5 million loss) on the statement of comprehensive income. Net interest income decreased by 15% to R78,1 million due to the Board's strategy that called for curtailing new advances and disposing of existing advances. Despite these disposals, the average margin on the overall portfolio has remained at similar levels to the prior year.

The impairment charge increased by 27% to R8,6 million, resulting in total impairments of R40,8 million. The lease receivables portfolio accounts for approximately 50% of total impairments to date. Realised fair value adjustments of R24,1 million (2009: R42,5 million) reflect the net gains from the disposal and/or early settlement of financial instruments including advances and investments.

Overall operational expenditure decreased by 8% to R30,4 million, continuing the success of the Group's strategy to contain costs that was implemented a few years ago. Fee income has decreased significantly to R0,8 million due to the lack of new advances, in line with Group strategy.

Cash generated by operations remains a core feature of the Group's financial statements and a cornerstone of its business model. For the year under review, cash generated by operations amounted to R107,1 million (2009: R121,4 million).

CHIEF FINANCIAL OFFICER'S report (continued)

Fair value reporting

The Group maintains its policy of measuring nearly all its financial assets and liabilities at fair value on the statement of financial position. The resultant fair value movements are recognised in the statement of comprehensive income in terms of IAS 39 Financial Instruments: Recognition and Measurement.

The fair value movements often result in significant volatilities in the Group's results, despite the Group's objective to minimise volatilities leading to the adoption of the policy to measure all financial assets and liabilities at fair value. Fair value movements can be attributed to various factors, including credit spreads against which the Group is not hedged. The fair values of unlisted financial assets and liabilities are determined using a robust process in place for over eight years. This process is continually refined and is monitored by a Board subcommittee – the Market Value Verification Committee – and subjected to external audit as part of the annual financial statements year end audit.



In the year under review, the Group recognised unrealised fair value gains of R32,4 million (2009: R195,6 million loss). In keeping with the Group's transparent reporting and disclosure principle, the fair value movements are further dissected in the table below:

Contributing factor	Gain/(loss) Rm	Per- centage
Credit spreads	39,2	121%
Twist risk	2,2	7%
Swap basis risk	(22,6)	(70%)
Lease receivables fair value adjustments reversed	8,6	26%
Early settlements (including disposals)	(9,8)	(30%)
Other portfolio movements	14,8	46%
Unrealised fair value adjustments	32,4	100%

This table represents an approximate attribution analysis.

The Group does not hedge itself against movements in credit spreads, therefore R39,2 million is largely due to the unequal movements in credit spreads in financial assets and financial liabilities. During the

year, credit spreads of advances contracted while those of the INCA bonds widened, particularly for the IN03 bonds.

To demonstrate the Group's sensitivity towards credit spread movements, an analysis is presented in note 21.7 to the annual financial statements. A 25 basis points increase on advances without an equal and corresponding increase on liabilities will result in a negative fair value adjustment of approximately R22 million (2009: R33 million). The Group's advances portfolio, excluding metropolitan municipalities, is most sensitive to credit spread movement in risk category 2 (A+ to A-).

The Group makes use of interest rate swaps and cross-currency swaps to hedge against interest rate and foreign currency risks. Derivative financial instrument transactions are not concluded for speculative purposes. For the period under review, the swap curve moved much lower than the bond yield curve, resulting in a significant unrealised impact (R22,6 million) on fair value movements.

Lease receivables are measured at amortised cost in terms of IFRS, therefore any unrealised fair value movements related to this portfolio are reversed for accounting purposes. The impact of this reversal is estimated at minus 30% of unrealised fair value adjustments recognised in the current reporting period.

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

CAPITAL MANAGEMENT



Given the harsh economic climate over the past two years, the Group has continued to strengthen its capital structure through various means including capital retention. Net dividends of R14,2 million paid during the year under review were covered more than five times by the reported profit. The Group does not have a firm dividend policy and therefore reviews the dividend scope on an annual basis.

Following the end of the reporting period, the Board has recommended that no dividends be declared to shareholders. This decision was well received by shareholders, and further demonstrated the Board and shareholders' commitment to ensuring that the Group's capital structure can withstand current economic challenges.

During the year under review the Group raised additional subordinated borrowings of R160 million, bringing the total raised to date to R260 million. These subordinated borrowings have further strengthened the Group's capital base and improved its Tier 2 capital. Basel II Tier 1 capital has increased by 8% to R458,4 million. Risk weighted assets decreased by 18% to R1 621,6 million, confirming the Group's maintenance of a high-quality credit book.

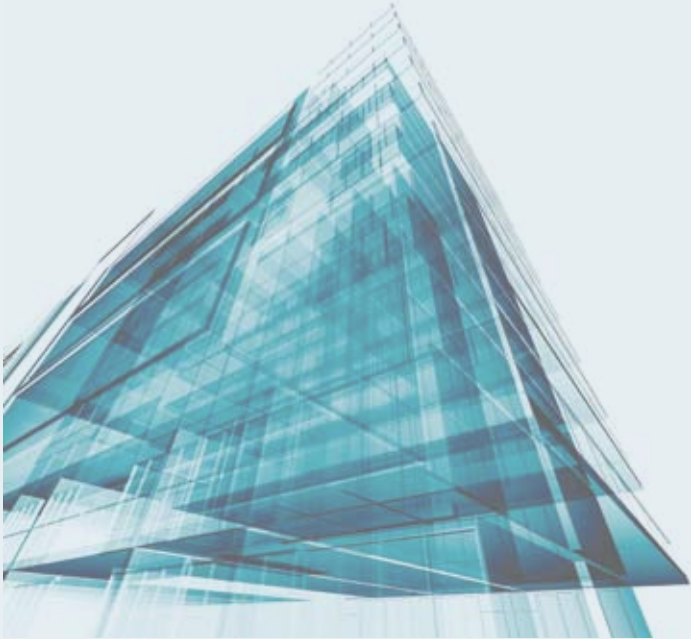
Applying the Basel II framework, the capital adequacy of the Group improved significantly to 28,3% (2009: 21,6%) and 39,4% (2009: 23,6%) for Tier 1 and Tier 1 plus Tier 2 respectively. The Group will maintain these high ratios until all key strategic objectives have been achieved, including the successful preparation for redeeming the IN03 bonds.

The proceeds of the senior and subordinated issues and the sale of assets were used to settle short term debt (including all funding under repurchase agreements) and to repurchase IN03, IN07 and IN04 bonds. As a result, INCA's short term debt at year end reduced by R882,3 million to R743 million, and the IN03 bonds issued to the market reduced by R800,4 million to R1,1 billion. As at 30 June 2010, INCA's cash flow forecast reflects a projected R172 million cash shortfall in the second half of 2011, mitigated by the Group's liquidity reserves of R531,6 million.

INCA has thus managed to successfully address the asset and liability mismatch, as well as redeem its debt by R1 683 million during the year. The Group is now much better positioned than at the start of the year under review.



Outlook for the year



The Group's total assets are expected to decrease further, in line with the large number of anticipated maturities of advances as well as the redemption of the IN03 bonds in June 2011. Net interest income will be negatively affected once the full impact of the disposal of advances during the year is realised. Operating expenditure will be contained and more predictable, thanks to the management agreement signed with INCA Portfolio Managers, as discussed in the chief executive officer's report.

The Group will continue to focus on cash collection and finding efficiencies within the portfolio, while striving towards matching its asset and liability cash flows and settling liabilities as they fall due.



Chief Executive Office, Support Services and Treasury
Christopher, Joanne, Attie, Lucky, Charmaine, Karlien, Dirkje



Financial Administration and Systems
Luntu, Helen, Mpho, Andries, Reggie, Anastasia, Riaan

DIRECTORS' responsibility statement

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- 23... Consolidated cash flow statements
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The directors are responsible for the preparation and fair presentation of the Company and Group annual financial statements, comprising the statements of financial position at 30 June 2010, the statements of comprehensive income, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standard 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 ANNUAL FINANCIAL STATEMENTS

The Company and Group annual financial statements set out on pages 16 to 51 were considered by the Audit Committee on 15 September 2010 and subsequently approved by the Board of Directors on 16 September 2010 and are signed on its behalf by:



JM Matlala
Chairperson



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 2010, 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
16 September 2010

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 statements of financial position at 30 June 2010, the statements of comprehensive income, changes in equity and cash flow statements for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on page 18.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these annual 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 annual 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 annual 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 annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual 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 annual 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 annual 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 annual financial statements present fairly, in all material respects, the financial position of the Company and Group at 30 June 2010, 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

16 September 2010

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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.

OPERATING RESULTS

The INCA Group (inclusive of subsidiaries listed in note 4) reflected a profit after tax of R72 million (2009: R54 million loss) and the Company reported a profit after tax of R69 million (2009: R63 million loss) for the financial year under review. The reported fair values incorporated independent market information and transparent pricing where available. In addition, in the case of valuations of advances where no transparent market pricing exists or where market pricing observed was deemed outdated due to illiquidity, management used internally-generated historical data, recent transactions data, experienced judgements and fair comparisons. The fair value processes followed are the specific focus area of the Market Value Verification Committee, and are assessed by the external auditors as part of the normal audit process.

The Group's focus in the current year has been on maintaining a strong liquidity position in preparation for the INO3 bond redemption on 30 June 2011. We draw your attention to note 21.11 where the liquidity risk has been disclosed.

AUTHORISED AND ISSUED SHARE CAPITAL

The Company's authorised and issued share capital remained unchanged in the year under review (2009 – no change).

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

SUBORDINATED LIABILITIES

The fair value of total subordinated liabilities in issue at financial year end amounted to R262 million (2009: R103 million) and the maturity date of these subordinated liabilities are 2011 and 2015.

DIVIDENDS

A dividend of R15 million (2009: R15 million) was declared, of which R14,3 million (2009: R14,3 million) (net of dividend to the share incentive trust) was distributed to shareholders in October 2009.

DIRECTORS

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

JJ Njeke resigned as director on 19 November 2009.

A Sangqu resigned as director on 19 November 2009.

A Arnott resigned as director on 19 November 2009.

P Rackstraw resigned as director on 19 November 2009.

A Canter resigned as director and was appointed as an alternative director on 19 November 2009.

J Stals resigned as director and was appointed as an alternative director on 19 November 2009.

G McKenzie was appointed as alternative director on 19 November 2009.

J Matlala was appointed as chairperson on 19 November 2009.

A Canter resigned as alternative director and was appointed as director on 09 March 2010.

G McKenzie resigned as alternative director and was appointed as director on 12 April 2010.

J Stals resigned as alternative director and was appointed as director on 12 April 2010.

R Kalaichelvan was appointed as director on 12 April 2010.

L Gcwabe was appointed as director on 12 April 2010.

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 annual financial statements. The interest of INCA in the after tax profits of its subsidiary companies for the year is R5 million (2009: R8 million).

OWNERSHIP OF COMPANY	Percentage holding	
	June 2010	June 2009
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	0,01
INCA Share Incentive Trust*	4,95	4,95
Old Mutual Life Assurance Company (South Africa) Limited (FutureGrowth Portfolio)	26,98	26,98
Kagiso Financial Services Limited	43,96	43,96
	100,00	100,00

for the year ended 30 June 2010

***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 (2009: 42 007) INCA ordinary shares are currently held by the INCA Share Incentive Trust. Members of the Human Resources 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

AUDIT, risk and compliance committee report

The committee is satisfied that the external auditors are independent of Infrastructure Finance Corporation Limited (INCA) and its subsidiaries and confirms that it has carried out those functions and responsibilities required in terms of the Companies Act of South Africa as set out below. The committee concurs with and accepts the external auditors' conclusion on the annual financial statements and has recommended the approval thereof to the Board of Directors. The Board has subsequently approved these annual financial statements which were also discussed and accepted by the shareholders at the most recent annual general meeting.

THE KEY FUNCTIONS AND RESPONSIBILITIES OF THE COMMITTEE ARE TO:

- * assist the Board of Directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and monitoring processes applied within the Group in the day-to-day management of its business;
- * facilitate and promote communication between the Board, management and the external auditors;
- * introduce such measures as in the committee's opinion may serve to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the Group;
- * nominate for appointment as auditors of the company and its subsidiaries registered auditors who, in the opinion of the committee, are independent of the Group;
- * determine the fees to be paid to the auditors and the auditors' terms of engagement;
- * ensure that the appointment of the auditors complies with the Companies Act and any other legislation relating to the appointment of auditors;
- * determine the nature and extent of any non-audit services that the auditors may provide to the Group;
- * review and discuss the audited annual financial statements included in the annual report with the external auditors, the Chief Executive Officer and the Chief Financial Officer; and
- * review significant adjustments resulting from external audit queries and accept immaterial unadjusted audit differences.



Audit, Risk and Compliance Committee Chairman

16 September 2010

CONSOLIDATED *statements of financial position*

at 30 June 2010

		Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
	Notes				
ASSETS					
Cash and cash equivalents	2	640 346	611 703	637 421	608 768
Other assets	3	68 919	127 474	68 822	127 317
Investments	4	818 831	1 078 712	852 045	1 115 854
Derivative financial instruments	12	33 565	80 437	33 565	80 437
Advances	5	3 472 946	4 728 450	3 414 944	4 665 897
Property, plant and equipment	6	3 281	3 473	3 281	3 473
Total assets		5 037 888	6 630 249	5 010 078	6 601 746
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	7	807	807	849	849
Share premium	8	99 045	99 045	105 988	105 988
Unrealised fair value reserve		58 798	35 446	47 114	21 699
Retained earnings		358 503	324 436	315 006	288 472
Total equity		517 153	459 734	468 957	417 008
Liabilities					
Subordinated borrowed funds	9	262 198	103 044	262 198	103 044
Borrowed funds	10	4 001 462	5 153 001	4 001 462	5 153 001
Trade and other payables	11	96 509	769 717	120 815	790 668
Taxation payable		26 450	27 840	24 807	24 217
Derivative financial instruments	12	119 699	106 151	119 699	106 151
Deferred taxation	17.3	14 417	10 762	12 140	7 657
Total liabilities		4 520 735	6 170 515	4 541 121	6 184 738
Total equity and liabilities		5 037 888	6 630 249	5 010 078	6 601 746
Approximate rates of exchange ruling at the end of the year:					
	USD	7,6650	7,7150		
	EUR	9,3784	10,8266		
	GBP	11,4557	12,7226		

CONSOLIDATED *statements of comprehensive income*

for the year ended 30 June 2010

	Notes	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
Interest and similar income	13	941 166	1 271 265	930 356	1 259 567
Interest expense and similar charges	14	(863 103)	(1 179 886)	(863 103)	(1 179 863)
Net interest income		78 063	91 379	67 253	79 704
Impairment on lease receivables and advances	5.8	(8 619)	(6 801)	(8 619)	(6 801)
Net interest income after impairment		69 444	84 578	58 634	72 903
Fair value adjustment – realised	15.1	24 080	42 466	24 080	42 466
– unrealised	15.2	32 434	(195 624)	35 298	(197 362)
Fee and other income		841	10 398	1 817	11 373
Net income before operating expenditure		126 799	(58 182)	119 829	(70 620)
Operating expenditure	16	(30 406)	(33 037)	(30 288)	(32 793)
Profit/(Loss) before taxation		96 393	(91 219)	89 541	(103 413)
Taxation	17.1	(24 717)	36 764	(22 592)	40 836
Profit/(Loss) for the year		71 676	(54 455)	66 949	(62 577)
Other comprehensive income		–	–	–	–
Total comprehensive income/(loss) for the year		71 676	(54 455)	66 949	(62 577)
Attributable to:					
Owners of the Company		71 676	(54 455)	66 949	(62 577)
Non-controlling interests		–	–	–	–
		71 676	(54 455)	66 949	(62 577)
Earnings/(loss) per share (cents)	23	8 887	(6 752)		
Dividend per share (cents)		1 768	1 768		

CONSOLIDATED *statements of changes in equity*

for the year ended 30 June 2010

Group	Share capital R'000	Share premium R'000	Unrealised fair value reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 30 June 2008	807	99 045	176 295	252 299	528 446
Dividend paid for 2008 net of dividend to Share Trust	-	-	-	(14 257)	(14 257)
Total comprehensive income for the year	-	-	(140 849)	86 394	(54 455)
Balance at 30 June 2009	807	99 045	35 446	324 436	459 734
Dividend paid for 2009 net of dividend to Share Trust	-	-	-	(14 257)	(14 257)
Total comprehensive income for the year	-	-	23 352	48 324	71 676
Balance at 30 June 2010	807	99 045	58 798	358 503	517 153

Company	Share capital R'000	Share premium R'000	Unrealised fair value reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 30 June 2008	849	105 988	163 800	223 948	494 585
Dividend paid for 2008	-	-	-	(15 000)	(15 000)
Total comprehensive income for the year	-	-	(142 101)	79 524	(62 577)
Balance at 30 June 2009	849	105 988	21 699	288 472	417 008
Dividend paid for 2009	-	-	-	(15 000)	(15 000)
Total comprehensive income for the year	-	-	25 415	41 534	66 949
Balance at 30 June 2010	849	105 988	47 114	315 006	468 957

CONSOLIDATED *cash flow statements*

for the year ended 30 June 2010

	Notes	Group June 2010	Group June 2009	Group June 2010	Group June 2009
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from borrowers and customers	A.1	575 934	725 259	568 314	716 428
Cash paid to lenders, employees and suppliers	A.2	(850 933)	(1 188 616)	(850 815)	(1 188 349)
Cash receipts from investments and cash balances	A.3	382 138	584 786	380 505	583 454
Cash generated from operations	A.6	107 139	121 429	98 004	111 533
Normal taxation paid	A.4	(22 452)	22 544	(17 519)	23 724
Dividends paid	A.5	(14 257)	(14 257)	(15 000)	(15 000)
CHANGES IN OPERATING FUNDS					
Decrease in income earning assets	A.7	1 473 041	81 828	1 474 701	74 808
Decrease/(increase) in non-income earning assets	A.8	58 555	(25 548)	58 495	(25 888)
(Decrease)/increase in borrowings, derivatives and other payables	A.9	(1 573 157)	233 710	(1 569 802)	255 517
Net change in operating funds		(41 561)	289 990	(36 606)	304 437
Net cash inflow from operating activities		28 869	419 706	28 879	424 694
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to:					
* computer equipment		(24)	(168)	(24)	(168)
* furniture and fittings		–	(92)	–	(92)
* leasehold improvements		(205)	(26)	(205)	(26)
Total additions		(229)	(286)	(229)	(286)
Proceeds from disposal of:					
* computer equipment		–	74	–	74
* furniture and fittings		3	129	3	129
Net cash outflow from investing activities		(226)	(83)	(226)	(83)
Increase in cash and cash equivalents		28 643	419 623	28 653	424 611
Cash and cash equivalents at the beginning of the year		611 703	192 080	608 768	184 157
Cash and cash equivalents at the end of the year		640 346	611 703	637 421	608 768

NOTES to the consolidated cash flow statements

for the year ended 30 June 2010

	Group June 2010	Group June 2009	Group June 2010	Group June 2009
A. CASH FLOW INFORMATION				
A.1 Cash receipts from borrowers and customers				
Interest income	538 851	648 260	529 674	637 894
Realised profits on advances	37 119	67 476	37 119	67 476
Fee and other income	841	10 398	1 817	11 373
Deduct amortisation of discount income	(877)	(875)	(296)	(315)
Total cash receipts from borrowers and customers	575 934	725 259	568 314	716 428
A.2 Cash paid to lenders, employees and suppliers				
Interest expense	(863 103)	(1 179 886)	(863 103)	(1 179 863)
Realised gains /(losses) on long term liabilities	548	(1 086)	548	(1 086)
Add amortisation of discount expense	41 693	24 974	41 693	24 974
Operating expenses excluding depreciation	(30 071)	(32 618)	(29 953)	(32 374)
Total cash paid to lenders, employees and suppliers	(850 933)	(1 188 616)	(850 815)	(1 188 349)
A.3 Cash receipts from investments and cash balances				
Interest income	397 123	614 099	395 493	612 768
Preference and ordinary dividends	5 192	8 906	5 189	8 905
Realised profits on investments and derivatives	(13 587)	(23 924)	(13 587)	(23 924)
Deduct amortisation of discount income	(6 590)	(14 295)	(6 590)	(14 295)
Total cash receipts from investments and cash balances	382 138	584 786	380 505	583 454
A.4 Normal taxation paid				
Amounts payable at the beginning of the year	(27 840)	(5 568)	(24 217)	(4 351)
Income statement charge	(21 062)	272	(18 109)	3 858
Amounts payable at the end of the year	26 450	27 840	24 807	24 217
Normal tax paid	(22 452)	22 544	(17 519)	23 724
A.5 Dividends paid				
Amounts unpaid at the beginning of the year	–	–	–	–
Dividend paid	(14 257)	(14 257)	(15 000)	(15 000)
Amounts unpaid at the end of the year	–	–	–	–
Dividends paid	(14 257)	(14 257)	(15 000)	(15 000)
A.6 Reconciliation of profit before taxation to cash generated from operations				
Profit/(loss) before taxation	96 393	(91 219)	89 541	(103 413)
Non-cash charges:				
Depreciation	335	419	335	419
Impairment on lease receivables and advances	8 619	6 801	8 619	6 801
Amortisation of discount income	(7 467)	(15 170)	(6 886)	(14 610)
Amortisation of discount expense	41 693	24 974	41 693	24 974
Revaluation of investments and advances	41 192	(24 127)	38 328	(22 389)
Revaluation of subordinated debt and long term borrowings	(73 918)	221 956	(73 918)	221 956
Revaluation currency translation gains & losses	209	(2 029)	209	(2 029)
Loss/(profit) on disposal of equipment	83	(176)	83	(176)
Cash generated from operations	107 139	121 429	98 004	111 533

for the year ended 30 June 2010

	Group June 2010	Group June 2009	Group June 2010	Group June 2009
A.7 Decrease/(increase) in income earning assets				
Investments	259 881	150 477	263 809	151 644
Advances	1 255 504	(101 145)	1 250 953	(107 034)
Add: amortisation of discount income	7 467	15 170	6 886	14 610
Revaluation of advances and investments	(41 192)	24 127	(38 328)	22 389
Impairment on advances	(8 619)	(6 801)	(8 619)	(6 801)
Net decrease in income earning assets	1 473 041	81 828	1 474 701	74 808
A.8 Decrease/(increase) in non-income earning assets				
Accrued interest	58 692	(39 833)	58 632	(39 830)
(Increase)/decrease in other debtors	(137)	14 285	(137)	13 942
Net decrease/(increase) in non-income earning assets	58 555	(25 548)	58 495	(25 888)
A.9 Increase/(decrease) in borrowings, derivatives and other payables				
Decrease in borrowed funds and derivative financial instruments	(1 091 119)	(164 270)	(1 091 119)	(164 270)
Add amortisation of discount expense	(41 693)	(24 974)	(41 693)	(24 974)
Revaluation of borrowed funds and derivatives	72 863	(209 298)	72 863	(209 298)
Increase in subordinated borrowed funds	159 154	10 629	159 154	10 629
Revaluation of subordinated borrowed funds	846	(10 629)	846	(10 629)
(Decrease)/increase in trade and other payables	(673 208)	632 252	(669 853)	654 059
Net (decrease)/increase in borrowings, derivatives and other payables	(1 573 157)	233 710	(1 569 802)	255 517

NOTES to the consolidated annual financial statements

1. ACCOUNTING POLICIES

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

Adoption of new and revised Standards

Standards and Interpretations effective in the current period

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

- * IFRS 7, Financial Instruments: Disclosures – Revised March 2009 – Effective for annual periods beginning on or after 1 January 2009.
- * IAS 1, Presentation of Financial Statements – Revised 2007 & 2008 – Effective for annual periods beginning on or after 1 January 2009.
- * IAS 16, Property, Plant and Equipment – Revised May 2008 – Effective for annual periods beginning on or after 1 January 2009.
- * IAS 32, Financial Instruments: Presentation – Revised 2008 – Effective for annual periods beginning on or after 1 January 2009.
- * IAS 36, Impairment of Assets – Revised May 2008 – Effective for annual periods beginning on or after 1 January 2009.
- * IAS 38, Intangible Assets – Revised May 2008 & April 2009 – Effective for annual periods beginning on or after 1 January 2009.
- * IAS 39, Financial Instruments: Recognition and Measurement – Revised May 2008 – Effective for annual periods beginning on or after 1 January 2009.

Standards and Interpretations in issue not yet adopted

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

- * IFRS 3, Business Combinations – Revised May 2010 – Effective for annual periods beginning on or after 1 July 2010.
- * IFRS 7, Financial Instruments: Disclosures – Revised May 2010 – Effective for annual periods beginning on or after 1 January 2011.
- * IFRS 9, Financial Instruments: Classification and measurement – Issued November 2009 – Effective for annual periods beginning on or after 1 January 2013.
- * IAS 1, Presentation of Financial Statements – Revised May 2010 – Effective for annual periods beginning on or after 1 January 2011.
- * IAS 24, Related Party Disclosures – Revised November 2009 – Effective for annual periods beginning on or after 1 January 2011.
- * IAS 27, Consolidated and Separate Financial statements – Revised May 2010 – Effective for annual periods beginning on or after 1 July 2010.

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

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 April 2009.

1.1 Basis of presentation

The Group's consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, and the requirements of the South African Companies Act. The consolidated annual financial statements are prepared on the historical cost basis, except for the following assets and liabilities that are stated at fair value:

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

1.2 Consolidation

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

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

1.3 Revenue recognition

1.3.1 *Interest income and expense*

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

1.3.2 *Fair value adjustments (realised and unrealised)*

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

for the year ended 30 June 2010

1.3.3 Fee and other income

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

1.3.4 Dividends

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

1.4 Foreign currency transactions

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

1.5 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 date of the statement of financial position. 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 Recognition of assets, liabilities and provisions (continued)

1.6.5 Sale and repurchase agreements

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

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

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

1.7 Offsetting financial instruments

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

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

NOTES to the consolidated annual financial statements (continued)

1. ACCOUNTING POLICIES (continued)

1.8 Cash and cash equivalents

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

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

1.9 Financial assets

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

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

1.9.1 *Effective interest method*

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

1.9.2 *Financial assets at FVTPL*

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

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

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

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

Various instruments are designated as at FVTPL which is consistent with the Groups 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 date of the statement of financial position. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

1.9.4 *Loans and receivables*

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

for the year ended 30 June 2010

1. ACCOUNTING POLICIES (continued)

1.9.5 *Impairment of financial assets*

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

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

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

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

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

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

NOTES to the consolidated annual financial statements (continued)

1. ACCOUNTING POLICIES (continued)

1.10.4 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

1.10.5 Derecognition of financial liabilities

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

1.11 Derivative financial instruments

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

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

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

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

1.12 Property, plant and equipment

The Group carries property and equipment at cost less accumulated depreciation. It depreciates equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly. The periods of depreciation used are as follows:

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

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

1.13 Intangible assets

1.13.1 Computer software development costs

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

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding 3 years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the statement of comprehensive income when incurred.

1.13.2 Other intangible assets

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

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

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1. ACCOUNTING POLICIES (continued)**1.14 Deferred taxation**

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

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

1.15 Employee benefits**1.15.1 Post-employment benefits**

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

1.15.2 Termination benefits

The Group recognises termination benefits as a liability in the statement of financial position and as an expense in the statement of comprehensive income 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 statement of financial position and an expense in the statement of comprehensive income.

1.15.4 Share appreciation rights obligation

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

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 annual 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 date of the statement of financial position as well as affecting the reported income and expenses for the year. Although estimates are based on management's best knowledge and judgement of current facts as at the date of the statement of financial position, 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 date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2.2.1 Useful lives of property, plant and equipment

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

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 consolidated annual financial statements (continued)

	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
2. CASH AND CASH EQUIVALENTS				
Bank balances	44 601	109 470	42 010	106 545
Call deposits with financial institutions	595 745	502 233	595 411	502 223
	640 346	611 703	637 421	608 768
3. OTHER ASSETS				
Accrued interest	55 606	114 298	55 573	114 205
Other debtors	13 313	13 176	13 249	13 112
	68 919	127 474	68 822	127 317
4. INVESTMENTS				
4.1 Rand Merchant Bank	283 108	322 648	283 108	322 648
4.2 Loan to INCA Share Incentive Trust	–	–	22 816	22 816
4.3. Zero coupon bonds	107 596	97 760	107 596	97 760
Capital market stock	318 050	526 486	318 050	526 486
Other investments:				
4.4 Preference shares	54 986	62 609	54 986	62 609
Dividend income Fund	42 761	40 295	42 761	40 295
Funding provided under repurchase agreements	–	16 680	–	16 680
Investment in and loans to subsidiaries:				
4.5 INCA Bond Rehabilitation Company (Proprietary) Limited				
Investment in ordinary shares	–	–	14 000	14 000
Inter-company loan	–	–	(3 740)	188
4.6 INCA Asset Finance (Proprietary) Limited				
Investment in ordinary shares	–	–	253	253
Inter-company loan	–	–	(116)	(116)
4.7 Infrastructure Finance Corporation Initiative (Proprietary) Limited				
Investment in ordinary shares	–	–	1	1
Inter-company loan	–	–	–	–
Money market investments with other banks:				
Maturing after 1 month but within 3 months	–	–	–	–
4.8 Retentions deposits held	12 330	12 234	12 330	12 234
	818 831	1 078 712	852 045	1 115 854

4.1 INCA received a loan of EUR 40 million from the European Investment Bank. These funds were deposited with Rand Merchant Bank (a division of FirstRand Bank Ltd.) in ZAR, with the exchange risks hedged through a common terms currency agreement.

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

4.3 The zero coupon bonds represent deposits with financial institutions. These investments are partially offset by zero coupon liabilities to municipalities. (See note 10.3). Zero coupon bonds with a combined maturity value of R95 million were pledged as security for a liquidity facility with Investec Bank. The zero coupon bonds have the same maturity date and maturity value as the capital due in respect of bond profile advances made to specific borrowers. On maturity, the proceeds of the zero coupon bonds will be used to settle the principal balance due 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 and will be redeemed on 20 March 2017. These shares were pledged as part security for a R112 million liquidity facility with Investec Bank. INCA invested in R40 million (2009: R40 million) in a Dividend Income Fund. This investment is redeemable on demand.

4.5 The Company acquired a one hundred percent interest in INCA Bond Rehabilitation Company (Proprietary) Limited on 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 ("INCAfin") was incorporated and on 13 February 2003, INCA subscribed for 51 000 shares out of a total of 90 000 shares issued (56,7%) at a total cost of R51 000. INCAfin discounts movable asset related rental agreements in the statutory sector.

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

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.

for the year ended 30 June 2010

	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
5. ADVANCES				
5.1 Valuation profile				
Advances at fair value	3 001 488	4 154 706	2 942 587	4 091 254
Lease receivables at cost	512 338	606 005	512 338	606 005
Impairment on lease receivables and advances	(40 880)	(32 261)	(39 981)	(31 362)
	3 472 946	4 728 450	3 414 944	4 665 897
The fair value of lease receivables is R529 234 245 (2009 – R496 107 951) for Group and Company.				
5.2 Maturity profile				
Maturing within 1 year	926 345	127 506	873 756	124 650
Maturing within 2 years	376 721	982 056	376 482	929 241
Maturing within 3 years	210 356	569 498	210 356	569 140
Maturing within 4 years	243 764	141 800	238 590	135 276
Maturing within 5 years	545 422	152 366	545 422	152 366
Maturing after 5 years	1 170 338	2 755 224	1 170 338	2 755 224
	3 472 946	4 728 450	3 414 944	4 665 897
5.3 Geographic profile				
Eastern Cape	79 036	91 666	79 036	91 666
Free State	184 705	274 847	167 861	257 376
Gauteng	1 357 594	1 392 913	1 318 410	1 350 349
KwaZulu-Natal	651 840	977 633	651 840	977 633
Limpopo	71 194	95 734	71 194	95 734
Mpumalanga	243 113	390 634	243 113	390 634
Northern Cape	23 052	34 564	23 052	34 564
North West	204 266	196 467	202 292	193 953
Western Cape	117 246	359 684	117 246	359 680
Southern African Development Community	77 732	63 975	77 732	63 975
Other:				
– National Government	238 628	368 375	238 628	368 375
– State Owned Enterprises	224 540	481 958	224 540	481 958
	3 472 946	4 728 450	3 414 944	4 665 897
5.4 Repayment profile				
Bonds (bullet payment profile)	772 319	996 809	724 359	948 194
Amortised loans	2 700 627	3 731 641	2 690 585	3 717 703
	3 472 946	4 728 450	3 414 944	4 665 897
5.5 Loan commitments to advance funds				
KwaZulu-Natal Growth Fund	288 199	–	288 199	–
Neotel (Proprietary) Limited	43 920	123 864	43 920	123 864
Kwa-dukuzi Local Municipality	6 800	–	6 800	–
Steve Tshwete Local Municipality	–	35 000	–	35 000
Jukskei View	–	16 000	–	16 000
	338 919	174 864	338 919	174 864

NOTES to the consolidated annual financial statements (continued)

	30 June 2010 R'000	% of advances	30 June 2009 R'000	% of advances
5. ADVANCES (continued)				
5.6 Concentration profile (Group and Company)				
Ten largest exposures (Face value)				
Ekurhuleni Metropolitan Council	295 394	8,5	318 965	6,7
Tshwane Metropolitan Municipality	264 815	7,6	279 635	5,9
South African Airways	216 235	6,2	246 252	5,2
Neotel (Proprietary) Limited	206 080	5,9	* –	
eThekweni Municipality	202 059	5,8	371 795	7,9
Nalitemba Provincial Hospital	190 549	5,5	203 144	4,3
University of KwaZulu-Natal	179 116	5,2	143 244	3,0
National Government	124 560	3,6	128 071	2,7
Sedibeng Water	99 886	2,9	n ² –	
City of Johannesburg Metropolitan Municipality	83 611	2,4	131 137	2,8
Airports Company of South Africa	n ¹ –	–	250 000	5,3
Eskom Group	n ¹ –	–	148 762	3,1
Total	1 862 305	53,6	2 221 005	46,9
Capital secured	(172 100)	(5,0)	(222 100)	(4,7)
Net exposure	1 690 205	48,6	1 998 905	42,2

n¹ The 2009 exposures to the Airports Company of South Africa and Eskom Group were sold during the year.

n² The exposure to Sedibeng Water did not qualify under the ten largest exposures in 2009.

* New exposure in the current financial year.

	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
5.7 Capital repayments secured				
Secured by cession of a zero coupon bond or set off against a deposit with the Company	663 821	662 709	621 535	620 423
Percentage of total book value before impairment	18,9%	13,9%	18,0%	13,2%
The Company ceded to the European Investment Bank advances with a book value of R169 million (2009: R194 million) and R193 million (2009: R213 million) made to the Tshwane Metropolitan Municipality and eThekweni Metropolitan Municipality respectively. (See note 10.2) Credit linked notes with a book value of R95 million was ceded to Investec as part security for a R112 million liquidity facility.				
5.8 Impairment on lease receivables and advances				
Balance beginning of the year	32 261	25 460	31 362	24 561
Impairment charge for the year	11 010	7 127	11 010	7 127
Impairment reversals for the year	(2 391)	(326)	(2 391)	(326)
Balance end of the year	40 880	32 261	39 981	31 362

for the year ended 30 June 2010

	Cost R'000	Accumulated depreciation R'000	Net carrying value R'000
6. PROPERTY, PLANT AND EQUIPMENT			
6.1 Group – 2010			
Computer equipment	3 013	2 722	291
Furniture and fittings	3 225	615	2 610
Leasehold improvements	1 650	1 503	147
Motor vehicles	551	318	233
	8 439	5 158	3 281
Group – 2009			
Computer equipment	3 003	2 599	404
Furniture and fittings	3 330	608	2 722
Leasehold improvements	1 445	1 432	13
Motor vehicles	551	217	334
	8 329	4 856	3 473

	30 June 2009 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit /(loss) R'000	Depreciation R'000	30 June 2010 Carrying value R'000
Movements: 2009 to 2010						
Computer equipment	404	24	–	(5)	(132)	291
Furniture and fittings	2 722	–	(3)	(78)	(31)	2 610
Leasehold improvements	13	205	–	–	(71)	147
Motor vehicles	334	–	–	–	(101)	233
	3 473	229	(3)	(83)	(335)	3 281
Movements: 2008 to 2009						
Computer equipment	378	168	(74)	72	(140)	404
Furniture and fittings	2 696	92	(129)	115	(52)	2 722
Leasehold improvements	114	26	–	(11)	(116)	13
Motor vehicles	445	–	–	–	(111)	334
	3 633	286	(203)	176	(419)	3 473

NOTES to the consolidated annual financial statements (continued)

		Cost R'000	Accumulated depreciation R'000	Net carrying value R'000
6.	PROPERTY, PLANT AND EQUIPMENT (continued)			
6.2	Company – 2010			
	Computer equipment	2 898	2 607	291
	Furniture and fittings	3 225	615	2 610
	Leasehold improvements	1 650	1 503	147
	Motor vehicles	551	318	233
		8 324	5 043	3 281
	Company – 2009			
	Computer equipment	2 888	2 484	404
	Furniture and fittings	3 330	608	2 722
	Leasehold improvements	1 445	1 432	13
	Motor vehicles	551	217	334
		8 214	4 741	3 473

	30 June 2009 Carrying value R'000	Additions R'000	Disposal proceeds R'000	Profit /(loss) R'000	Depreciation R'000	30 June 2010 Carrying value R'000
Movements: 2009 to 2010						
Computer equipment	404	24	–	(5)	(132)	291
Furniture and fittings	2 722	–	(3)	(78)	(31)	2 610
Leasehold improvements	13	205	–	–	(71)	147
Motor vehicles	334	–	–	–	(101)	233
	3 473	229	(3)	(83)	(335)	3 281
Movements: 2008 to 2009						
Computer equipment	378	168	(74)	72	(140)	404
Furniture and fittings	2 696	92	(129)	115	(52)	2 722
Leasehold improvements	114	26	–	(11)	(116)	13
Motor vehicles	445	–	–	–	(111)	334
	3 633	286	(203)	176	(419)	3 473

NOTES to the consolidated annual financial statements (continued)

	Group				Company			
	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000
10. BORROWED FUNDS								
10.1 INCA Bonds issued to the market:								
INO3 bonds – redeemable 30 June 2011 Semi-annual coupons of 14,0%.	1 146 312	1 179 417	1 946 748	2 091 547	1 146 312	1 179 417	1 946 748	2 091 547
INO4 note – redeemable 15 March 2015 Semi-annual coupons of 8,9%.	444 000	407 727	646 000	572 846	444 000	407 727	646 000	572 846
INO618 note – redeemable 05 October 2009 Interest calculated at 13,15% is payable at maturity.	–	–	32 000	32 309	–	–	32 000	32 309
INO620 note – redeemable 10 July 2009 Interest calculated at 13,00% is payable at maturity.	–	–	35 000	35 010	–	–	35 000	35 010
INO621 note – redeemable 08 October 2009 Interest calculated at 13,15% is payable at maturity.	–	–	13 000	13 130	–	–	13 000	13 130
INO623 note – redeemable 23 October 2009 Interest is payable quarterly at jibar plus 160 basis points.	–	–	200 000	200 642	–	–	200 000	200 642
INO626 note – redeemable 20 November 2009 Interest is payable quarterly at jibar plus 125 basis points.	–	–	100 000	100 219	–	–	100 000	100 219
INO632 note – redeemable 16 October 2009 Interest calculated at 11,15% is payable at maturity.	–	–	12 000	12 075	–	–	12 000	12 075
INO634 note – redeemable 19 February 2010 Interest calculated at 9,30% is payable at maturity.	–	–	26 000	26 070	–	–	26 000	26 070
INO635 note – redeemable 25 February 2010 Interest calculated at 9,05% is payable at maturity.	–	–	100 000	100 125	–	–	100 000	100 125
INO637 note – redeemable 16 March 2010 Interest calculated at 9,25% is payable at maturity.	–	–	20 000	20 053	–	–	20 000	20 053
INO638 note – redeemable 14 December 2009 Interest calculated at 9,15% is payable at maturity.	–	–	1 000	1 002	–	–	1 000	1 002
INO639 note – redeemable 16 March 2010 Interest calculated at 9,05% is payable at maturity.	–	–	7 000	7 010	–	–	7 000	7 010
INO640 note – redeemable 14 December 2009 Interest calculated at 9,075% is payable at maturity.	–	–	6 000	6 010	–	–	6 000	6 010
INO641 note – redeemable 08 January 2010 Interest calculated at 9,05% is payable at maturity.	–	–	37 000	37 070	–	–	37 000	37 070
INO642 note – redeemable 23 July 2009 Interest calculated at 9,363% is payable at maturity.	–	–	67 000	67 033	–	–	67 000	67 033
INO643 note – redeemable 28 July 2009 Interest calculated at 9,100% is payable at maturity.	–	–	12 000	12 002	–	–	12 000	12 002
INO644 note – redeemable 05 May 2010 Interest is payable quarterly at jibar plus 100 basis points.	–	–	100 000	99 667	–	–	100 000	99 667
INO645 note – redeemable 03 September 2009 Interest calculated at 7,813% is payable at maturity.	–	–	100 000	99 866	–	–	100 000	99 866
INO646 note – redeemable 18 September 2009 Interest calculated at 7,854% is payable at maturity.	–	–	100 000	99 869	–	–	100 000	99 869
Carried forward	1 590 312	1 587 144	3 560 748	3 633 555	1 590 312	1 587 144	3 560 748	3 633 555

for the year ended 30 June 2010

	Group				Company			
	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000
10. BORROWED FUNDS (continued)								
10.1 INCA Bonds issued to the market (continued)								
Totals carried forward	1 590 312	1 587 144	3 560 748	3 633 555	1 590 312	1 587 144	3 560 748	3 633 555
INO657 note – redeemable 22 October 2010 Interest is payable quarterly at jibar plus 140 basis points.	300 000	300 572	–	–	300 000	300 572	–	–
INO661 note – redeemable 21 July 2010 Interest calculated at 8,500% is payable at maturity.	24 000	24 010	–	–	24 000	24 010	–	–
INO662 note – redeemable 12 August 2010 Interest calculated at 8,370% is payable at maturity.	107 000	107 094	–	–	107 000	107 094	–	–
INO663 note – redeemable 19 August 2010 Interest calculated at 8,030% is payable at maturity.	70 000	70 044	–	–	70 000	70 044	–	–
INO664 note – redeemable 24 November 2010 Interest calculated at 8,750% is payable at maturity.	9 000	9 033	–	–	9 000	9 033	–	–
INO665 note – redeemable 25 August 2010 Interest calculated at 8,030% is payable at maturity.	100 000	100 049	–	–	100 000	100 049	–	–
INO667 note – redeemable 13 September 2010 Interest calculated at 8,355% is payable at maturity.	13 000	13 017	–	–	13 000	13 017	–	–
INO668 note – redeemable 17 September 2010 Interest calculated at 7,960% is payable at maturity.	100 000	100 084	–	–	100 000	100 084	–	–
INO669 note – redeemable 10 May 2011 Interest is payable quarterly at jibar plus 110 basis points.	20 000	20 158	–	–	20 000	20 158	–	–
INO7 bonds – redeemable 16 May 2013 Semi-annual coupons of 14,000%.	304 300	290 363	315 800	290 680	304 300	290 363	315 800	290 680
INO8 bonds – redeemable 20 November 2012 Semi-annual coupons of 11,260%.	100 000	101 526	–	–	100 000	101 526	–	–
INO9 bonds – redeemable 01 February 2016 Coupons are payable quarterly at jibar plus 350 basis points.	250 000	249 808	–	–	250 000	249 808	–	–
	2 987 612	2 972 902	3 876 548	3 924 235	2 987 612	2 972 902	3 876 548	3 924 235

NOTES to the consolidated annual financial statements (continued)

	Group				Company			
	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000	30 June 2010 Face value R'000	30 June 2010 Fair value R'000	30 June 2009 Face value R'000	30 June 2009 Fair value R'000
10. BORROWED FUNDS (continued)								
10.2 Long term foreign loans								
* European Investment Bank Euro 40 million interest at Eibor payable semi-annually, the capital is repayable in semi annual instalments commencing on 15 September 2009 and ending on 15 September 2017.	266 723	267 198	351 213	351 980	266 723	267 198	351 213	351 980
* European Investment Bank R238 230 000 interest at Jibar payable semi-annually, the capital is repayable in equal semi annual instalments commencing on 15 September 2009 and ending on 15 March 2019.	214 407	188 696	238 230	214 076	214 407	188 696	238 230	214 076
* Agence Francaise de Developpement (AFD) EUR 15 882 353. Capital repayable in 16 equal semi-annual instalments commencing on 31 October 2003 and ending on 30 April 2011. Bears interest at 3,5% per annum.	18 619	18 880	42 988	43 874	18 619	18 880	42 988	43 874
* Agence Francaise de Developpement (AFD) EUR 4 117 647. Capital repayable in 16 equal semi-annual instalments commencing on 31 October 2003 and ending on 30 April 2011. Bears interest at 3,5% per annum.	4 827	4 895	11 145	11 376	4 827	4 895	11 145	11 376
* European Investment Bank R225 000 000 interest at Jibar payable semi-annually, the capital is repayable in semi annual instalments commencing on 15 September 2005 and ending on 15 March 2020.	178 909	151 203	189 271	163 785	178 909	151 203	189 271	163 785
* European Investment Bank R238 419 000 interest at Jibar payable semi-annually, the capital is repayable in semi annual instalments commencing on 15 December 2005 and ending on 15 June 2020.	191 921	160 885	203 036	174 508	191 921	160 885	203 036	174 508
	875 406	791 757	1 035 883	959 599	875 406	791 757	1 035 883	959 599
10.3 Long term domestic loans:								
Zero coupon liabilities to municipalities (See note 3 below)	264 620	236 803	314 522	269 167	264 620	236 803	314 522	269 167
	4 127 638	4 001 462	5 226 953	5 153 001	4 127 638	4 001 462	5 226 953	5 153 001

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, IN04 & IN09 bonds: R157, IN07 bond R201, INJO1 bond: R153 and INO6 notes: Jibar.

1. INCA has ceded the Tshwane Metropolitan Municipality advance with a book value of R169 384 904 (2009: R193 762 870) to the European Investment Bank as collateral for the loan.
2. INCA has ceded the eThekweni Metropolitan Municipality advance with a book value of R192 612 853 (2009: R212 897 966) to the European Investment Bank as collateral for the loan.
3. Zero coupon liabilities to municipalities relate to zero coupon bonds issued by the Company to its borrowers to serve as security against the advances. The zero coupon liabilities mature as and when the advances mature.

for the year ended 30 June 2010

10. BORROWED FUNDS (continued)

BOND ISSUES (COMPANY)

INCA Bonds and Notes issued in 2010:

INCA Bonds and Notes issued in 2009:

Bond	Date	Face value R'000	Proceeds R'000	Bond	Date	Face value R'000	Proceeds R'000
INO 647U	07 July 2009	35 000	35 000	INO 614U	21 August 2008	70 000	70 000
INO 648U	13 July 2009	100 000	100 000	INO 615U	25 August 2008	100 000	100 000
INO 649U	22 July 2009	67 000	67 000	INO 616U	19 September 2008	138 000	138 000
INO 650U	27 July 2009	5 000	5 000	INO 617U	06 October 2008	10 000	10 000
INO 651U	27 July 2009	5 000	5 000	INO 618U	06 October 2008	32 000	32 000
INO 652U	19 August 2009	100 000	100 000	INO 619U	09 October 2008	20 000	20 000
INO 653U	26 August 2009	24 000	24 000	INO 620U	09 October 2008	35 000	35 000
INO 654U	17 September 2009	100 000	100 000	INO 621U	09 October 2008	13 000	13 000
INO 655U	02 October 2009	32 000	32 000	INO 622U	20 October 2008	102 000	102 000
INO 656U	07 October 2009	38 000	38 000	INO 623U	23 October 2008	200 000	200 000
INO 657U	20 October 2009	300 000	300 000	INO 624U	06 November 2008	8 500	8 500
INO 658U	23 November 2009	31 000	31 000	INO 625U	06 November 2008	1 500	1 500
INO 659U	03 December 2009	38 000	38 000	INO 626U	21 November 2008	100 000	100 000
INO 661U	20 January 2010	24 000	24 000	INO 627U	21 November 2008	76 000	76 000
INO 662U	11 February 2010	107 000	107 000	INO 628U	21 November 2008	26 000	26 000
INO 663U	18 February 2010	70 000	70 000	INO 629U	05 December 2008	100 000	100 000
INO 664U	24 February 2010	9 000	9 000	INO 630U	05 December 2008	18 500	18 500
INO 665U	23 February 2010	100 000	100 000	INO 631U	22 December 2008	76 000	76 000
INO 666U	24 February 2010	50 000	50 000	INO 632U	16 January 2009	12 000	12 000
INO 667U	10 March 2010	13 000	13 000	INO 633U	22 January 2009	108 000	108 000
INO 668U	17 March 2010	100 000	100 000	INO 634U	20 February 2009	26 000	26 000
INO 669U	06 May 2010	20 000	20 000	INO 635U	25 February 2009	100 000	100 000
				INO 636U	05 March 2009	100 000	100 000
				INO 637U	17 March 2009	20 000	20 000
				INO 638U	17 March 2009	1 000	1 000
				INO 639U	17 March 2009	7 000	7 000
				INO 640U	17 March 2009	6 000	6 000
				INO 641U	09 April 2009	37 000	37 000
				INO 642U	23 April 2009	67 000	67 000
				INO 643U	28 April 2009	12 000	12 000
				INO 644U	05 May 2009	100 000	100 000
				INO 645U	03 June 2009	100 000	100 000
				INO 646U	19 June 2009	100 000	100 000

	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
11. TRADE AND OTHER PAYABLES				
Interest accrued on borrowed funds	70 047	85 620	70 047	85 620
Leave pay accrual	742	1 219	742	1 219
Share appreciation rights obligation	–	589	–	589
Other accounts payable	25 720	24 968	24 478	23 810
Funding under repurchase agreements	–	657 321	25 548	679 430
	96 509	769 717	120 815	790 668

NOTES to the consolidated annual financial statements (continued)

11. TRADE AND OTHER PAYABLES (continued)

11.1 Share appreciation rights obligation

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

The "exercise price" of the share appreciation rights varies depending on the compounded annual growth rate (CAGR) target achieved, as expressed in the form of total shareholder return. The Group share price for purposes of the incentive scheme will be determined using the net asset value as reported from time to time in the audited annual financial statements multiplied by 1.3. The "exercise price" will be determined in accordance with the rules and targets of the incentive scheme as follows:

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

As at year end the Group had granted 31 150 (2009: 31 150) rights of which 6 483 (2009: 7 400) were vesting on the last day of the financial year. During the financial year under review no new rights (2009: 11 850) were granted whilst 6 483 rights (2009: 7 400 rights) that vested on 30 June would be settled subsequent to year end. The table below reflects movement in the share appreciation rights for the year:

	Opening balance	New issues	Vested	Forfeited	Closing balance
2010	23 750	–	(6 483)	(1 200)	16 067
2009	27 850	11 850	(7 400)	(8 550)	23 750

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 22,39%

Risk Free Rate range 6,49% – 7,14%

Net Asset Value multiplied by 1,3

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

11.2 Funding under repurchase agreements

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

	Group				Company	
	Notional 30 June 2010 R'000	Notional 30 June 2009 R'000	Fair value 30 June 2010 R'000	Fair value 30 June 2009 R'000	Fair value 30 June 2010 R'000	Fair value 30 June 2009 R'000
12. DERIVATIVE FINANCIAL INSTRUMENTS						
Derivative assets						
Currency swaps	–	394 201	–	37 578	–	37 578
Interest rate swaps	1 116 930	1 821 556	33 565	42 859	33 565	42 859
	1 116 930	2 215 757	33 565	80 437	33 565	80 437
Derivative liabilities						
Currency swaps	359 248	150 203	35 183	18 937	35 183	18 937
Interest rate swaps	989 544	1 880 795	84 059	86 810	84 059	86 810
Foreign exchange contracts	1 964	1 510	457	404	457	404
	1 350 756	2 032 508	119 699	106 151	119 699	106 151

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

for the year ended 30 June 2010

	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
13. INTEREST AND SIMILAR INCOME				
Advances	538 851	648 260	529 674	637 894
Investments	81 869	120 840	81 869	120 840
Cash and short term funds	36 046	26 781	36 031	26 593
Preference share dividends	5 192	8 906	5 190	8 905
Repurchase agreements	3 488	27 246	1 872	26 103
Derivative financial instruments	275 720	439 232	275 720	439 232
	941 166	1 271 265	930 356	1 259 567
Attributable to:				
Financial Assets held for trading	327 521	531 051	325 905	529 908
Financial Assets designated as FVTPL	504 233	637 873	495 055	627 508
Loans and receivables (including cash and bank balances)	109 412	102 341	109 396	102 151
	941 166	1 271 265	930 356	1 259 567
14. INTEREST EXPENSE AND SIMILAR CHARGES				
INCA bonds	440 729	478 319	440 729	478 319
Long term loans	73 058	153 403	73 058	153 403
Subordinated liabilities	14 480	10 960	14 480	10 960
Repurchase agreements	30 757	60 072	30 757	60 049
Derivative financial instruments	304 079	477 132	304 079	477 132
	863 103	1 179 886	863 103	1 179 863
Attributable to:				
Loans and receivables (including cash and bank balances)	8	1 816	8	1 816
Financial Liabilities held for trading	334 836	537 203	334 836	537 181
Financial Liabilities designated as FVTPL	528 259	640 867	528 259	640 866
	863 103	1 179 886	863 103	1 179 863
15. FAIR VALUE ADJUSTMENT				
15.1 Fair value adjustment – realised				
1. Advances	37 119	67 476	37 119	67 476
Investments	1 409	(1 736)	1 409	(1 736)
2. INCA bonds	206	322	206	322
3. Long term loans	342	(1 408)	342	(1 408)
4. Derivative financial instruments	(14 996)	(22 188)	(14 996)	(22 188)
	24 080	42 466	24 080	42 466
Attributable to:				
Financial Assets held for trading	(13 409)	(23 598)	(13 409)	(23 598)
Financial Assets designated as FVTPL	37 119	67 475	37 119	67 475
Financial Liabilities designated as FVTPL	370	(1 411)	370	(1 411)
	24 080	42 466	24 080	42 466

NOTES to the consolidated annual financial statements (continued)

	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
15. FAIR VALUE ADJUSTMENT (continued)				
15.2 Fair value adjustment – unrealised				
5. Advances	(34 913)	96 876	(32 059)	95 137
6. Investments	1 480	31 126	1 480	31 126
7. INCA bonds*	65 125	(222 756)	65 125	(222 756)
8. Long term loans*	7 947	11 429	7 947	11 429
8. Subordinated liabilities*	846	(10 629)	846	(10 629)
9. Derivative financial instruments	(10 583)	(98 642)	(10 583)	(98 643)
Repurchase agreements	2 532	(3 028)	2 542	(3 026)
	32 434	(195 624)	35 298	(197 362)
Attributable to:				
Financial Assets held for trading	(8 800)	(77 802)	(8 789)	(77 801)
Financial Assets designated as FVTPL	(32 684)	104 220	(29 831)	102 480
Loans and receivables (including cash and bank balances)	–	(86)	–	(86)
Financial Liabilities designated as FVTPL	73 918	(221 956)	73 918	(221 955)
	32 434	(195 624)	35 298	(197 362)

*Fair value on liabilities

The total fair value adjustments resulting from liabilities amounted to R74 million profit (2009: R222 million loss). The unrealised fair value adjustments are attributable to an increase in credit spreads (mainly due to INCA's credit downgrade), the passing of time, a reduction in the liabilities' portfolio and changes in the base rates.

1. Realised fair value adjustments on advances include the effects of the early settlement and disposal of certain advances. These amounts include breakage costs to compensate for the early settlement as well as the credit spread and base rate movement observed on these advances. The realised fair value adjustments on investments relate primarily to capital market stock that is liquidated during the year for various treasury management reasons.
2. Realised fair value adjustments on INCA bonds relate to capital gains and losses made on the buy-back and re-issue of bonds to the market. The Company does not trade its bonds for speculative reasons.
3. The realised loss on long term loans relates mainly to guarantee fees paid and other funding costs.
4. The realised loss on derivative financial instruments stems from the unwinding of interest rate swaps, due to the related advances having been disposed of.
5. The disposal of some advances during the financial year resulted in positive unrealised fair value adjustments reported in the prior years being reversed out of unrealised fair value adjustments to realised fair value adjustments to the tune of R21 million. This transfer resulted in the reported fair value adjustments on advances being lower than it would have been. The unrealised fair value was further influenced by the movement of base rates, the (mainly) decrease in credit spreads, the passing of time together with maturities in the portfolio.
6. Unrealised fair value adjustments on investments relate to the generally "pull-to-par" effect of some of its investments. The Group is hedged for interest rate movements in accordance to its Asset and Liability Management process.
7. The unrealised fair value profit on the INCA bonds is mainly caused by the "pull-to-par" effect (i.e. passing of time) of the IN03 bonds, this means a reversal of the negative unrealised fair value, exacerbated by the increase in the spreads on INCA's bonds and exacerbated due to the reduction of INCA's liability portfolio.
8. Liabilities are marked-to-model at INCA funding curve hence a positive fair value movement was reflected. The INCA funding curve was influenced by an increase in the credit spreads in the current year under review.
9. Derivative financial instruments are used to hedge general market movements (movements in the credit spreads of assets and liabilities are not hedged). The unrealised fair value was also influenced by the reversal of the unrealised fair value of those swaps that were unwound during the period under review.

for the year ended 30 June 2010

	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
16. OPERATING EXPENDITURE				
Operating expenditure includes the following items:				
16.1 Auditors' remuneration				
Audit fees	2 205	2 195	2 115	2 105
Prior year over accrual	(299)	–	(299)	–
Other services	195	151	195	151
	2 101	2 346	2 011	2 256
16.2 Depreciation				
Computer equipment	132	140	132	140
Furniture and fittings	31	52	31	52
Leasehold improvements	71	116	71	116
Motor vehicles	101	111	101	111
	335	419	335	419
16.3 Lease expenses				
Office premises	1 685	2 009	1 685	2 009
Computer software	557	631	557	631
	2 242	2 640	2 242	2 640
16.4 Professional fees				
Technical and other services	2 209	3 105	2 208	3 104
	2 209	3 105	2 208	3 104
16.5 Retirement benefits				
Company provident fund contributions	167	175	167	175
	167	175	167	175
16.6 Other staff costs excluding directors				
Salaries and incentive payments	13 706	17 139	13 706	17 139
	13 706	17 139	13 706	17 139
16.7 Directors' emoluments				
Non executive directors' fees	376	1 077	376	1 077
Executive directors' emoluments				
– salaries and incentive payments	6 069	5 473	6 069	5 473
– accrual made under INCA Staff Share Scheme	–	(4 508)	–	(4 508)
	6 445	2 042	6 445	2 042
16.8 Other				
Other sundry expenditure	3 201	5 171	3 174	5 018
Total expenditure	30 406	33 037	30 288	32 793
17. TAXATION				
17.1 Taxation charge for the year				
17.1.1 Current year				
South African current taxation				
Normal	21 062	(272)	18 109	(3 858)
Deferred	3 655	(30 430)	4 483	(30 916)
Secondary tax on companies	–	(6 062)	–	(6 062)
Total current year	24 717	(36 764)	22 592	(40 836)

NOTES to the consolidated annual financial statements (continued)

	Group 30 June 2010 %	Group 30 June 2009 %	Company 30 June 2010 %	Company 30 June 2009 %
17. TAXATION (continued)				
17.2 Tax rate reconciliation				
Effective tax rate	21.9	40.3	20.2	39.5
Adjusted for:				
Disallowed expenditure	4.1	–	5.1	–
Non-taxable income	2.0	(5,7)	2.7	(5,9)
Secondary tax on companies	–	(6,6)	–	(5,6)
Standard tax rate	28.0	28,0	28.0	28,0
	R'000	R'000	R'000	R'000
17.3 Analysis of deferred taxation				
Differences between tax and book values of:				
Income and expenditure accruals	8 723	1 709	8 723	1 709
Unrealised profits and losses on assets and liabilities	5 694	9 053	3 417	5 948
	14 417	10 762	12 140	7 657
17.4 Movement in deferred taxation				
Balance at the beginning of the year	10 762	47 254	7 657	44 635
Charge through the statement of comprehensive income:				
Current timing differences	3 655	(30 430)	4 483	(30 916)
STC credits	–	(6 062)	–	(6 062)
Balance at the end of the year	14 417	10 762	12 140	7 657
17.5 Movement in STC				
Balance at the beginning of the year	–	–	–	–
Applied in dividends paid	(1 500)	(1 500)	(1 500)	(1 500)
Credits from dividends received	1 500	7 562	1 500	7 562
Balance at the end of the year	–	6 062	–	6 062
18. DIVIDENDS				
A dividend of R 15 million (2009: R15 million) was declared and paid during the year.				
19. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES				
19.1 Capital commitments				
Authorised and contracted for:				
Operating lease rentals for office premises and software license fees:				
within 1 year	2 253	2 287	2 253	2 287
within 2 years	2 507	1 949	2 507	1 949
within 3 years	122	2 165	122	2 165
exceeding 3 years	–	2 526	–	2 526
	4 882	8 927	4 882	8 927
Commitments will be funded from the Group's own resources.				
19.2 Contingent liabilities				
Guarantee	–	29 295	–	29 295
	–	29 295	–	29 295

This guarantee is in respect of interest payments on a loan by a third party to Koekedouw Irrigation Board. The guarantee is secured by a deposit of R20 million. During the current year full provision has been made for the estimated value of any liability that might flow from this guarantee.

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	Group 30 June 2010 R'000	Group 30 June 2009 R'000	Company 30 June 2010 R'000	Company 30 June 2009 R'000
20. RELATED PARTY TRANSACTIONS				
Deposit with shareholders				
Rand Merchant Bank a division of FirstRand Bank Limited	284 018	322 648	284 018	322 648
	284 018	322 648	284 018	322 648
Transactions with shareholders				
First National Bank a division of FirstRand Bank Limited	169 722	–	123 684	–
Rand Merchant Bank a division of FirstRand Bank Limited	277 125	549 435	277 125	549 435
	446 847	549 435	400 809	549 435
Transactions with other related parties				
Inca Portfolio Managers (Proprietary) Limited*	3 973	–	3 973	–
	3 973	–	3 973	–

* Inca Portfolio Managers (Proprietary) Limited ("IPM") is an independent company established by executive management with the intent to offer portfolio management services to INCA and other customers in the future. The transaction during the current financial year related to payroll costs incurred by IPM on INCA's behalf. The agreement to provide portfolio management services to INCA was signed subsequent to year end and therefore had no impact on the current financial year.

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

Key management personnel

Remuneration paid to directors is disclosed in note 16.7. The total remuneration paid to executive management for the financial year under review amounted to R9 million (2009: R14 million). The current year amount includes payments made in respect of the share appreciation rights that vested and were exercised. During the year no new share appreciation rights (2009: 7 650) were granted to executive management and no rights (2009: 5 000) were forfeited. There were no share appreciation rights awarded to executive management subsequent to year end. The details of the share appreciation rights are disclosed in note 11.1.

Management by a third party

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

Contracts

FirstRand Bank Limited 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 or its subcommittees 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 2009.

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.

NOTES to the consolidated annual financial statements (continued)

21. FINANCIAL INSTRUMENTS (continued)

21.2 Categories of financial instruments

	Carrying Value R'000	Fair value through profit & loss (FVTPL) R'000	Held for trading R'000	Loans & Receivables R'000
21.2.1 Group – 2010				
Financial assets				
Cash and cash equivalents	640 346	–	–	640 346
Other assets	68 919	–	–	68 919
Investments	818 831	445 690	360 811	12 330
Derivative financial instruments	33 565	–	33 565	–
Advances	3 472 946	3 001 488	–	471 458
Total financial assets	5 034 607	3 447 178	394 376	1 193 053
Financial liabilities				
Subordinated borrowings	262 198	262 198	–	–
Long term borrowings	4 001 462	4 001 462	–	–
Derivative financial instruments	119 699	–	119 699	–
Total financial liabilities	4 383 359	4 263 660	119 699	–
21.2.2 Group – 2009				
Financial assets				
Cash and cash equivalents	611 703	–	–	611 703
Other assets	127 474	–	–	127 474
Investments	1 078 712	483 016	583 024	12 672
Derivative financial instruments	80 437	–	80 437	–
Advances	4 728 450	4 154 706	–	573 744
Total financial assets	6 626 776	4 637 722	663 461	1 325 593
Financial liabilities				
Subordinated borrowings	103 044	103 044	–	–
Long term borrowings	5 153 001	5 153 001	–	–
Derivative financial instruments	106 151	–	106 151	–
Total financial liabilities	5 362 196	5 256 045	106 151	–

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

Fair value changes attributable to changes in credit risk based on credit rating changes for advances held at FVTPL recognised during the period was R33 275 (2009: R4 490 238) whilst the cumulative effect was R10 834 074 (2009: R10 800 799).

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

21.3 Valuation methods and significant accounting policies

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

- * The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- * The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined using the discounted cash flow valuation technique. The cash flows and the duration can be reliably measured however the discount rates or yield curves required to discount the cash flows requires various inputs mainly from the market and some professional 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 subcommittee namely the Market Valuation Verification Committee (MVVC) chaired by a non-executive director. The MVVC reviews and approves the estimated credit spreads based on the policy adopted. The key element of the policy is to ensure that a significant part of the inputs is obtained from observable market and there are minimal assumptions and estimates included in the valuation process. The policy was adopted to ensure consistency and adequate governance on the valuation process, particularly where estimates and professional judgements are used.

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

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21. FINANCIAL INSTRUMENTS (continued)**21.4 Fair value measurements recognised in the statement of financial position**

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

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
21.4.1 Group – 2010				
Financial assets at FVTPL				
Investments	445 690	–	445 690	–
Advances	3 001 488	–	3 001 488	–
Held for trading financial assets				
Investments	360 811	226 910	133 901	–
Derivative financial instruments	33 565	–	33 565	–
Total	3 841 554	226 910	3 614 644	–
Financial liabilities at FVTPL				
Subordinated borrowings	262 198	–	262 198	–
Long term borrowings	4 001 462	2 127 315	1 874 147	–
Held for trading financial liabilities				
Derivative financial instruments	119 699	–	119 699	–
Total	4 383 359	2 127 315	2 256 044	–

There were no transfers between Level 1 and 2 in the period.

21.5 Financial risk management objectives

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

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

21.6 Market risk

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

21.7 Sensitivity analysis

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

Market movements dictated fairly large movements due to credit spreads and swap basis risks for both financial assets and financial liabilities measured at fair value through profit or loss. The decrease in credit spreads on the advances together with an average increase in the credit spreads on the INCA bonds, contributed an estimated R39 million positively. The swap basis risk is estimated at R23 million negative unrealised fair value, whilst the remainder of the unrealised fair value is attributable to the passing of time as well as a reduction in the size of the advances and liabilities portfolio during the year.

NOTES to the consolidated annual financial statements (continued)

21. FINANCIAL INSTRUMENTS (continued)

21.7 Sensitivity analysis (continued)

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 R22 million (2009: R33 million) is observed. The Group is most sensitive for credit spread movements of advances in Metropolitan municipalities as illustrated below. A 25 basis points credit spread movement on the advances per risk category has the following outcome:

INCA Credit Rating Category	Fair value adjustment 2010 (R'000)	Fair value adjustment 2009 (R'000)
Category 1 (AA – to AAA)	3 798	5 534
Category 2 (A – to A+)	7 153	9 799
Category 3 (BBB)	3 769	5 369
Metropolitan municipalities (A to AA)	7 647	12 256
Total	22 367	32 958

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

The interest rate sensitivity performed at year end was based on an increase or decrease of 200 basis points. The impact to the pre-tax profit/(loss) of the Group would have been an increase of R3,3 million or a decrease of R6 4 million. In both scenarios the Group would have remained within the limit set by ALCO.

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

21.8 Foreign currency management

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

21.9 Interest rate risk

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

21.10 Credit risk

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

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

Credit risk is being minimised through the continued diversification of the lending portfolio. The carrying amounts of financial assets included in the balance sheet represent the Group's exposure to credit risk in relation to these assets but 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.

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

Ageing	2010 R'000	2009 R'000
Less than 30 days	55 035	10 623
30 to 60 days	4 548	3 639
60 to 180 days	12 215	8 801
More than 180 days	17 738	25 817
Total	89 536	45 880

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

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21. FINANCIAL INSTRUMENTS (continued)

21.11 Liquidity risk

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

Liquidity Maturity Analysis

Analysis as at 30 June 2010

Period From To	6 months July 10 December 10 R'000	1 year January 11 December 11 R'000	3 years January 12 December 14 R'000	2 years January 15 December 16 R'000	After January 17 R'000
Assets					
Interest receivable	318 007	476 474	1 037 308	599 765	731 246
Capital receivable	1 075 610	1 019 731	1 129 464	935 022	1 009 052
	1 393 617	1 496 205	2 166 772	1 534 787	1 740 298
Liabilities					
Interest payable	(312 532)	(434 216)	(824 022)	(393 661)	(374 967)
Capital payable	(789 955)	(1 433 796)	(760 931)	(1 222 735)	(259 274)
	(1 102 487)	(1 868 012)	(1 584 953)	(1 616 396)	(634 241)
Net cash flow	291 130	(371 807)	581 819	(81 609)	1 106 057
Cumulative net cash flow	291 130	(80 677)	501 142	419 533	1 525 590

The cash flows from the Company's short term funds are reflected in the December 2010 bracket. The large amount of capital payable during the first six months 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.

The treasury function's focus remains on the INO3 bond redemption in 2011. To fund the resultant cumulative liquidity shortfall of R81 million in 2011, the Company raised additional liquidity facilities from financial institutions of R242 million which are currently unutilised, and holds capital market stock of R318 million (refer note 4) which is unencumbered.

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 based on the total comprehensive income attributable to owners of the company of R71 676 000 (2009: R54 455 000 loss) and the weighted average number of issued ordinary shares during the period of 806 525 shares (2009: 806 525 shares). Prior to the consolidation of the INCA Share Incentive Trust, 848 532 shares were used for the calculation.



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ADMINISTRATION

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Trustee

Maitland Trust Limited

Secretary

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Rentals, Administration and Credit (from left to right)

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