Selby Baqwa SC (58)
Group Executive: Enterprise Governance and Compliance
7 years’ service
Blurs, LLB, MBA
(De Mont Fort University, Leicester, UK and Harvard Business School, USA)

Selby Baqwa had over 20 years’ experience as both an attorney and an advocate prior to being appointed to the position of Public Protector of the Republic of South Africa in 1995. He joined Nedbank Group in 2002 to head a new corporate governance function, and at the beginning of 2005 also assumed responsibility for compliance.
Enterprise Governance and Compliance (EGC) is responsible for the monitoring of regulatory and reputational risk and the setting of related policies. It also manages the Enterprise Governance and Compliance Frameworks. Nedbank Group’s governance strategy, objectives and structures have been designed to ensure that the group complies with legislation and a myriad of codes, while at the same time moving beyond conformance to governance performance.

Nedbank Group has incorporated competitive governance and compliance practices as core strategic imperatives for the integrated sustainable development of our organisation. Our governance and compliance philosophy recognises the importance of ensuring continual adherence to legislative, regulatory and supervisory requirements as a critical part of effective risk management, sound enterprise governance and, ultimately, the holistic, integrated sustainability of the organisation.

Enterprise governance is at the heart of the operations of Nedbank Group and strategically links good governance to effective performance management. EGC constitutes part of the entire accountability framework of the organisation, and requires a balance between accountability and assurance (conformance) and value creation and resource utilisation (performance).

Selby Baqwa serves as a member of the Group Executive Committee (Group Exco) and reports directly to the Chief Executive and also has direct access to the Chairman of the Nedbank Group board. He is supported by an extensive network of divisional governance and compliance officers, all of whom work closely with the central EGC Division in implementing projects, fulfilling monitoring and training requirements and creating a sustainable governance and compliance culture throughout the group.

**Philosophy, strategy and objectives**

“Our actions need to be informed by the belief that we cannot continue to do things the same way as before and expect to achieve different results. We need to demonstrably ramp up our performance to achieve a visible step change.’

The EGC functions are an essential part of Nedbank Group’s control structure, having responsibility for the management of regulatory and reputational risk. A comprehensive Enterprisewide Risk Management Framework has been developed in line with the requirements stipulated in section 60A and 60B of the Banks Act, read with the provisions of regulation 49. This framework ensures a consistent focus on day-to-day governance requirements without losing sight of the long-term growth and profitability of the group.

Nedbank Group’s governance and compliance strategies, objectives and structures have been designed to ensure that the group complies with legislation and numerous codes, while at the same time moving beyond accountability and assurance issues to value creation and resource utilisation issues. Internally the function has expanded in five complementary directions, namely:

- enterprisewide corporate governance;
- business governance;
- corporate accountability and ethics;
- integrated sustainability coordination, management and reporting; and
- compliance.

The enterprise governance and compliance functions operate, among others, at the following levels within the organisation:

- Board (including boards of subsidiaries and joint ventures).
- Executive management (dealing with business governance and internal controls).
- Employees (ensuring, for example, work ethics and business governance).
- Social and environmental integration (creating a sustainable bank).

EGC works closely with the Company Secretary and Group Risk in promoting a culture of good governance and compliance within the group.

The division’s key objectives are to:

- provide an independent assurance function with regard to governance and compliance issues to the board, Group Exco and the banking business;
- implement and monitor good business governance practices throughout the organisation;
- internalise a culture of governance, ethics compliance and sustainability across the group through ongoing training and development;
- set governance and compliance frameworks that will be aligned with applicable regulations and local and international best practice;
- build and enhance relationships with key internal partners (Risk, Internal Audit, Legal and Company Secretariat – especially the business governance and compliance champions) and external stakeholders;
- achieve balanced and integrated economic, social, environmental and cultural performance and implementation of a best-practice holistic, integrated sustainability approach, including comprehensive sustainability reporting and targeted stakeholder engagement;
Compliance risk is managed within the organisation through the following key activities:

- Creating awareness through training employees and other affected stakeholders in respect of the impact and responsibilities related to legislative requirements.
- Monitoring and reporting on the level of compliance with regulatory requirements, including reporting specific incidents of non-compliance to senior management and the board.
- Providing assurance that the risks relating to regulatory requirements are identified, understood and effectively managed.
- Consulting with the business units and providing compliance opinions with regard to new business ventures and processes.

Nedbank Group has created a pivotal portal in the formation of the Business Risk Management Forum for the purposes of informing business of regulatory developments as well as overseeing the successful implementation of compliance requirements.

Compliance risk management tools provided to management include compliance manuals, compliance risk profiles, compliance plans, compliance opinions and compliance monitoring reports. These tools are increasingly integrated into the group’s operating systems and are technology-enabled.

As a result of the geographical spread of its operations the group is subject to wide-ranging supervisory and regulatory regimes. Accordingly, the group’s relationships with regulators are of paramount importance, specifically the relationship with the Banking Supervision Department of the SA Reserve Bank (SARB). The group follows a policy of constructive engagement with regulators.

**King II**

As part of its compliance with the Code of Corporate Practices and Conduct of the King Committee (King II), Nedbank Group has a comprehensive implementation and monitoring plan to meet all of its requirements and recommendations. This plan – the implementation of which is monitored by the Directors’ Affairs Committee and EGC – covers all the corporate governance requirements relating to the Banks Act as well as the recommendations of King II and has been approved by the board.

At 31 December 2009 the group complied substantially with King II, with the only areas of non-compliance being the following:

- The group’s Chairman, Reuel Khoza, is not independent as he is not classified as an independent. This is due to his position at Aka Capital, a strategic business partner of Nedbank Group with the group’s holding company, Old Mutual plc, which precludes him from being classified as independent. The position of senior independant director was created in line with UK Combined Code and recommendations.
- Mustaq Enus-Brey is Chairman of the Group Risk and Capital Management Committee and not classified as an independent chairman as a result of his relationship with one of the group’s black business partners. The Chairman of the Directors Affairs’ Committee, Reuel Khoza, is not independent as discussed in the previous paragraph.

The Nedbank Group board is satisfied that these areas of non-compliance do not impair the governance integrity of the group or perceptions of the group and has continuously disclosed non-compliance as required by King II.
Nedbank Group’s Enterprise Governance Framework incorporates a full range of governance objectives, and individual responsibilities are clearly delineated at board, board committee, Group Exco and management levels.

In other respects, as far as compliance with King II is concerned:

- the Group Directors’ Affairs Committee consists entirely of non-executive directors, of whom the majority are independent;
- the Group Audit Committee (GAC) consists entirely of non-executive directors, all of whom are independent;
- the Group Remuneration Committee consists entirely of non-executive directors, the majority of whom are independent; and
- the Group Risk and Capital Management Committee (GRCMC) consists entirely of non-executive directors, the majority of whom are independent.

UK Combined Code

Old Mutual plc subscribes to the UK Combined Code. As a subsidiary of Old Mutual plc Nedbank Group strives to adhere to this code. If there is non-compliance, a comprehensive explanation is given. However, the primary code Nedbank Group has to apply is, as of the date of this report, King II.

- The Chairman, Reuel Khoza, is a non-executive director, but not independent due to his position at Aka Capital, a strategic business partner in terms of the group’s BBBEE transaction. He is also a director of the group’s holding company, Old Mutual plc. Recognising that the Chairman is not an independent director, and in line with the recommendations of the UK Combined Code, the position of senior independent director was created in 2007. The position is currently held by Chris Ball. However, Mr Ball sits on more than one committee, which is not in line with the code. The board is of the opinion that it is both efficient and effective that the same independent director be a member of most board committees to assist the committees in avoiding any duplication of their activities and also to assist in ensuring that issues are not overlooked.

- The UK Combined Code recommends that half of the board, excluding the chairman, should be independent to provide the necessary checks and balances and to ensure that the bank operates in a safe and sound manner. At 31 December 2009 the Nedbank Group board consisted of eight independent directors out of 17 directors (the Chairman is excluded). On 19 February 2010 Bob Head resigned and there are currently 16 directors (chairman excluded). While we aspire to adhere to the requirements of the UK Combined Code, it is not always possible to do so with the limited availability of experienced independent directors. In South Africa the King Code is therefore accepted as representing best practice.

In terms of the UK Combined Code independence is compromised if a director has served on the board for more than nine years. Four directors who served for more than nine years, namely Messrs MM Katz, ML Ndlouv, JB Magwaza and ME Mkwanazi, resigned in October/November 2009. The Combined Code also identifies cross-directorships as relationships that could appear to affect the independence of directors. The following cross-directorships exist within the Nedbank board that affect the independent directors:

- Chris Ball: Imperial Bank Limited
- Nomavuso Mnxasana: Imperial Bank Limited
- Tom Boardman: Vodacom Group (Pty) Limited
- Jabu Moleketi: Vodacom Group (Pty) Limited
- Prof Brian de Lacy Figaji: Development Bank of Southern Africa
- Wendy Lucas-Bull: Development Bank of Southern Africa
- Jabu Moleketi: Development Bank of Southern Africa

The board is of the opinion that these directors are independent of character and judgement with regard to these relationships.
King III
Nedbank Group embraces the recommendations of King III and would use best endeavours to attain full application and compliance. In the event that the company cannot apply the letter of the code, adequate explanations and mitigating measures will be provided in future annual reports. At the date of this report the board is of the opinion that Nedbank Group’s governance practices meet some of the most significant requirements of King III as follows:

- A lead independent non-executive director, Chris Ball, was appointed in 2007. The role of chairman is formalised. The chairman’s performance is evaluated annually.
- An overview of the appraisal process of the board, chairman and peers, results and action plans are disclosed in this report.
- The committees are appropriately constituted, and the composition and the terms of reference are disclosed in this report.
- As of 2009 Nedbank Group’s strategy and business planning process includes a formal risk planning component.
- The board is assuming the responsibility of information technology (IT) governance, and this requirement is currently met within the Nedbank Group IT governance structures. Primary governance forums include the Board Strategic Innovation Management Committee (SIMCO) with links to GAC and GRCMC, the Executive SIMCO, cluster representation at IT enterprisewide risk committees (ERCOs), project steering committees, prioritisation forums and the Project Review Board. The financial component of IT is managed independently by Group Finance Division.
- At 31 December 2009 eight of 14 non-executive directors on the board were independent directors, which constituted a majority.
- The board committee charters are summarised in this report.
- Areas where Nedbank Group does not comply with King III will be addressed when the code becomes effective after 1 March 2010. These include:
  - **Boards and directors**
    - The board will consider a mentorship plan for new directors. Board induction and formal training which are tailored to suit the needs and experience of new directors appointed to the board are in place.
    - An overview of the appraisal process of the Nedbank board, results and action plans are to be disclosed in the annual report.
    - An aggregate disclosure of the salaries of the three most highly paid employees will be published in the 2010 annual report.
  - **GAC**
    - GAC members are currently not elected by shareholders but by the board. This will be addressed at the annual general meeting to be held on 4 May 2010.
    - The sustainability report is not reviewed and recommended for approval by GAC at this stage, but is reviewed and approved by the Transformation and Sustainability Committee. An external assurance provider is engaged and reports to the members of the board via the Transformation and Sustainability Committee. It is recommended that GAC review the external assurance provider and key performance indicators.
    - The code requires that specific statutory duties of GRCMC need to be reviewed in compliance with the Banks Act. The code requires that the GAC charter sets out its responsibilities regarding risk management. GAC is not responsible for risk management as this falls in the ambit of GRCMC. GRCMC gives feedback and assurance to GAC and the board. GAC does reviews on financial reporting risks and internal financial controls, but reviews need to be formalised. The Group Executive is of the opinion that the output of the Financial Controls Initiative, an Old Mutual plc-led project, will aid formal documentation and the testing of financial controls.
  - **Governance of risk**
    - The evaluation by the board of GRCMC will take place during 2010. Self-assessments of committees do take place.
    - As of 2009 Nedbank Group’s strategy and business planning process includes a formal risk planning component as required by King III.
    - The Chairman of the GRCMC is not independent. The Nedbank Group board is satisfied that this area of non-compliance does not impair the governance integrity of the group or perceptions of the group.
  - **Governance of technology**
    - The protection of IT is not covered explicitly in the Board SIMCO agendas; however, the protection of intellectual property is covered in specific contracts with Group Technology suppliers. There could be improved oversight in this area, where the standard supplier clauses are approved/reviewed by Board SIMCO and deviations declared/noted as and when they are signed by management.
    - GAC should consider IT for the financial and going-concern reporting of the company. This is largely achieved with the Section 39 Letters of Representation. IT and its capabilities are considered, but further formalisation of this as a consideration in the going-concern statement could be beneficial.
Governance/Compliance culture

Enterprise governance requires commitment at every level of the organisation and it is therefore essential to create an effective governance and compliance culture. Creating this culture also involves alignment with the ethics and values of the group.

During 2009 there was a continued focus on governance and compliance training and awareness programmes for all employees. Over 92% of the employees have completed the training in corporate governance and 91% of the employees have been trained in compliance. The e-learning training initiatives included the following topics: Introduction of Financial Advisory and Intermediary Services Act, Money-laundering Control Awareness, Employment Equity, National Credit Act, Occupational Health and Safety Act and Sustainability.

EGC hosted regular governance and compliance forums to enable employees to engage with thought leaders such as Clem Sunter, World Wide Fund for Nature and the National Credit Regulator.

A communications and awareness plan was rigorously applied in 2009 and included interventions such as email communications, workshops, awareness through an ethics DVD, governance and compliance presentations and legal workshops.

Africa and offshore subsidiaries

EGC has an enterprisewide mandate and the Nedbank Group board is responsible for the state of corporate governance and compliance in the entire organisation. In 2009 the division provided governance and compliance assistance to the group’s operations in Africa, including:

• maintaining regular contact with managing directors, company secretaries and compliance officers to ascertain the state of governance and compliance within each entity;
• providing advice and support for those entities in respect of governance, compliance and sustainability issues;
• monitoring and reporting on governance practices;
• providing governance and compliance training to the governance and compliance officers;
• ensuring exposure of the board of the respective businesses to the Nedbank Group board committees and executives; and
• arranging visits to each of these entities, which entailed –
  – conducting director induction on governance and compliance,
  – addressing employees and executive committees on governance and compliance,
  – consulting with the company secretaries on their policies, board structures, evaluations and practices,
  – maintaining contact with the local regulator of each entity,
  – consulting with managing directors on the challenges they face and
  – reporting back to the Nedbank Group’s Chief Executive and the Head of the Nedbank Africa Division.

Enterprise Governance Framework

Nedbank Group’s Enterprise Governance Framework incorporates a full range of governance objectives, a delineation of responsibilities at board, board committee, Group Exco and management level, and the identification of champions and key functions for corporate governance integration into all operations.

Key features in achieving an effective governance process are the cooperation between executive management and non-executive directors and the significant emphasis, resources and structure given to executive management functions.
to champion corporate governance on a day-to-day basis and assist the board, board committees and individual non-executive directors with corporate governance and compliance responsibilities.

**Corporate governance strategy**

**Formalised governance objectives**

The board has formalised its governance objectives and annually assesses and documents whether the process of corporate governance implemented by the group successfully achieves these objectives, measured as part of the Regulation 39(18) Report on the state of corporate governance in Nedbank Group.

**Strategy**

The board, with recommendations from senior management, is responsible to the shareholders and other stakeholders for setting the strategic direction of the group through defining objectives and key policies, which are then cascaded throughout the organisation.

Stringent investment and performance criteria are determined and refined by the board. These are monitored on an ongoing basis through business plan reviews, key operational and management performance indicators, economic policies and trends, annual budgets and major capital expenditure programmes, significant acquisitions, disposals and other transactions, as well as criteria important to Nedbank Group’s relations with its primary stakeholders and its reputation and conduct as a good corporate citizen.

The above process is supported by a schedule of matters reserved for the board, versus those that are delegated to board committees, to ensure that the directors maintain full and effective control over the group, specifically regarding significant strategic, financial, organisational and compliance matters.

The board is accountable to Nedbank Group’s shareholders for exercising leadership, enterprise, integrity and judgement in directing the organisation to achieve continuing prosperity in the interests of all the group’s stakeholders.

Dedicated strategy sessions of Group Exco and divisional executive committees, as well as between the board and Group Exco, are held to focus on strategy determination and revision. Progress against strategic objectives is tracked through the balanced-scorecard methodology.

**The board of directors**

**Role and composition**

In line with the recommendations of King II Nedbank Group has a unitary board structure comprising the following 18 directors at 31 December 2009:

- **Independent non-executive directors (8)**
  - Nomavuso Mnxasana
  - Prof Brian de Lacy Figaji
  - Chris Ball
  - Thenjiwe Chikane
  - Jabu Moleketi
  - Wendy Lucas-Bull
  - Malcolm Wyman
  - Alan Knott-Craig

- **Non-executive directors (6)**
  - Dr Reuel Khoza (Chairman)
  - Mustaq Enus-Brey
  - Bob Head
  - Gloria Serobe
  - Julian Roberts
  - Don Hope

- **Executive directors (4)**
  - Tom Boardman (Chief Executive)
  - Mike Brown (Chief Executive Designate)
  - Graham Dempster (Chief Operating Officer)
  - Raisibe Morathi (Chief Financial Officer)

Bob Head will resign from the board with effect from close of business 19 February 2010. Tom Boardman will remain on the board as a non-executive director with effect from 1 March 2010 after stepping down as Chief Executive. He will not be classified as an independent director.

The board is of the view that the non-executive directors all have a high degree of integrity and credibility, and the strong independent composition of the board provides for independent and objective input into the decisionmaking process, thereby ensuring that no one director holds unfettered decisionmaking powers.

During 2009 the board formally assessed the status of the Nedbank Group independent non-executive directors and satisfied itself that these boardmembers met the criteria of independent directors in terms of King II. This finding was supported in the external board evaluation performed by an independent external agency, namely Afrika Ratings.

The directors come from diverse backgrounds and bring to the board a wide range of experience in commerce, industry and banking. The directors have access to management whenever required.

**Board appointments and evaluation**

Board appointments are conducted in a formal and transparent manner, in line with the board appointment policy, by the board as a whole, assisted by the Group Directors’ Affairs Committee. Any appointments to the Nedbank Group board are made taking into account the need for ensuring that the board provides a diverse range of skills, knowledge and expertise, the requisite independence, the necessity of achieving a balance between skills and expertise and the professional and industry knowledge necessary to meet the group’s strategic objectives, as well as the need for ensuring demographic representation. Directors are given no fixed term of appointment, while executive directors are subject to short-term notice periods. An executive director is required to retire from the board at age 60, while a non-executive director is required to retire at age 70, unless otherwise agreed. Reappointment of non-executive directors is not automatic. Executive directors are discouraged from holding a large number of directorships outside the group.

An independent appraisal of the boards of Nedbank Group Limited and Nedbank
Limited was undertaken in 2009. The appraisal was performed by Ratings Afrika, the governance ratings agency. Its rating of the boards is: ‘Very effective’. The appraisal included an evaluation of the effectiveness of the board committees, and evaluations of the Chairman as well as other boardmembers individually. These were all conducted on an interactive basis and the boards have received full feedback. The boards will actively address those matters raised as areas for further improvement.

An assessment of the board’s performance by management was included in the process. The Chief Executive’s performance is also evaluated according to his performance scorecard, which is approved annually by the Group Remuneration Committee, with the input of the Chairman and Old Mutual plc. The feedback from this board evaluation process contributed to the production of the Regulation 39(18) Report addressing the state of corporate governance in the organisation.

**Board meetings**

In 2009 the Nedbank Group board met 11 times. The record of attendance at board and board committee meetings for Nedbank Group Limited and Nedbank Limited for 2009 is included at the end of this enterprise governance and compliance report.

**Board charter**

The board has a formal written charter that is reviewed on an annual basis.

The main functions of the board covered by the charter are:

- determining the overall objectives for the group;
- developing strategies to meet those objectives in conjunction with management;
- formulating company policies;
- rating the group’s own performance;
- assuming overall responsibility for risk management;
- appointing a chief executive for the group; and
- evaluating the performance of the group’s directors.

The charter also formalises policies regarding board membership and composition, board procedures, the conduct of directors, risk management, remuneration, board evaluation and induction.

**Board committees**

The board committee structure is designed to assist the board in the discharge of its duties and responsibilities, and was largely unchanged during 2009. Current board committees:

- Board Strategic Innovation Management Committee
- Group Audit Committee
- Group Credit Committee
- Group Directors’ Affairs Committee
- Group Finance and Oversight Committee
- Group Remuneration Committee
- Group Risk and Capital Management Committee
- Group Transformation and Sustainability Committee

Each board committee has formal written terms of reference that are reviewed on an annual basis and effectively delegated in respect of certain of the board’s responsibilities, which are monitored by the board to ensure that the board retains effective coverage of and control over the operations of the group. The directors confirm that the committees functioned in accordance with these terms of reference during the financial year. With the exception of the Group Directors’ Affairs and Group Finance and Oversight Committees, there are several relevant group executive management committees that support and are aligned with the board committees. Except for the Executive Credit Committee that is chaired by an independent non-executive director, Ms Wendy Lucas-Bull, all the other group executive committees are chaired by members of Group Exco.

- The Board Strategic Innovation Management Committee
- The Board SIMCO has the broad responsibility to monitor all issues pertaining to information technology (IT), both operational and strategic, in as much as these may impact the business, financial, performance, risk profile and IT strategies of the group. This committee aims to ensure alignment of the prioritisation and magnitude of IT development spend and investment with overall group strategy and direction.

- Group Audit Committee

The functions of GAC are primarily to assist the board of directors in its evaluation and review of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the bank in the day-to-day management of its business, and to introduce measures to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the group.

- Group Credit Committee

The primary roles of the Group Credit Committee are to approve credit philosophy and policies, set credit limits and guidelines, confirm that procedures are in place to manage, control and price credit risk, approve the adequacy of interim and year-end provisions and ensure that the quality of the group’s credit portfolio is in accordance with these requirements by monitoring credit risk information, processes and disclosure. These primary roles require the responsibility to monitor all issues pertaining to information technology (IT), both operational and strategic, as much as these may impact the business, financial, performance, risk profile and IT strategies of the group. This committee aims to ensure alignment of the prioritisation and magnitude of IT development spend and investment with overall group strategy and direction.

- Group Credit Committee

The Board SIMCO has the broad responsibility to monitor all issues pertaining to information technology (IT), both operational and strategic, in as much as these may impact the business, financial, performance, risk profile and IT strategies of the group. This committee aims to ensure alignment of the prioritisation and magnitude of IT development spend and investment with overall group strategy and direction.
• **Group Directors’ Affairs Committee**
  The primary roles of the Group Directors’ Affairs Committee are to consider, monitor and report to the board on strategic risk, reputational and compliance risk, compliance with King II and the corporate governance provisions of the Banks Act, as well as the regulations issued thereunder, and to act as a nominations committee for board appointments.

• **Group Finance and Oversight Committee**
  The chairmen of GAC, GRCMC and SIMCO, as well as Bob Head, are members of this committee, with the chief risk officer attending by invitation. Its primary functions are to be a board discussion forum, to consider the full spectrum of risks in the bank and to ensure that the board and the various board committees address the risks effectively.

• **Group Remuneration Committee**
  The Group Remuneration Committee consists of non-executive directors only and is chaired by an independent non-executive director.

  The Group Remuneration Committee is authorised to approve the aggregate of adjustments to the remuneration of employees below executive director and managing executive level. The committee individually approves adjustments to the total remuneration of members of Group Exco. The board, following recommendations made by the Group Remuneration Committee, individually approves adjustments to executive directors’ total remuneration. This committee is also charged with the supervision of the Nedbank Group Employee Incentive Scheme and is involved in executive officer succession policy. The committee considers remuneration in its totality in an integrated and holistic manner, thereby assisting the board in discharging its corporate governance duties related to remuneration strategy, structure and costs.

  The Remuneration Report, commencing on page 224, covers all the corporate governance aspects and disclosure with respect to remuneration of directors.

• **Group Risk and Capital Management Committee**
  In terms of the Banks Act a risk committee is required to assist the board of directors in evaluating the adequacy and efficiency of risk policies, procedures, practices and controls; identify the buildup and concentration of risk; develop risk mitigation techniques; ensure formal risk assessment; identify and monitor key risks; facilitate and promote communication through reporting structures; and ensure the establishment of an independent risk management function and other related functions. In addition, this committee oversees the group’s policies and procedures to ensure compliance with Basel II, which became fully effective in 2008.

  GRCMC is tasked with groupwide risk monitoring, focusing primarily on the management and assessment of risk, including market and trading risks; financial instrument (derivative) usage; asset and liability management risks; Group Asset and Liability and Executive Risk Committee processes and functions; investment exposures; and risks related to the underwriting of share issues.

• **Group Transformation and Sustainability Committee**
  The Group Transformation and Sustainability Committee has the broad responsibility to monitor all issues pertaining to the integrated economic, social, environmental, human resources and transformation performance of the group. The committee also has oversight to monitor progress made against the performance contracts with Black Business Partners in terms of the...
black economic empowerment Eyethu transaction, based on input from the Chief Executive and business unit heads, on a biannual basis.

This committee assists the board in discharging its responsibility to ensure that the group proactively addresses the requirements and/or recommendations for integrated sustainability reporting as set out in King II and the Global Reporting Initiative, an international multishareholder process, as well as to give the necessary attention at board level to issues pertaining to the Financial Sector Charter (FSC), Department of Trade and Industry (dti) Codes on BBBEE, training and development, and social and environmental responsibility.

Chairman and chief executive
In line with best practice the roles of chairman and chief executive are separate. The board is led by the Chairman, Reuel Khoza, and the executive management of the group is the responsibility of the Chief Executive, Tom Boardman. On 17 March 2009 Mike Brown was appointed as Chief Executive Designate to succeed Tom Boardman who will step down as Chief Executive with effect from close of business on 28 February 2010. This accepted division of responsibilities at the helm of the group ensures a balance of authority and power, so that no one individual has unrestricted decisionmaking powers. At the same time the board and executive management work closely together in determining the strategic objectives of the group.

Company secretary and director development
All directors have access to the advice and services of the company secretary and EGC, who are responsible for ensuring that board procedures and applicable rules and regulations are fully observed. Further to this, the board has an established procedure in the furtherance of its duties, whereby directors may obtain independent professional advice at the group’s cost.

New directors are informed of their duties and responsibilities by way of an induction course that is run by the company secretary and other experts on board effectiveness, corporate governance and banking and technical information, familiarising the directors with the bank’s senior management and strategies. A formal ongoing director development programme was instituted during 2006, focusing on relevant briefings of all members of the board and board committees to ensure that they are kept up to date with local and international industry developments, technology issues, risk management and corporate governance best practice. All business cluster heads also undertake regular presentations to update the board on progress and key issues within particular clusters.

During 2009 the director development was continued. Training initiatives undertaken at committee level included new legislation, supervisory matters, risk management and trends in banking systems.

All boardmembers are encouraged to attend board committee meetings, even if they are not members of that committee. Arrangements can also be made with the relevant committee secretary should a boardmember wish to attend just the training portion of any particular committee meeting.

In accordance with board policy, as well as the SARB requirement that all directors should continue with formal and informal development, the directors have undergone various training initiatives internally and externally through the Gordon Institute of Business Science (GIBS).

Succession planning
Succession planning is an important focus area at board and at both executive and senior management level. Detailed and intensive planning is conducted through the Chairman’s Office in consultation with the Group Directors’ Affairs and Group Remuneration Committees.

The chief executive is required to report regularly to the board on the group’s management development and employment equity programmes.

Business governance
Business governance forms the link between the strategic objectives set by the board and board committees, and the actions and decisions taken by the management committees.

Primary attributes of this portfolio are the reviewing, implementing and monitoring of structures, internal controls and compliance according to the principles of good corporate governance at management level, involving the functions of Group Exco, divisional executive committees, operational risk committees, Group Exco subcommittees and all other management committees.

Recognising the crucial link between board governance and management implementation of group strategy, focus has been placed on governance structures and processes at management level under the business governance banner, and a number of activities have been completed:

- A business governance toolkit has been prepared to assist the business clusters in monitoring their committees, processes and training.
- A review of the Group Exco subcommittee structures has been completed by EGC.
- Several business unit governance and compliance officers have completed monitoring of their cluster committees and business governance monitoring...
has been integrated into monitoring plans.

We believe that business governance provides an essential way of bringing corporate governance into the everyday activities of all staff members.

Various subcommittees ensure this alignment:

- The Executive Strategic Innovation Management Committee assists Group Exco and the SiMCO in discharging their responsibilities to ensure that Nedbank Group has a well-coordinated, efficient, effective and properly resourced IT strategy, enabling the organisation to remain highly competitive, and that this strategy is timeously implemented.

- The Group Asset and Liability and Executive Risk Committee is responsible for ensuring that the impact of the following risks is effectively managed in Nedbank Group:
  - Liquidity risk.
  - Capital management risk.
  - Interest rate risk, both local and foreign.
  - Investment risk.
  - Market risk, including
    - currency translation risk,
    - trading market risk and
    - financial instruments used for purposes other than trading (eg balance sheet hedges and investments).

- The Mergers and Acquisitions (M&A) Steering Committee ensures proper corporate governance, oversight and control of corporate actions taken by the group as a whole. All operational acquisitions, disposals, restructuring and major corporate actions within the group are brought to the M&A Steering Committee.

- The primary role of the Executive Transformation and Human Resources Committee is threefold, namely:
  - statutory compliance in respect of labour legislation;
  - monitoring of transformation progress and the implementation of FSC and dti requirements; and
  - Nedbank Group employee recruitment, selection, remuneration, performance management, maintenance, training, development and, where necessary, termination.

- The primary role of the Executive Taxation Committee is monitoring tax compliance and tax policy and ensuring the management of tax risk throughout the group in accordance with Nedbank Group’s tax policy. Furthermore, the committee assists GAC and GRCMC in discharging their responsibilities relative to the management and monitoring of tax risk.

- The Nedbank Capital Investment Committee’s primary role is considering private equity and mezzanine equity investments and the underwriting of share issues, including initial approval, periodic reviews and any material changes.

- The primary role of the Nedbank Corporate Property Investment Committee is considering private equity investments in client-driven property ventures and strategic investments in the listed-property sector and allied-service companies, including initial approval, periodic reviews and any material changes.

- The Business Risk Management Forum’s role is to provide leadership in assessing the impact of any new regulatory requirements and legislation across Nedbank Group and promoting, directing and overseeing the successful implementation thereof.

- The primary role of the Executive Credit Committee is to approve and monitor all material aspects of the bank’s Advance Internal Ratings-based (AIRB) credit system, and receive regular reporting thereon. In addition, the bank’s AIRB Credit Framework and policies, including any changes thereto, are reviewed and approved by this committee who also performs a monitoring and oversight role of the bank’s credit portfolio.

- The Nedbank Brand Committee assists Group Exco in fulfilling inter alia the following responsibilities:
  - Monitoring and reporting on brand health and the repositioning of the Nedbank brand.
  - Revising and amending, where appropriate, the master brand repositioning plan in the context of group strategy.
  - Approving strategies for key brand-building campaigns, programmes or initiatives.
  - Regularly performing strategic reviews of competitor positioning and marketing initiatives.
  - Ensuring alignment and coordination of groupwide marketing activities in respect of business and brand strategy.
  - Optimising groupwide marketing spend, including monitoring and reporting on investment and (where applicable) making strategic recommendations on optimal investment.

  - Ensuring consistency in the application of marketing policies and processes, specifically in the areas of advertising, corporate identity, sponsorships and market research.

For information regarding the bank’s integrated sustainability initiatives for 2009 please refer to the summary of the 2009 Sustainability Report (pages 206 to 212) of this report. The full 2009 Sustainability Report may be found at www.Nedbankgroup.co.za.
Risk management

Rather than attempting to avoid risk entirely, Nedbank Group embraces effective risk management as a core competency – one that allows for optimised risk-taking; is objective and transparent; and ensures that the business prices for risk appropriately, linking it to return.

One of the main catalysts to attaining our Deep Green aspiration to be ‘worldclass at managing risk’ is our successful implementation of Basel II. The Basel II framework describes a minimum international standard for capital adequacy that national supervisory authorities implement through domestic rule-making and adoption procedures. This was done in South Africa in January 2008 when the SARB introduced new Basel II banking regulations. As a result of the incorporation of Basel II into our business processes, Nedbank Group has enhanced the level of sophistication of its risk and capital measurement and management, and more closely aligns both its regulatory and economic capital to the risks that the bank faces.

The effective and appropriate management of such risks is put into practice through the group’s best-practice Enterprisewide Risk Management Framework, which considers both the risks the group faces today and those it may face in the future. The Enterprisewide Risk Management Framework comprises three lines of defence as follows:

- The first line of defence comprises focused and informed involvement by the board and Nedbank Group Exco, and accountability and responsibility of business management – all supported by appropriate internal control, risk management and governance structures, policies and processes.
- The second line of defence consists of independent risk monitoring and oversight at group level by Group Risk and EGC functions.
- The third line of defence provides independent objective assurance on the management of risk across the group. This is given by internal and external audit. The risk management function is headed by the Chief Risk Officer, Philip Wessels, who is a member of Group Exco and reports directly to the chief executive. In addition, he attends the board and certain board committee meetings by invitation.

The board acknowledges its responsibility for the entire process of risk management and for evaluating the effectiveness of this process. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it with the day-to-day activities of the group.

The Group Risk and Capital Management Committee is the board committee responsible for assisting the board in reviewing the risk management process and any significant risks facing the group.

Internal audit and operational risk

Key role players within the Enterprise Governance Framework of the group include Group Internal Audit and Operational Risk.

Internal Audit

Internal Audit is a centralised independent assurance function, the purpose, authority and responsibility of which are formally defined in a charter approved by the board in line with stipulations of the Institute of Internal Auditors. Group Internal Audit (GIA) reports on its assessment of the adequacy and effectiveness of the group’s risk management, internal controls and governance processes at meetings of GAC and other board committees charged with risk monitoring.

The chief internal auditor reports functionally to the chairman of the audit committee and administratively to the chief executive. GIA also works closely with EGC to ensure that audit issues of an ethical or governance nature are made known and appropriately resolved.

GIA has dedicated teams that perform internal audits in the group’s various business operations, subsidiaries and joint ventures. Audits are conducted according to a risk-based approach, and the audit plan is approved by GAC and updated quarterly to reflect any changes in the risk profile of the group.

Operational risk

The sophisticated risk assessment methodology used for the identification, assessment, management, monitoring and reporting of risk is discussed in more detail under the operational risk section on page 165.

Internal controls

An essential part of the board’s responsibility is reviewing the effectiveness of internal controls, making use of the monitoring processes within the company.

This is primarily carried out through the Group Risk and Capital Management Committee structure within Nedbank Group. The detailed design, implementation and operation of adequate internal controls are generally delegated to the management team of Nedbank Group. These controls provide reasonable assurance that significant risks are appropriately managed, that management and financial information emanating from Nedbank Group is reliable and that assets are safeguarded.

This, together with the associated responsibility for reviewing periodically the effectiveness of such internal control, is formally acknowledged by the head of each business unit once a year. The Banks Act requires that a board of directors annually reports to the Registrar of Banks on the adequacy of internal controls, adherence to these, maintenance of ethical standards, any material malfunctions and whether a bank will continue as a going concern.
The board reports that:

- no material malfunction in the group’s internal control system occurred during the period under review;
- it is satisfied with the effectiveness of the group’s internal controls and risk management;
- whenever there is an indication of any significant business risk or any weakness in controls that may result in loss or reputational damage, these are recorded and disclosed in a formal key issues control log, which is lodged periodically with the board;
- it has no reason to believe that the group will not operate as a going concern for the year ahead;
- it has no reason to believe that the group’s code of ethics has been transgressed in any material respect;
- it has no reason to believe that the group’s policies and authority levels have not been enforced and adhered to in all material respects;
- there have been no material breaches of compliance with any laws and regulations applicable to the group during the period under review; and
- there is a documented and tested process in place that will allow the group to continue its critical business processes in the event of a disastrous incident affecting its activities.

In Nedbank Group a process and hierarchy for reporting on internal control has been approved by GAC on behalf of the board and is reviewed on an ongoing basis by GIA and Group Risk.

**Personal-account and insider trading**

Nedbank Group has a formal personal-account and insider trading policy in place, which is based on current regulatory requirements, sound risk management and governance processes, as well as international best practice.

Accordingly, personal-account trades are centrally approved and monitored by BoE Stockbrokers’ Compliance Department to ensure that the risk exposures in this regard are appropriately and effectively managed. The policy serves further to assist directors and employees with their commitment to maintaining a culture of integrity, adhering to legislative requirements and enforcing zero tolerance of crime.

All dealings by directors and the company secretary in Nedbank Group shares are communicated to the Listings Division of JSE Limited, as dictated by the JSE Listings Requirements. This information is published through the Securities Exchange News Service (SENS).

**Financial statements and external review**

**Going concern**

The directors of Nedbank Group confirm that they are satisfied that the group has adequate resources to continue in business for the foreseeable future.

The assumptions underlying the going-concern statement are debated and recorded at the time of the approval of the annual financial statements by the board.

This has also been done as part of the interim results process. For this reason the Nedbank Group board continues to adopt the going-concern basis for preparing the financial statements.

**Directors’ declaration**

The directors of Nedbank Group confirm and acknowledge that:

- it is the directors’ responsibility to prepare financial statements that fairly present the state of affairs of the company at the end of the financial year and the profit or loss and cashflows for that period;
- the auditors are responsible for reporting on whether the financial statements are fairly presented;
- adequate accounting records and an effective system of internal control and risk management have been maintained;
- appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been applied consistently, except as otherwise disclosed; and
- applicable accounting standards have been adhered to, or, if there has been any departure in the interest of fair presentation, this has been disclosed, explained and quantified.

**External auditors**

The group’s joint external auditors are Deloitte & Touche and KPMG Inc.

The report of the independent auditors on page 216 sets out the responsibilities of the external auditors with regard to reviewing the financial statements and the group’s compliance with both statutory and accounting standard requirements.

The external audit is structured to provide sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. The audit review also considers the external auditors’ support of the directors’ statements on the group as a going concern and adequacy of the internal control environment.

The external auditors provide non-audit services to Nedbank Group.

A policy, in line with that of Old Mutual plc, regarding the provision of non-audit services by the group’s auditors is in place. This process is structured between management and the external auditors to ensure that the guidelines, requiring approval by the audit committee depending on the quantum of fees
involved, are adhered to and monitored by cluster enterprise risk committees and the Nedbank and Old Mutual plc audit committees on a quarterly basis. The total fee for non-audit and audit-related services provided by the external auditors for the year ended 31 December 2009 was R21 million (2008: R15 million). This amounts to 19,2% of the total audit and non-audit services (2008: 16,0%).

Internet site
Nedbank Group’s internet site (www.nedbankgroup.co.za) has extensive information on the group, its annual, preliminary, interim and sustainability reports and share price. It also provides a regular update on business developments and other matters of interest in relation to Nedbank Group.

Code of Ethics and organisational integrity
As a values-driven organisation, Nedbank Group sees its values as an effective means of ensuring consistent actions and behaviours across the group. To this end the group values were developed in consultation with all staffmembers and provide a clear framework on which the culture of the organisation is built. The Nedbank Group values are:

Integrity
Be honest, trustworthy, truthful, consistent and open. Act according to the highest ethical standards. We communicate openly, directly and ethically.

Respect
Treat others as you would have them treat you. Use diversity as strength. Listen to others and treat people with dignity. Provide individuals with fertile ground in which to grow. Treat everyone in the organisation as important. We foster individual strength to build the whole.

Accountability
Be prepared to make commitments and be judged against your commitments. Deliver on commitments. We take responsibility for our actions.

Pushing beyond boundaries
Play to the maximum of your abilities – as individuals, as teams and as an organisation – across boundaries. We always strive to break new ground, fuelled by our passion and commitment.

Being people-centred
Invest in people. Create empowering environments through development, support, mentoring, coaching, recognition and reward. People are the source of our strength.

These values, which are closely aligned to those of the group’s holding company, Old Mutual plc, have also been incorporated into the groupwide Code of Ethics, which forms the foundation of the Nedbank culture.

During 2009 this Code of Ethics, which is available on our website at www.nedbankgroup.co.za, has been reviewed and aligned with accepted international standards. Increasing awareness of this code among employees remains a key focus area and is viewed as playing a crucial part in making governance a reality for Nedbank Group staffmembers. For this reason awareness communications, a Nedbank Ethics Indicator and various practical case studies have been sent out and implemented during the year, reinforcing the principles used in the policy.

A short survey to test their understanding of the principles used in the policy resulted in awareness among employees of their responsibility to report incidents of unethical behaviour. To create further awareness a DVD was produced addressing business ethics.

The Compliance Tool was launched during 2008 as an electronic mechanism for the declaration of all gifts given and received. It also serves as a repository for declarations of outside interests and allows employees to acknowledge formally that they have read and understood policies. It even offers a survey to test their understanding of ethical business and ethics.

The Nedbank Group Supplier Code of Conduct has been distributed to those of the group’s holding company, Old Mutual plc, have also been included in the Code of Ethics during 2009.

The Nedbank Group Board Ethics Statement remains in place and was included in the Code of Ethics during 2009. The Nedbank Group Supplier Code of Conduct has been distributed with all contracts managed by Group Procurement along with the relevant acknowledgements required by suppliers.

A staff survey on ethics that was conducted during 2009 yielded pleasing results, The overall staff rating of the organisation increased from 86% to 90,2%, which represents a significant positive shift in employee perception. The ethics indicator is the highest indicator in the group for three years.
running, indicating that employees are aware of the policies in this regard and understand what is required of them. It was accepted, in principle, by Group Exco that an ethics measurement be incorporated into the balanced scorecards of all employees. For 2009 ethics was included in the Group Exco scorecards as a modifier and will be measured in 2010.

Nedbank Group subscribes to the Code of Banking Practice of The Banking Association South Africa, which governs all relationships with authorities, clients, competitors, employees, shareholders, local communities and other primary stakeholders. Appropriate procedures and mechanisms are in place to ensure full adherence to the code and the group works with the Banking Ombudsman’s Office to ensure that client complaints are resolved appropriately and timeously.

Political contributions

While Nedbank Group fully supports the SA democratic system, it does not contribute to individual political parties. It may, however, periodically enter into banking transactions with various parties in the ordinary course of business. The group’s apolitical stance extends to declining the funding of projects that are specifically undertaken under the auspices of political parties. That said, Nedbank Group assists with worthy causes initiated by civic organisations, and it is possible that these initiatives may sometimes involve political figures. This in no way implies any support of the political affiliations of such persons.

Anti-money-laundering and combating the financing of terrorists and related activities

Nedbank Group remains committed to combating, and will not be associated with, money laundering or terrorist financing. It maintains policies and procedures to ensure statutory duties and regulatory obligations or, in their absence, agreed standards are met.

The Business Risk Management Forum (BRMF), a group Exco subcommittee, provides strategic direction and monitors the effective implementation of initiatives throughout the group relating to anti-money-laundering (AML) and combating the financing of terrorists and related activities (CFT). The Money-laundering Control Programme (MLCP) Executive Steering Committee, a subcommittee of the BRMF, ensures the internalisation and operationalisation of AML/CFT initiatives. The status of AML/CFT is communicated through the MLCP governance forums and structures and tracked through management information systems and minutes of meetings.

The policies related to AML/CFT have been developed on four levels. Level one and two are the risk framework principles and Old Mutual plc group-level policies applicable to all principal subsidiaries (including Nedbank). Level three is Nedbank Group’s group-level policies fully complete and aligned with Old Mutual plc levels one and two. Level four represents Nedbank Group’s business unit policies, complete and fully aligned with Nedbank’s group-level policies (level three). Key performance indicators are:

- A total of 4 015 616 client information system client records are reflected as verified and 1 081 492 client records as exempted at 23 December 2009. The total number of client records not verified (121 975) comprises –
  - 110 982 records that have been restricted and
  - 10 993 records that are currently in the restriction process, which equates to 0.21% not verified, not restricted records against a risk threshold of 1% (maximum threshold percentage).
- Clients whose records are reflected as not verified after a specified period following account opening form part of the ongoing process to restrict clients.
- Training for AML/CFT and related activities remains a high priority. The following training statistics were as at 2 January 2010:
  - 21 575 of the selected 27 232 employees completed the awareness training for AML/CFT within the past 24 months and are compliant. The ongoing training requirement was operationalised during 2009 and Nedbank Group is currently 79.05% compliant against a recently agreed risk threshold of 80% (minimum compliance percentage), which should be achieved shortly.
  - 15 298 of the 17 076 Retail employees completed the Money-laundering Control Basic Training.
  - 1 353 of the 3 483 Nedbank Corporate employees completed the Money-laundering Control Specialised Training for Corporate and Merchant Banking. The assessment for this training intervention has been deactivated until the future update of the intervention has been completed.
  - 1 730 of the 2 278 Business Banking employees completed the Money-laundering Control Specialised Training for Corporate and Merchant Banking. The assessment for this training intervention has been deactivated until the future update of the intervention has been completed.
  - 1 971 employees completed the Training for Combating the Financing of Terrorists and Related Activities.

Nedbank has not been subjected to any regulatory penalties or negative reviews during 2009.
A total of 471 suspicious-transaction reports were submitted to the Financial Intelligence Centre in 2009, compared with the 809 reports in 2008.

Impact
The Nedbank Group MLCP continues to be supported by group and business line executives. Decisionmakers are active members and participants of the MLCP Executive Steering Committee and related governance forums and structures.

There have been positive interactions with the regulator and the supervisors, contributing to sustainable and trusting relationships beneficial to all parties.

The current focus is on innovative implementation of initiatives, considering the economic climate and pressures on scarce knowledgeable resources.

Initiatives
The Training for the Combating of the Financing of Terrorists and Related Activities (an eLearning intervention) was developed and implemented in mid-October 2009.

Annual directors’ training for money laundering, terrorist financing and sanctions risk management has been developed and presented at the Group Risk and Capital Management Committee on 21 October 2009 to meet the SARB and Financial and Intelligence Centre obligations and international requirements.

The group-level Policy for Anti-money-laundering and the Combating of the Financing of Terrorists and Related Activities and the Policy for Client Acceptance, Maintenance and Monitoring were updated at the end of 2009 as part of the annual review.

The Guidelines for Non-profitable organisations (NPOs), Politically Exposed Persons (PEPs) and Non-governmental Organisations were updated.

A client identification and profiling project has been initiated proactively to profile clients during the client takeon process and to maintain and update the client risk profile as the client’s risk profile changes. This project is currently in a high-level design phase.

A crossborder monitoring project has been completed from a technical perspective to address regulatory compliance for all crossborder transactions. Operational implementation is in progress.

An electronic data warehousing sanctions and PEP monitoring process has been implemented for client relationship monitoring where client records are screened against the Nedbank-ratified sanctions and PEP monitoring lists.

National Credit Act
The National Credit Act (NCA) was promulgated on 15 March 2006 and came into effect on 1 June 2006.

Nedbank, as required by the legislation, has registered five ‘credit providers’.

Significant strides have been made in the implementation of the requirements of the NCA thus far and there remains continued focus on streamlining and improving the full solution.
Attendance at Nedbank Group and Nedbank Limited board and board committee meetings:

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* Executive.
** Only prescheduled meetings were held.
# Non-executive.
xx Independent non-executive.
xxx Missed two meetings due to study leave while in the United States of America.
1 Resigned as director with effect from 16 October 2009.
2 Retired as director with effect from 19 November 2009.
3 Appointed as director with effect from 5 August 2009.
4 Appointed as director with effect from 1 September 2009.
5 Appointed as director with effect from 1 August 2009.
6 Resigned as director with effect from 31 March 2009.
7 Appointed as director with effect from 1 December 2009.
8 Appointed as director with effect from 1 January 2009.
*** Recused himself from two meetings due to conflicts of interest.
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</tbody>
</table>

* Executive.
** Only prescheduled meetings were held.
# Non-executive.
x Independent non-executive.
xx Senior independent director.
xxx Missed two meetings due to study leave while in the United States of America.
1 Resigned as director with effect from 16 October 2009.
2 Retired as director with effect from 19 November 2009.
3 Appointed as director with effect from 5 August 2009.
4 Appointed as director with effect from 1 September 2009.
5 Appointed as director with effect from 1 August 2009.
6 Resigned as director with effect from 31 March 2009.
7 Appointed as director with effect from 1 December 2009.
8 Appointed as director with effect from 1 January 2009.
*** Recused himself from two meetings due to conflicts of interest.
‘For Nedbank Group true sustainability is only attainable through an integrated approach, which is epitomised by our commitment to partnering effectively with our stakeholders to ensure our, and their, continued economic resilience, to promote lasting social development and upliftment, to minimise the impact of our business on the environment, and to achieve our aspiration to be a truly great place to work.’

2009 Sustainability Report
The following pages contain salient points from the 2009 Sustainability Report. While every effort has been made to include a summary of all relevant information, we would like to refer you to the 2009 sustainability report for full details of the group’s sustainability efforts. The sustainability report is available from any Nedbank branch or can be accessed at www.nedbankgroup.co.za.

This overview includes highlights of the 2009 sustainability initiatives and outlines Nedbank Group’s integrated approach to sustainability, which focuses on the four areas of economic sustainability, social sustainability, environmental sustainability and cultural sustainability.

Overview
Despite the challenging economic and market conditions experienced during 2009, Nedbank Group remained committed to its aspiration to Make Things Happen for all its stakeholders. The group recognises that its ability to do so and continue adding value to the lives of others and the environment is largely dependent on it embracing a holistic approach to all business dealings and remaining focused on the fundamental elements of sustainable banking.

As a result, 2009 saw Nedbank Group focused on building on its commitment to environmental preservation, social upliftment, continued transformation and the fostering of a corporate culture to drive sustainability – all of which are integral aspects of the bank’s sustainability.

Such an integrated sustainability approach positions the bank to respond to the needs of stakeholders and to make a valuable contribution to the future of South Africa.

The success of the integrated sustainability approach has been recognised through a number of accolades, including being recognised in the Ask Afrika Trust Barometer® as the company that is doing the most to address its impact on the environment; taking the leading position in the South African Carbon Disclosure Project Leadership Index; and receiving South Africa’s first four-star Green Star SA rating for the Nedbank phase II corporate headoffice building.

Acknowledgements aside, for Nedbank Group sustainability is ultimately about walking a path to a better future, together with all its stakeholders. This philosophy lies at the heart of the group’s ongoing sustainability journey and drives it to realise its vision to Make Things Happen for its clients, staff, partners, shareholders, communities, and the environment.

Integrated approach to sustainability
One of the key lessons that Nedbank Group has learned on its sustainability journey is that it is not the profitability of a business that ensures its sustainability, but rather the sustainability of a business that drives its success and profitability.

With this lesson has come the understanding that sustainability cannot be achieved through isolated initiatives.

To become a truly sustainable and resilient organisation encompasses every facet of the organisation, which is why placing sustainable practices at the heart of business operations is a priority for Nedbank Group.

And since the journey towards sustainability must take place in a holistic, integrated manner, Nedbank Group’s sustainability focus brings together the essential elements of economic, environmental, social and cultural sustainability with a view to unlock synergies and to maximise the benefits of the necessary connection between these four sustainability focus areas.

To this end sustainability is incorporated into every aspect of the group’s business. It informs the way it thinks, behaves, operates and plans. Which is why the past year has seen a particular focus on developing and implementing an integrated group sustainability business plan to drive sustainability forward, to measure progress accurately, and to ensure that the sustainability efforts of all the parts of Nedbank Group contribute to the sustainability journey of the whole, thereby ensuring the resilience of Nedbank Group.

Economic sustainability
The global economic crisis of 2008 and 2009 highlighted the importance of economic sustainability, which is not solely dependent on external factors or operating environments. This understanding that economic sustainability is one of the
cornerstones of a viable and resilient business led Nedbank Group to focus more intensely on developing and implementing world-class governance and compliance practices and hone its risk management skills in 2009. In so doing the bank is positioning itself to continue growing shareholder value, protecting the financial interests of its clients, employees and suppliers, and contributing positively to the economic future of the country – regardless of outside economic forces beyond its control.

Nedbank Group remains committed to the management of funds in its care and the diverse investments it makes. Competitive governance and compliance remain strategic imperatives, and a focus on good governance remains at the heart of operations linking corporate governance and compliance to performance management.

The Nedbank Group Enterprise Governance and Compliance Framework ensures a consistent focus on day-to-day governance requirements, while maintaining a view of the long-term, sustainable growth and profitability of the group.

Nedbank Group subscribes to King II and has developed a comprehensive implementation and monitoring plan during the past seven years to meet its requirements and recommendations. A review of the recently launched King III Governance Code, undertaken to assess Nedbank Group’s existing governance practices, revealed that the business is already practising sound governance principles that are on par with the required international standards. The group also complies with the Code of Banking Practice.

Values are seen as an effective way of ensuring consistent action and behaviour across the group. The group values provide a framework on which the culture of the organisation is built. The Nedbank Group Code of Ethics and business conduct was reviewed in 2009 and used as a basis for the group’s new employee pledge.

Nedbank Group is acutely aware of the challenging global conditions facing the banking industry, and it continues to commit itself to world-class risk management as an integral component of its business. The group’s risk philosophy emphasises the importance of risk as a business component. For this reason Nedbank Group does not seek to avoid risk, but rather strives to understand risk, manage it effectively, and evaluate it in the context of its potential for reward. Emphasis is placed on producing high-quality, sustainable earnings that will attract a premium rating for the group and protect the interests of shareholders, depositors and other stakeholders.

Nedbank Group Limited has again strengthened its regulatory capital ratios in 2009, with a Tier 1 capital adequacy ratio of 11.5% (2008: 9.6%) and a total capital adequacy ratio of 14.9% (2008: 12.4%). The core Tier 1 capital adequacy ratio was 9.9% (2008: 8.2%).

Nedbank Limited has also strengthened regulatory capital ratios, with a Tier 1 capital adequacy ratio of 11.7% (2008: 9.8%) and a total capital adequacy ratio of 15.6% (2008: 13.1%). The core Tier 1 capital adequacy ratio was 9.6% (2008: 8.0%). All capital adequacy ratios are now well above the group’s target ranges, including core Tier 1. They include unappropriated profits at the year-end to the extent that these are not expected to reverse and are expected to be appropriated subsequent to the year-end.

Nedbank Group’s capital adequacy ratios increased significantly over the past two years due to a strong focus on the optimisation of risk-weighted assets (capital), enabled by enhancing data quality and more selective asset growth using our economic-profit-based philosophy of managing for value, the
retention of earnings, the profits made on the disposal of Visa shares in 2008 and the issuing of some non-core Tier 1 capital instruments.

Social sustainability
Nedbank Group seeks to play a central role in uplifting the economy of South Africa and improving the lives and futures of all its people. As such, socioeconomic development and community upliftment form a significant part of the bank’s strategic intent.

Nedbank Group’s vision to become a bank for all South Africans sees the bank firmly committed to improving access to its products and services through steady growth in distribution points and tailored banking services, particularly in those areas of the country where access to banking and financial services has so far been scarce or non-existent.

Over the past three years Nedbank Retail has invested significantly in a range of banking channels, most notably automated teller machines and low-cost physical distribution points. This has led to a considerable improvement in Nedbank’s banking footprint, particularly in the mass-market areas where the bank was previously underrepresented.

Nedbank Group has also focused on consumer education, enhancing service delivery and competitive pricing to support access to finance further.

Nedbank Group aspires to partner with government departments and institutions in economic and social development initiatives. The group’s Public Sector Business Unit services the public sector, including central, provincial and local government, state-owned enterprises and various government agencies and commissions. The group has also played a key role in the public sector infrastructure rollout by providing funding and guarantees to state-owned enterprises and large metropolitan municipalities.

A key focus of Nedbank Group for 2010 is the design, development and implementation of a multifaceted learning and skills development programme aimed at creating awareness among clients and the broader SA public of issues around sustainability, and helping to modify the behaviour of individuals and communities where Nedbank Group has a footprint.

Enterprise development is considered a groupwide imperative and forms part of Nedbank Group’s commitment to the sustainable growth and development of the SA economy.

To this end the group continues to focus on the achievement of preferential procurement targets and 2009 saw the group’s Black Economic Empowerment (BEE) Procurement Unit helping further to embed preferential procurement policies and procedures across the organisation.

The Nedbank Foundation is the primary corporate social investment (CSI) arm of Nedbank Group and is integral to the organisation’s achievement of its Deep Green aspiration of being highly involved in the community and environment. The foundation contributes significantly to community upliftment and development programmes that are both empowering and sustainable. To ensure the long-term effectiveness of the contributions it makes the foundation focuses its CSI efforts on the key areas of education, community development, socioeconomic development and staff volunteerism. Thanks to the equitable spread of contributions across these focus areas in 2009 the Nedbank Foundation now enjoys a footprint across all nine provinces. During 2009 the Nedbank Foundation spent R30.5 million (2008: R27.2 million) in support of more than 291 projects.

The Nedbank Affinities continue to offer clients of the bank a unique opportunity to partner with it in support of causes that are close to their hearts, simply through making use of specified affinity-linked products, and at no cost to themselves. The Nedbank Affinities are:

- The Nedbank Children’s Affinity, through which Nedbank Group and its clients have donated over R15 million to the Nelson Mandela Children’s Fund. In 2009 donations to the fund grew by 46% to over R4.5 million (2008: R3.1 million).
• The Nedbank Sport Affinity, which has seen the donation of more than R10 million to The Sports Trust since inception. In 2009 Nedbank Group donations to The Sports Trust grew by 16% to nearly R1.2 million (2008: R997 000).

• The Arts Affinity, through which over R9 million has been donated to the Arts & Culture Trust. In 2009 Nedbank Group donations to the Arts & Culture Trust grew by 80% to R850 000 (2008: R472 212).

Environmental sustainability
As South Africa’s green bank, Nedbank Group embraces its role in conserving the country’s natural resources for future generations. The group’s commitment to the environment is integral to its business strategy and a focus area of its integrated sustainability approach.

The group’s environmental policy is aimed at ensuring that business is conducted in a responsible, fair and honest manner, and in keeping with government’s stated objectives in terms of environmental protection.

Addressing the impacts of climate change and playing a proactive role in ensuring resilience for the bank and its stakeholders remained key for Nedbank Group in 2009. In addition to conducting a variety of awareness campaigns among various stakeholders, the group undertook many initiatives with the specific aim of growing a green culture among its staff and suppliers.

During the year intensity reduction targets were incorporated into groupwide performance assessment measures, while a Group Environmental Forum working committee was established to track performance against these targets on a monthly basis and drive awareness.

Nedbank Group was encouraged by the acknowledgement of the SA Carbon Disclosure Project, which named Nedbank Group as the leading company in terms of the transparency of its carbon disclosure and reporting.

Nedbank Group’s commitment to fighting climate change was taken to the next level in 2009 with the announcement of the bank’s commitment to carbon neutrality. This commitment represents the next phase of the bank’s climate leadership journey and will take it beyond the management and reduction of carbon emissions to a position of offsetting its residual carbon footprint. Building on its long relationship with World Wide Fund for Nature South Africa the group partnered with the organisation in establishing a carbon-neutral task team to inform its carbon-neutral strategy and carbon-offsetting approach.

Late in 2009 Nedbank Capital and Wildlife Works Inc signed an agreement on an East African carbon project – Rukinga Wildlife Sanctuary, Africa’s first large carbon finance deal.

On 15 October 2009 the Nedbank Group phase II corporate headoffice building became the first building in South Africa to be awarded a Green Star South Africa rating. This achievement comes one year after the Green Building Council of South Africa launched its first rating tool, the Green Star South Africa.

Nedbank Group continued its support of the United Nations Environment Programme Finance Initiative (UNEP FI) during 2009 by co-chairing the UNEP FI African Task Force, which addresses sustainability issues in the African context. The group has joined, and is co-chairing, the Water and Finance Workstream, which focuses on industry usage of water and water-offsetting initiatives. Nedbank Group contributed to the workstream’s first publication in the Chief Liquidity Series ‘Agribusiness’, which included a study on the impact of water scarcity on agriculture.

The Green Affinity, which has served as a vehicle for over R100 million in support of The Green Trust since its inception in 1990. In 2009 R5.4 million was donated to The Green Trust (R5.35 million in 2008).

Cultural sustainability
As an employer of more than 27 000 people and a business that utilises a wide variety of services and products procured from many suppliers, Nedbank Group is in the privileged position of being able to influence the thoughts, attitudes and behaviours of many South Africans, develop leaders and help create a society that values and embraces diversity and works together for the greater good of all.

Increasingly the Nedbank Group employee profile is being transformed to be more representative of the demographics of the people it serves. The bank’s transformation journey gained significant momentum in 2009, with an enhanced focus on employment equity (EE) as a key driver of transformation. Nedbank Group’s efforts in this regard were rewarded with the third place overall in the 2009 Financial Mail Top Empowered Companies Survey and 10th place in the EE pillar of the same survey. This makes Nedbank the most empowered company among all financial services companies in South Africa. Nedbank is also encouraged by our level-two BEE contributor status.

To manage the workforce profile and costs, and mitigate the risks and challenges faced during the economic downturn Nedbank Group was required to institute a recruitment freeze during 2009.

Despite this, the vision of making Nedbank Group a great place to work serves as a constant reminder that its employees are
its most important asset, and that their happiness, productivity and development are crucial to the sustainable success of the bank as a whole.

The four key people focus areas identified in 2008 were therefore retained as the foundation of the group’s people strategy for 2009. These are:

- Building a unique culture for competitive advantage.
- Embedding talent management.
- Learning and growth.
- Accelerating transformation.

As part of its Employee Wellbeing Programme the group offers confidential, professional consultation on any personal problems at no cost to employees. The group is also committed to instilling a healthy work/life balance in its employees and, in 2009, the flexible work practices on offer were enhanced with the implementation of two-, three- and four-day week options.

Nedbank Group has adopted policies that enforce its commitment to addressing HIV/AIDS in a proactive, positive, supportive and non-discriminatory manner. The group offers treatment to HIV-positive employees through its HIV/AIDS management programme, which forms part of the Nedgroup Medical Aid Scheme structure. Free antiretroviral drugs are provided as part of a managed-care programme.

The extent to which employees engage effectively with their managers has been recognised as a key factor in the retention, motivation and development of employees. To ensure such engagement Nedbank Group has implemented various mechanisms, including management conversations, performance feedback sessions, team interventions, recognition functions, and cluster- and group-based roadshows.

A career choices model serves as the career development framework at Nedbank Group and, when linked to the Management Development Programme, affords employees an opportunity to identify the skills required to follow a particular career path and plan their development accordingly. The group also implemented a coaching and mentoring framework through which it offers employees both internal and external coaches, with a particular focus on supporting the professional and personal growth of its people.

The alignment of Nedbank Group’s business goals, individual performance and employee development is a significant part of developing a high-performance culture. The group’s holistic performance management process enables it to assess business performance against the set strategic focus areas, ensures that employees are on track to achieve their targets and contributes to the achievement of business objectives.

People with disabilities (PWD) are a specific focus area in the ongoing transformation efforts of the group. The Nedbank PWD Forum was fully operational in 2009 and the chairperson of the forum is a permanent member of the Nedbank Employment Equity Forum. This ensures that any issues relating to employees with disabilities receive the necessary attention in a formalised and consultative manner. The forum, made up of cluster representatives, monitors performance against EE targets for PWD on a monthly basis.

As a bank that is committed to being highly involved in the community and environment, Nedbank Group is committed to encouraging and enabling its staff to share their skills and talents in service of others. The group’s staff volunteerism programme caters for employees who wish to give of their time to worthy causes. A variety of opportunities are made available for volunteerism and the giving of financial support through initiatives like the Nedbank Team Challenge, the Local Hero Programme and Payroll Giving.

Nedbank’s Occupational Health and Safety (OHS) programme was once again of the highest standard in 2009, with more than 95% compliance of headoffice sites, regional offices and branches to the OHS Act (85 of 1993) and its regulations.
## Key sustainability indicators

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<th>Indicator</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>Progress</th>
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<tr>
<td>Headline earnings (Rm)</td>
<td>4 277</td>
<td>5 765</td>
<td>5 921</td>
<td>The group is solidly profitable, but earnings declined in the context of the global financial crisis. Earnings were impacted by increasing retail impairments and reduced NII from reduced endowment earnings following the 450 basis point decrease in interest rates. ROE and ROA metrics declined in line with the reduction in earnings, and a stable capital and asset position being maintained.</td>
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<td>Diluted headline EPS (cents)</td>
<td>983</td>
<td>1 401</td>
<td>1 429</td>
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<tr>
<td>ROE (%)</td>
<td>11,5</td>
<td>17,7</td>
<td>21,4</td>
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<td>ROA (%)</td>
<td>0,75</td>
<td>1,09</td>
<td>1,30</td>
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<tr>
<td>Efficiency ratio (%)</td>
<td>53,5</td>
<td>51,1</td>
<td>54,9</td>
<td>Good expense management, but declined owing to lower income and inclusion of joint ventures.</td>
</tr>
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<td>Total capital adequacy (%)</td>
<td>14,9</td>
<td>12,4</td>
<td>11,4</td>
<td>Capital position strengthened significantly above the group’s internal targets.</td>
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<td>Assets under management (Rm)</td>
<td>93 625</td>
<td>84 381</td>
<td>85 438</td>
<td>Domestic asset management showed good growth.</td>
</tr>
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<td>Number of permanent employees</td>
<td>27 037</td>
<td>27 570</td>
<td>26 522</td>
<td>Good progress. Refer section 5 for further details.</td>
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<td>Black staff at executive level (%)</td>
<td>40</td>
<td>30</td>
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<tr>
<td>Black staff at senior management level (%)</td>
<td>27,88</td>
<td>26,96</td>
<td>22,25</td>
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<tr>
<td>Black staff at middle management level (%)</td>
<td>46,89</td>
<td>44,64</td>
<td>35,99</td>
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<tr>
<td>Black staff at junior management level (%)</td>
<td>74,39</td>
<td>72,76</td>
<td>48,88</td>
<td></td>
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<tr>
<td>Training and skills development spend as percentage of payroll</td>
<td>4,32</td>
<td>4,05</td>
<td>2,03</td>
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<tr>
<td>Overall BEE spend ratio (%)</td>
<td>83,4</td>
<td>62,0</td>
<td>48,1</td>
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<tr>
<td>Compliance (%) to the Nedbank Group Occupational Health and Safety (OHS) Programme</td>
<td>Above 95</td>
<td>93,56</td>
<td>91,22</td>
<td>Measured in terms of Nedbank’s OHS Policy, which is more stringent than legislation requires. Compliance in terms of the Occupational Health and Safety Act: 98,88% (2008: 98,56%).</td>
</tr>
<tr>
<td>Corporate social investment (CSI) spend (Rm) (Nedbank Foundation, other foundations and trusts and Nedbank Affinities)</td>
<td>68,31</td>
<td>38,01</td>
<td>37,12</td>
<td>Increase is due to a new bursary scheme as well as increases in spend from the Community Trust and BoE Education Fund.</td>
</tr>
<tr>
<td>Socioeconomic development spend (Rm)</td>
<td>72,55*</td>
<td>66,90*</td>
<td>45,30*</td>
<td>Good progress. Refer section 4 for further details.</td>
</tr>
<tr>
<td>Electricity consumption (kWh)*</td>
<td>95 546 670</td>
<td>98 710 927*</td>
<td>100 580 577*</td>
<td>Good housekeeping initiatives and technical interventions for lighting and air conditioning to continue reduction of electricity consumption.</td>
</tr>
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<td>Water consumption (kilolitres)*</td>
<td>310 210</td>
<td>373 935</td>
<td>445 459*</td>
<td></td>
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<tr>
<td>Waste reduction: Landfill (tonnes)*</td>
<td>552</td>
<td>674*</td>
<td>774</td>
<td>Waste sent to landfills has decreased due to better sorting, which in turn has increased recycling.</td>
</tr>
<tr>
<td>Total recycled materials – glass, plastic, tin, cardboard and paper (tonnes)*</td>
<td>454,91</td>
<td>419,20*</td>
<td>396,20*</td>
<td>Increase in recycling is due to waste being sorted more efficiently, and therefore less waste going to landfill.</td>
</tr>
<tr>
<td>Paper consumption (tonnes)*</td>
<td>989</td>
<td>1 007</td>
<td>1 047</td>
<td>Refer to the overview of the 2009 carbon emissions in the Environmental sustainability section.</td>
</tr>
<tr>
<td>Total carbon emissions (tonnes) ‡</td>
<td>213 606,23</td>
<td>135 468,69</td>
<td>129 946,25</td>
<td>Please refer to section 4 for further details.</td>
</tr>
<tr>
<td>The Green Trust disbursements (Rm)</td>
<td>5,31</td>
<td>5,35</td>
<td>5,3</td>
<td>Details of The Green Trust projects are contained in section 4, page 66.</td>
</tr>
<tr>
<td>Total environmental expenditure (Rm)</td>
<td>31,5</td>
<td>13,6</td>
<td>6,5</td>
<td>2009 increase due to R15m spend towards carbon neutrality.</td>
</tr>
</tbody>
</table>

* Includes CSI and sports development and consumer education.
* Includes CSI and developmental sponsorship, external bursary scheme and consumer education.
† Includes CSI and consumer education.
# Campus sites only.
‡ Groupwide.

* 2007 figures restated.
* 2008 base restated for certain premises as a result of (i) amended billing and occupation statistics and (ii) to reflect actual data now available where averages were used in initial 2008 calculation.
* Data converted from cubic metres (as previously reported) to tonnes.
* 2008.
## VALUE-ADDED STATEMENT

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<th>2009</th>
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<tr>
<td></td>
<td>Rm</td>
<td>%</td>
</tr>
<tr>
<td>Net-interest income</td>
<td>16 306</td>
<td>101</td>
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<tr>
<td>Impairment losses on loans and advances</td>
<td>(6 634)</td>
<td>(41)</td>
</tr>
<tr>
<td>Income from lending activities</td>
<td>9 672</td>
<td>60</td>
</tr>
<tr>
<td>Non-margin-related income*</td>
<td>12 585</td>
<td>78</td>
</tr>
<tr>
<td>Other expenditure</td>
<td>(6 111)</td>
<td>(38)</td>
</tr>
</tbody>
</table>

### Value allocated

- Employees
  - 2009: 7 898 (49%)
  - 2008: 7 040 (41%)
- Government (taxes)**
  - 2009: 1 745 (11%)
  - 2008: 2 242 (13%)
- Shareholders***
  - 2009: 2 839 (18%)
  - 2008: 3 330 (19%)
- Retentions for growth
  - 2009: 3 664 (23%)
  - 2008: 4 704 (27%)

### Depreciation and amortisation
- 2009: 1 091 (7%)
- 2008: 1 030 (6%)

### Retained income
- 2009: 2 573 (16%)
- 2008: 3 674 (21%)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16 146</td>
<td>100</td>
</tr>
</tbody>
</table>

* Includes non-interest revenue, foreign currency translation gains/losses, non-trading and capital items, and share of profits of associates and joint ventures.

** Includes direct and indirect taxation.

*** Value is allocated to shareholders in respect of cash dividends (does not include the underlying value of capitalisation shares awarded) and income attributable to non-controlling shareholders.