

CHAIRMAN'S STATEMENT

'Harsh and valuable lessons have no doubt been learnt from the crisis where the attraction of short-term gains caused so many businesses to lose their moral compass.'



Dr Reuel J Khoza
Chairman

Introduction

As economies and business the world over start to recover and rebuild after the widespread recession brought on by the global financial crisis, business leaders and companies need to focus their attention once again on ethical behaviour and on adopting sustainable business practices.

Harsh and valuable lessons have no doubt been learnt from the crisis where the attraction of short-term gains caused so many businesses to lose their moral compass. It is hoped that this will be the catalyst for a return to values-based management, with a focus on building businesses that are sustainable in the long term, and greater adherence to codes of ethics and conduct.

In South Africa we welcomed the introduction of the King Report on corporate governance (King III), which is effective from March 2010. While the new code is in no way a response to the fallout from the global financial crisis, King III has introduced the concept of 'apply or explain', where businesses will receive credit or be sanctioned for their governance practices.

The first two reports of the King Committee have contributed to the governance standards of some local companies being elevated to worldclass levels, at the same time making these companies increasingly attractive to international investors.

Nedbank continually evaluates its governance practices and standards and will strive to adhere to the new code.

The board acknowledges the relationship between high-quality governance and long-term equity performance, recognising that investors afford premium ratings to well-managed businesses.

Economy and banking environment

The local banking industry experienced an exceptionally tough and volatile year as a result of the impact of the global recession, combined with credit stress in the local market following two years of economic slowdown.

Demand for credit slowed dramatically and retail impairments increased significantly as consumers came under severe pressure from falling income, job losses, declining asset prices and record-high debt burdens. The SA Reserve Bank reduced interest rates by a total of 450 basis points in 2009 to cushion the effects of a rapidly slowing economy and increasing unemployment, and to stimulate growth.

Corporate demand for credit lost momentum due to weak global and local demand. This eroded corporate profits through weaker pricing power, lower commodity prices and a strong rand. Support came from increased government spending, boosted primarily by the public sector's infrastructure drive and preparations for the 2010 FIFA World Cup.

Despite the negative economic trends dominating much of 2009, underlying trading conditions showed early signs of improvement around the third quarter. This was led by a rebound in growth in emerging markets, especially China and India, and was followed by initial indications of recovery in most industrialised countries, chiefly brought about by unprecedented government intervention and massive fiscal and monetary stimulation. Improved commodity prices and global demand brought an element of relief to domestic export manufacturers, lifting South Africa out of 'official' recession in the third quarter. There are early signs that the sharp drop in interest rates is starting to revive household credit demand as house prices showed modest

signs of a slow recovery towards the end of the year.

Job creation will support household income and lead to some improvement in consumer finances and therefore spending. The rebound is likely to be slower than in previous cycles given weak consumer and business confidence and tighter lending criteria.

Political economy

South Africa's political leadership faces several challenges in addressing economic progress, with the immediate priorities being job creation and restoring the country on a growth path. After job losses of nearly one million during the downturn, employment showed early signs of stabilising in the latter stages of 2009. However, there are other fundamental issues that require urgent attention to stimulate economic progress:

- The productivity of the public sector needs to be addressed as a priority and we would urge government to ensure that public administration is merit-based to change the prevailing culture of mediocrity. Our public sector needs to be staffed by excellent people in order to become more efficient and productive. Government employees need to be selected according to clearly defined criteria related to skills and qualifications and occupy positions based on merit, rather than on political considerations.
- There is an urgent need for policy clarity on the roles of the ministries of Finance, Economic Development, Trade and Industry, and the national planning commission in the Office of the President. Policy clarity and alignment of the roleplayers should hopefully again raise our country's level of competitiveness, which has unfortunately slumped in recent times.

- A further area of concern is the over-politicisation of public assets. It is imperative for economic development that state-owned enterprises are operated along the same business lines as private sector companies. Professional management needs to be installed to rescue many of these state-owned assets and transform them into commercially sound enterprises.

Board of directors

The composition of the board underwent several changes with the appointment of eight new directors and the retirement or resignation of six directors during the year.

We are committed to maintaining a majority of independent directors and welcomed four outstanding personalities in Alan Knott-Craig, Jabu Moleketi, Wendy Lucas-Bull and Malcolm Wyman onto the board. These new directors

are all accomplished in their fields: Alan is well-known as one of the pioneers of the mobile telephone technology industry with Vodacom and is strong on technology innovation, which is becoming increasingly relevant to banking; Jabu held senior political office and served as the country's deputy minister of finance for four years; a highly experienced banker, Wendy was previously chief executive of FirstRand's retail business; and Malcolm is an executive director and Chief Financial Officer of global brewer, SABMiller plc.

Two executives of our parent company, Old Mutual plc, were appointed as non-executive directors, namely Julian Roberts, Group Chief Executive, and Don Hope, Head of Strategy Development.

Following the restructuring of the Group Executive Committee (Group Exco) as part of the succession process for the new Chief Executive, Graham Dempster

was appointed to the newly created position of Chief Operating Officer and as an executive director. Graham is one of the most experienced bankers in the group and his wide-ranging expertise is well suited to this position. We were pleased to have attracted Raisibe Morathi as Chief Financial Officer to succeed Mike Brown when he was appointed Chief Executive Designate. Raisibe has held senior positions in banking, development finance and insurance and we are pleased to have appointed our first black female executive director onto an already highly transformed board.

We said farewell to some of our longest standing directors. Following the adoption of a policy that non-executive directors should not serve on the board for more than nine years, board stalwarts Michael Katz, JB Magwaza and Mafika Mkwanazi retired from the board. We also took leave of Bob Head and Rosie Harris, both executives of Old Mutual plc, and Lot Ndlovu. These directors served the board with distinction. We thank them for their collective contribution to the affairs of Nedbank Group and wish them well into the future.

We are delighted that Tom Boardman accepted the invitation from the board to serve as a non-executive director after his retirement as Chief Executive.

The board now comprises 17 directors, with eight independent non-executive directors, six non-executive directors and three executive directors. It should be noted that three of the non-executives, including myself, are not considered independent in terms of King II and the JSE Listings Requirements owing to our shareholdings in the group's broad-based black economic empowerment scheme and to two non-executives representing Old Mutual plc on the board.



Tom Boardman is not classified as independent as he has served as an executive of the group. We do not believe that these classifications inhibit the directors from exercising their independent judgement or thinking at board level.

The complex and regulated nature of a bank requires us to have more board committees than most large corporates. We believe that the board is of optimal size to enable us to have sufficient qualified directors to serve on these committees.

Leadership succession

The process of identifying a successor to Tom Boardman was initiated during 2008 and an extensive search was conducted where the board considered international, local and internal candidates, influenced by a desire to appoint a black candidate. Mike Brown was the natural choice based on very strong credentials.

We were particularly pleased to appoint an internal candidate with such extensive banking and financial expertise as Mike. In his capacity as Chief Financial Officer Mike worked very closely with the board and the Chief Executive for over five years, and made a considerable contribution to the strategic direction of the group, the enhancement of capital and liquidity management, as well as the group's internal and external reporting.

The appointment was announced in March 2009 and this allowed for a year-long transition in the Chief Executive's office from Tom to Mike.

Mike is committed to transformation and this has been demonstrated in the composition of his new Group Exco which has 44% black representation, the second highest among the four major banks, and at 38% the highest African

representation relative to our peer group.

My board colleagues join me in wishing Mike every success in his new role that commenced on 1 March 2010.

Tom Boardman

Our Chief Executive, Tom Boardman, retired at the end of February 2010. When one looks back at what Nedbank achieved under Tom's leadership it is hard to believe that he was only in this position for little more than six years. After a baptism of fire following his appointment in late 2003, he immediately set about implementing a turnaround strategy for the bank, which was successfully delivered. His unwavering commitment to creating a values-based organisation saw a dramatic improvement in staff morale and an alignment of values. Tom's focus on sustainability saw the group becoming one of the most transformed companies in the country, cementing its position as the 'green' bank and creating a platform for long-term growth. We will miss Tom's incredible passion and energy in leading the bank, but are pleased to retain his wisdom and sagacity on the board in his capacity as a non-executive director.

Appreciation

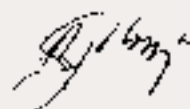
In closing I would like to thank my fellow directors for sharing their wisdom and knowledge with the group and for their active participation in boardroom debates. It is indeed a privilege to lead this forum.

The group has continued to show its resilience under extreme pressure and on behalf of the board I thank Tom and the Group Exco for ensuring that we have weathered the storm and are positioned well for the eventual upturn in the economy. At the same time we wish the

new team under Mike's leadership every success for the year ahead.

Again we thank the Banking Regulator for his oversight and guidance of our industry in these trying times and for the constructive manner in which he engages with the bank.

The achievements outlined in this annual report would not have been possible without the commitment and dedication of our staff and we thank everyone at headoffice and at our offices and branches across the country and further afield for their contributions.



Dr Reuel J Khoza
Chairman

Sandton
24 February 2010

AT 1 JANUARY 2010

BOARD OF DIRECTORS



Dr Reuel Jethro Khoza (60)
Non-executive Chairman

(Appointed August 2005 as a director and May 2006 as non-executive Chairman.)

Qualifications:

BA(Hons) Psychology (UNIN), MA Marketing Management (Lancaster, UK), EngD (Warwick, UK), IPBM – IMD (Lausanne, Switzerland), PMD (Harvard Business School, USA), LLD (hc) Rhodes.

Nationality:
South African.

Reuel Khoza is Chairman of Aka Capital and Nepad Business Foundation. He is a non-executive director of Nampak Limited, Protea Group Limited and Old Mutual plc. He is President of the Institute of Directors and in this capacity served on the King II and King III Committees on corporate governance. He is a founding director of the Black Management Forum and the former Chairman of Eskom Holdings.

Nedbank Group Board committees:
Nedbank Group Directors' Affairs Committee (Chairman).

Nedbank Group ordinary shares:
1 374 beneficial indirect.

Nedbank Limited preference shares:
0.

Christopher John Watkins Ball (70)
Senior Independent Non-executive Director

(Appointed November 2002 as a director and February 2007 as senior independent director.)

Qualifications:

Dip Iuris, MA.

Nationality:
South African.

Chris Ball was previously a non-executive director of BoE Limited and five of its subsidiary companies, including Century City Limited. He is currently a non-executive director of Imperial Bank Limited.

Nedbank Group Board committees:
Group Finance and Oversight Committee (Chairman), Group Audit Committee (Chairman), Group Remuneration Committee, Group Credit Committee, Group Directors' Affairs Committee, Group Risk and Capital Management Committee, Group Transformation and Sustainability Committee and Board Strategic and Innovation Management Committee.

Nedbank Group ordinary shares:
10 000 beneficial direct.

Nedbank Limited preference shares:
144 300 beneficial direct.

Thomas Andrew Boardman (60)
Chief Executive

(Appointed November 2002 as director and December 2003 as Chief Executive.)

Qualifications:

BCom, CA (SA).

Nationality:
South African.

Tom Boardman is Chief Executive of Nedbank Group and Nedbank Limited. He was formerly the Chief Executive and an executive director of BoE Limited. Past directorships include Boardmans and Sam Newman Limited as well as BoE International Holdings Limited and Northwind Investments (Pty) Limited. He is a non-executive director of Mutual & Federal Insurance Company Limited and The Banking Association South Africa, and a director of Vodacom Group (Pty) Limited and the World Wide Fund South Africa.

Nedbank Group Board committees:
Large-exposures Approval Committee until 1 March 2010. With effect from 1 March 2010 Board Strategic and Innovation Management Committee and the Group Credit Committee.

Nedbank Group ordinary shares:
81 100 beneficial direct and
251 715 beneficial indirect (time- and performance-vesting conditions).

Nedbank Limited preference shares:
85 000 beneficial indirect.



Michael William Thomas Brown (43)
Chief Executive Designate

(Appointed June 2004.)

Qualifications:

BCom, Dip Acc, CA (SA), AMP (Harvard Business School, USA).

Nationality:

South African.

Mike Brown is Chief Executive Designate. He was previously, since June 2004, the Chief Financial Officer of Nedbank Group Limited and Nedbank Limited. Prior to that he headed Property Finance at Nedbank and before that he was an executive director of BoE Limited.

Nedbank Group Board committees:
Large-exposures Approval Committee.

Nedbank Group ordinary shares:
49 940 beneficial direct and
235 815 beneficial indirect.

Nedbank Limited preference shares:
0.

Thenjiwe Claudia Pamela Chikane (44)
Non-executive Director

(Appointed November 2006.)

Qualifications:

Chartered Accountant.

Nationality:

South African.

Thenjiwe Chikane was previously the Chief Executive Officer of MGO Consulting and the Head of the Gauteng Department of Finance and Economic Affairs. She is a boardmember of Datacentrix Limited, a listed company in information technology, and a member of the Rice Africa Board. She was previously a non-executive director of the Development Bank of Southern Africa, Telkom, PetroSA and Chairperson of the State Information Technology Agency.

Nedbank Group Board committees:
Group Audit Committee, Board Strategic Innovation Management Committee, Group Transformation and Sustainability Committee (Chairman) and Group Directors' Affairs Committee.

Nedbank Group ordinary shares:
92 213 beneficial indirect.

Nedbank Limited preference shares:
0.

Graham Wayne Dempster (54)
Chief Operating Officer

(Appointed August 2009.)

Qualifications:

BCom, CTA, CA (SA), AMP (Harvard Business School, USA).

Nationality:

South African.

Graham Dempster was appointed as the Chief Operating Officer of Nedbank Group in August 2009. He has been with the group since 1980 and most recently served as Managing Director of Nedbank Corporate from 2003.

Nedbank Group Board committees:
None.

Nedbank Group ordinary shares:
11 881 beneficial direct and
169 584 beneficial indirect.

Nedbank Limited preference shares:
0.

BOARD OF DIRECTORS

AT 1 JANUARY 2010 ... CONTINUED



Mustaq Ahmed Enus-Brey (55)
Non-executive Director

(Appointed August 2005.)

Qualifications:
BCompt(Hons), CA (SA).

Nationality:
South African.

Mustaq Enus-Brey is also a director of Brimstone Investment Corporation Limited and Oceana Group Limited.

Nedbank Group Board committees:
Group Risk and Capital Management Committee (Chairman), Group Directors' Affairs Committee, Group Credit Committee and Group Finance and Oversight Committee.

Nedbank Group ordinary shares:
2 076 beneficial indirect.

Nedbank Limited preference shares:
0.

Prof Brian de Lacy Figaji (65)
Non-executive Director

(Appointed November 2002.)

Qualifications:
BSc(Eng), Dip Tertiary Edu Med, DEd (Coventry, UK), DLitt(hc) (California State, USA).

Nationality:
South African.

Brian Figaji is Chairman of I&J Limited and MARIB Holdings. He is the former Principal and Vice-chancellor of the Peninsula Technikon. He is also a director of PetroSA, Cape Lime (Pty) Limited and the Development Bank of Southern Africa.

Nedbank Group Board committees:
Group Credit Committee, Group Directors' Affairs Committee, Group Remuneration Committee (Chairman) and Group Transformation and Sustainability Committee.

Nedbank Group ordinary shares:
121 879 beneficial indirect and
1 530 non-beneficial indirect.

Nedbank Limited preference shares:
0.

Robert Michael Head (51)
Non-executive Director

(Appointed January 2005.)

Qualifications:
MA (Oxon), ACA, ACII, FCIB.

Nationality:
British.

Bob Head is a former non-executive director of Mutual & Federal Insurance Company Limited and Old Mutual Life Assurance Company (SA) Limited. He is currently in charge of the Skandia wealth management businesses in the UK, France, Spain, Italy and the offshore business based on the Isle of Man. He joined Old Mutual plc in February 2003. Prior to that he was Chief Executive of smile.co.uk, Finance Director of egg.com (both UK internet banks) and held various directorships. He was appointed as director of the bank and group in January 2005.

Nedbank Group Board committees:
Group Remuneration Committee, Group Risk and Capital Management Committee and Group Finance and Oversight Committee, all until 19 February 2010.

Nedbank Group ordinary shares:
0.

Nedbank Limited preference shares:
0.

**Donald Ian Hope (53)**

Non-executive Director

(Appointed December 2009.)

Qualifications:

Member of the Association of Corporate Treasurers, 1989.

Nationality:

New Zealand.

Don Hope was appointed Head of Strategy Development at Old Mutual plc in March 2009. He joined the Old Mutual Group as Group Treasurer in May 1999, with responsibility for developing the group's international treasury function. He was appointed to the role of Chief Executive Officer of Old Mutual (Bermuda) Limited in August 2008, and was Chairman of the Intech Fiduciaries Limited and the Old Mutual Australia Limited Boards until their sale from the Old Mutual Group. Before joining the Old Mutual Group Don was Treasurer of Eagle Star Holdings plc, a subsidiary of BAT Industries plc.

Nedbank Group Board committees: Group Risk and Capital Management Committee and with effect from 19 February 2010 the Group Remuneration Committee and the Group Finance and Oversight Committee.

Nedbank Group ordinary shares:

0.

Nedbank Limited preference shares:

0.

Alan de Villiers Charles Knott-Craig (57)

Non-executive Director

(Appointed January 2009.)

Qualifications:

BSC(Eng)(Elec), MBL, DBL(hc), DBA(hc).

Nationality:

South African.

Alan Knott-Craig served as Managing Director of cellphone network operator Vodacom Limited from 1993 and was Chief Executive of Vodacom Group from 1996 until his retirement at the end of September 2008. He is currently an independent non-executive director of Murray & Roberts Holdings Limited, a member of the Board of the Council for Scientific and Industrial Research, an independent non-executive director of Right to Care and a Governor of the Lebone II School.

Nedbank Group Board committees: Board Strategic Innovation Management Committee (Chairman), Group Finance and Oversight Committee, Group Risk and Capital Management Committee and Group Directors' Affairs Committee.

Nedbank Group ordinary shares:

0.

Nedbank Limited preference shares:

0.

Wendy Elizabeth Lucas-Bull (53)

Non-executive Director

(Appointed August 2009.)

Qualifications:

BSc.

Nationality:

South African.

Wendy Lucas-Bull is a founder of empowerment investment company Peotona Group Holdings. She was previously Chief Executive of FirstRand's retail business and prior to that an executive director of Rand Merchant Bank. She is currently an independent non-executive director of Eskom, the Development Bank of Southern Africa, Anglo Platinum and Dimension Data plc.

Nedbank Group Board committees: Group Finance and Oversight Committee, Group Credit Committee (Chairman), Group Risk and Capital Management Committee and Group Directors' Affairs Committee.

Nedbank Group ordinary shares:

0.

Nedbank Limited preference shares:

0.

BOARD OF DIRECTORS

AT 1 JANUARY 2010 ... CONTINUED



Nomavuso Patience Mnxasana (53)
Non-executive Director

(Appointed October 2008.)

Qualifications:
BCompt(Hons), CA (SA).

Nationality:
South African.

Nomavuso Mnxasana is a director at Imperial Bank Limited and Land Bank Limited. A chartered accountant by profession, she was a senior partner and member of the executive committee of SizweNtsaluba. She then served as group audit and risk executive at Imperial Holdings Limited.

Nedbank Group Board committees:
Group Audit Committee, Group Remuneration Committee and Group Risk and Capital Management Committee.

Nedbank Group ordinary shares:
49 572 beneficial indirect.

Nedbank Limited preference shares:
0.

Philip Jabu Moleketi (53)
Non-executive Director

(Appointed August 2009.)

Qualifications:
Postgraduate Diploma in Economic Principles (University of London, UK), MSc (Financial Economics) (University of London, UK), AMP (Harvard Business School, USA).

Nationality:
South African.

Jabu Moleketi was South Africa's Deputy Minister of Finance from 2004 to 2008, and prior to this served as Gauteng MEC of Finance and Economic Affairs for 10 years. He has also served as chairperson of the Public Investment Corporation. He is non-executive Chairman of Brait South Africa and non-executive director of Harith Fund Managers, Vodacom, Remgro and the Development Bank of Southern Africa.

Nedbank Group Board committees:
Group Strategic Innovation Management Committee, Group Transformation and Sustainability Committee and Group Audit Committee.

Nedbank Group ordinary shares:
1 422 beneficial indirect.

Nedbank Limited preference shares:
0.

Raisibe Kgomraga Morathi (40)
Chief Financial Officer

(Appointed September 2009.)

Qualifications:
BCompt(Hons), CA (SA), H Dip Tax, AMP (Insead Business School).

Nationality:
South African.

Raisibe Morathi has 16 years' experience in the financial services sector and has held senior positions in banking and insurance. Prior to joining Nedbank, she was an executive director of Sanlam Limited, and non-executive director of Santam Limited. She previously held several executive roles at the Industrial Development Corporation of South Africa Limited, the last position having been Chief Operating Officer.

Nedbank Group Board committees:
Large-exposures Approval Committee.

Nedbank Group ordinary shares:
0.

Nedbank Limited preference shares:
0.



Julian Victor Frow Roberts (52)
Non-executive Director

(Appointed December 2009.)

Qualifications:

Fellow of Institute of Chartered Accountants, member of Association of Corporate Treasurers, Accountancy and Business Law (University of Stirling, Scotland).

Nationality:
British.

Julian Roberts was appointed Group Chief Executive of Old Mutual plc in September 2008. Prior to his appointment he was Chief Executive of the Group's Skandia businesses. He originally joined Old Mutual plc as Group Finance Director in August 2000. Before joining Old Mutual Julian was Group Finance Director of Sun Life & Provincial Holdings plc (now part of AXA) and previously Chief Financial Officer of Aon UK Holdings Limited.

Nedbank Group Board committees:
Group Directors' Affairs Committee.

Nedbank Group ordinary shares:
0.

Nedbank Limited preference shares:
0.

Gloria Tomatoe Serobe (50)
Non-executive Director

(Appointed August 2005.)

Qualifications:

BCom (Unitra), MBA (Rutgers, USA).

Nationality:
South African.

Gloria Serobe is the Chief Executive of Wipcapital Limited and also founder and executive director of Wiphold Limited. She was previously the Executive Director: Finance at Transnet. Gloria serves on several boards, including that of JSE Limited, and sits on the Financial Sector Charter Council. She is also a non-executive director of Old Mutual Life Assurance Company (SA) Limited.

Nedbank Group Board committees:
Group Transformation and Sustainability Committee and Group Credit Committee.

Nedbank Group ordinary shares:
1 296 beneficial indirect.

Nedbank Limited preference shares:
0.

Malcolm Ian Wyman (63)
Non-executive Director

(Appointed August 2009.)

Qualifications:

CA (SA), AMP (Harvard Business School, USA).

Nationality:
British.

Malcolm Wyman is an executive director and the Chief Financial Officer of SABMiller plc, a position he has held since 2001. He was previously executive director responsible for corporate finance and acquisitions.

Nedbank Group Board committees:
Group Audit Committee and with effect from 1 March 2010 Group Remuneration Committee.

Nedbank Group ordinary shares:
350 non-beneficial indirect.

Nedbank Limited preference shares:
0.

CHIEF EXECUTIVE'S REPORT

'We continued to focus on balancing short-term profitability with the overriding goal of long-term sustainability. This approach has enabled us to weather the financial crisis and emerge stronger on the other side.'



Tom Boardman
Chief Executive

Mike Brown
Chief Executive Designate

Tom Boardman retired on 28 February 2010 and Mike Brown became Chief Executive with effect from 1 March 2010.

Message from Tom Boardman, retiring Chief Executive

Resilience through sustainability

The year 2009 was extremely difficult for the financial services sector worldwide as the global financial crisis continued to impact the real economy. The economic hardship brought on by the crisis continued to gain momentum and in many ways 2009 was even tougher than 2008 for both the bank and our clients.

The financial crisis is an example of how governments, financial institutions and individuals behaving in a non-sustainable way can destroy trillions of dollars of shareholder wealth and bring about economic hardship and recession across the globe. The causes of the crisis are both complex and multifaceted.

At the heart of the problem was excessive liquidity creating an unsustainable bubble in asset prices. This was compounded by credit being extended to people who could not afford it and executive compensation rewarding the wrong behaviours. The financial crisis was an unintended consequence of monetary, economic and social policies combining to create unsustainable business practices. Parallels can be drawn between the global financial crisis and the climate crisis where scarce resources are being consumed in a non-sustainable manner.

It has been reassuring to see how the SA banking system, and also Nedbank, remained resilient throughout the crisis. The strength of our banking system was recognised in the latest World Economic Forum Global Competitiveness Report's ranking of the soundness of banks, where South Africa improved from 15th to 6th place out of 133 countries.

However, local banks were not immune to the aftershocks of the crisis. This was compounded by the slowdown in the domestic economic cycle during the previous two years, which saw the country slide into recession in the first quarter of 2009. However, the group's commitment to sustainable business practices enabled us to offer support to our clients during these difficult times, and we continued to find ways to assist distressed clients, promote responsible lending and encourage a savings environment.

During the economic downturn Nedbank continued to advance loans within prudent risk parameters and this is reflected in the 8,4% growth of our loan book in the second half of the year.

Over the past year Nedbank's strategy has been to strengthen our capital position further, with our total capital ratio improving from 12,4% to 14,9%, well in excess of the regulatory minimum of 9,75%, while our liquidity position has remained sound. The strength of our balance sheet is reflected in the 6,8% increase in the net asset value of the business at a time when earnings and profits are under severe pressure. Our robust balance sheet positions us to capitalise on growth opportunities and to benefit from the expected turnaround in economic conditions.

Building a sustainable business

During 2009 we continued to focus on balancing short-term profitability with the overriding goal of long-term sustainability. Our business philosophy of 'sustainability through accountability' goes beyond financial performance. It also focuses on our people, in particular staff development, corporate culture

and values; transformation; building our brand; the environment; social investment and cooperation with the industry regulators. This sustainable approach to our business has enabled us to weather the financial crisis and emerge stronger on the other side.

Investors the world over are increasingly placing a premium on well-governed and sustainable companies. This awareness is aided by a range of sustainability indices on international stock exchanges as well as our own securities exchange, where Nedbank has qualified for the Dow Jones World Sustainability Index and the JSE Socially Responsible Investment index for the past six years.

Sustainability through transformation

Transformation is a key aspect of sustainability in South Africa. Five years ago Nedbank lagged its peer group and was behind on the transformation curve. Since then we have made good progress in realising our ambition of becoming a truly southern African group. This is reflected in the group's empowerment status being elevated to a level-two black economic empowerment contributor based on the Department of Trade and Industry scorecard.

In addition, in 2009 Nedbank was ranked as the most empowered financial institution in South Africa and the third most empowered company out of the top 200 companies listed on JSE Limited in the Empowerdex Survey.

Our philosophy is that transformation goes beyond compliance and numbers. This is echoed in the words of Oliver Tambo: 'It is our responsibility to break down barriers of division and create a country where there will be neither whites nor blacks, just South Africans free and united in diversity'.

CHIEF EXECUTIVE'S REPORT ... CONTINUED

Vision-led and values-driven

Central to building a sustainable business has been our focus on creating a vision-led and values-driven bank where shared values create a common corporate culture. Corporate culture is increasingly being recognised as a key competitive differentiator.

At the recent World Economic Forum in Davos, Switzerland, it was interesting to see the increasing emphasis being placed on corporate values in the wake of the global financial crisis. This is a reassuring sign that business is again focusing on moral, principled behaviour.

Developing our people

We have always said that staff are our most crucial asset and recognise that great things begin with great people. In the demanding economic conditions of the past two years when many companies have reduced their workforces to cut costs the group has adopted a responsible approach and has not undertaken retrenchment programmes, rather relying on natural attrition to achieve efficiencies.

In this environment we have in fact increased our investment in people development and committed over 4,32 % of basic payroll costs to training.

Management development is a critical area of investment. At Nedbank we share the view that, while people join companies for many different reasons, the most common cause of staff leaving an organisation is because of their immediate line manager. Our management development programme caters for management at every level and is aimed at creating a common values-based management approach. In the past year more than 8 700 staff participated in leadership workshops, while 36 senior managers attended executive education programmes locally and internationally and

484 managers attended business education programmes at leading business schools.

Leadership

I would like to congratulate Mike Brown on his appointment as Chief Executive of Nedbank Group with effect from 1 March 2010. Mike is an outstanding leader and banker with whom I have had the pleasure of working over a number of years. He is well-qualified to lead Nedbank Group into the future and I have every confidence that he will take the bank to new heights.

Nedbank Group is blessed with an abundance of talent and no fewer than seven internal candidates were considered for the position of Chief Executive, along with a shortlist of high-quality local and international candidates.

Mike has restructured the Group Executive Committee (Group Exco) and I believe he has appointed an outstanding team that combines extensive experience in the group with an infusion of new talent and fresh thinking.

Reflection

It is often said that one should look to the future but learn from the past. As I reflect on the progress made by the group since 2004 when the current management team assumed office at a low period in the bank's history, the central theme remains one of sustainability. The team set out first and foremost to recapitalise the bank, focus on the basics of banking, and return Nedbank Group to its core business. At the same time we started to build a sustainable business, based on accountability, as well as a strong corporate culture.

In February 2004 the group undertook a successful rights issue to recapitalise the bank and at the time made a

commitment to achieve two key financial objectives within three years, namely return on equity of 20% and an efficiency ratio of 55%. Both were delivered in 2007.

We were under no illusions as to the magnitude of the task that lay ahead of Nedbank Group. We said there would be no miracle moment, rather that small, incremental wins in a common direction would restore Nedbank Group to its rightful position as a highly rated and respected financial institution.

- We have built a vision-led and values-driven organisation by creating a common vision, developing common values and building a unique culture.
- Our strategy has been built around a domestically focused universal bank with African aspirations, creating a powerful brand, enhancing the image of the 'green' bank and delivering sustainable and competitive financial performance.
- The business was restructured and transformed within an environment of accountability.
- We have developed our people, improved risk and capital management, upgraded systems and infrastructure and disposed of non-core assets.

Appreciation and farewell

Leading the Nedbank Group over the past six years has been the highlight of my 35-year working career. I am pleased to be maintaining my association with the group after my retirement at the end of February as a non-executive director.

During my time at Nedbank Group I have developed relationships and created special bonds with so many individuals and organisations. Our Chairman, Reuel Khoza, is a leader of distinction and we have formed a unique

partnership. I thank him along with my fellow directors for their support and guidance. The Group Exco team has been the driving force behind the success of Nedbank Group and it has been a pleasure to lead such talented and energised executives.

It is difficult to go wrong when more than 27 000 people who are united by a common vision and shared values are pushing you in the right direction.

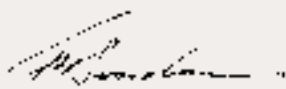
Our relationships with shareholders, analysts and the broader investment community are always key. We were honoured to have received the Investment Analysts Society award for the best reporting and communication in 2009.

Banks are unique institutions that play a special role in society. Banks need to be regulated and I thank all our industry regulators, in particular our lead regulator, the SA Reserve Bank, and the Registrar of Banks, Errol Kruger, for his constant support and guidance.

We are in business to service the needs of our clients and we are grateful

that they have chosen Nedbank Group in such a competitive banking environment. To our other stakeholders, including the media, suppliers, business and professional partners, thank you too for your support.

Two values that feature highly in the Nedbank values surveys are 'family' and 'maintaining balance'. These are values that I also hold dear and I thank my family, and especially my wife, Sheila, for the support not only over the past six years but throughout my working career.



Tom Boardman
Chief Executive
24 February 2010



CHIEF EXECUTIVE'S REPORT ... CONTINUED

Message from Mike Brown, Chief Executive Designate

Introduction

At the outset I would like to thank the board for its confidence in appointing me as Chief Executive Officer. It is an honour and a privilege to be leading Nedbank Group at such a critical time not only for the bank, but also the broader financial services sector locally and internationally.

We have commented throughout the annual report on the resilience of the SA banking sector over the past year and its performance relative to global peers. Many banks failed globally, others needed to be recapitalised and some became a burden on taxpayers after being rescued by the state. South Africa has suffered no banking casualties during the crisis. While Nedbank Group's headline earnings for the reporting period declined by 25,8%, we recorded earnings of R4,3 billion, and we believe this is a solid performance in the context of the global financial crisis.

Importantly, we strengthened our core Tier 1 capital ratio by 1,7% to 9,9% and hold R15,3 billion surplus capital above the regulatory minimum. Shareholders should note that the regulatory minimum core Tier 1 capital level in South Africa is 5,25%, which is more than double the current 2% international minimum requirement under Basel II.

Business philosophy

Nedbank Group's business philosophy is based on building a sustainable organisation that delivers to all stakeholders. This approach is integrated into our business and our thinking, and is deeply ingrained in our culture.

Our philosophy is underpinned by a focus on growing our share of financial services economic profit, but we are mindful that this must be done in a

sustainable manner as we continue to build an organisation that is vision-led and values-driven.

South Africa currently accounts for approximately 65% of the financial services economic profit in Africa, with the other Southern African Development Community countries comprising a further 10%. Nedbank has a 14% to 16% share of the economic profit in South Africa and therefore we will continue to focus our resources on the southern African region to grow our business.

At the same time we are cognisant of the increasing importance of growth in the rest of Africa, and recognise South Africa's position as the gateway to the continent, and continue to look for opportunities to expand selectively into Africa both organically or by acquisition.

As part of our philosophy of sustainability we subscribe to the balanced scorecard approach. Our remuneration schemes are not excessive and are conservative when measured by both local and global standards. In 2008 the group's headline earnings declined 3% and our bonus pools were reduced by 33%. Bonus schemes were refocused in 2009 to recognise headline earnings and economic profit against predetermined targets, as well as increased capital and liquidity weightings in scorecards. Bonus pools in 2009 consequently increased by 5%. Therefore, using 2007 as our base, headline earnings in 2009 are 28% lower than 2007 and bonus pools are 29% lower.

Experienced executive team

Both the Chairman and the Chief Executive in their respective reports have referred to the strength and experience of the new Group Exco that was appointed in the second half of the year, and I echo their sentiments.

We have assembled a well-balanced team with an average of 20 years' relevant industry experience and 12 years' service with the group. There are seven new members of the team, which allows for new energy and ideas. Importantly, many of the executives were previously in senior management roles in the same business areas, which has ensured a smooth transition and a retention of accountability.

I would like to thank the team for what they have achieved so far and I believe we have the talent, ability and desire to become the most admired management team in the industry.

Strategic direction

Nedbank's strategic direction remains largely unchanged as our objective of becoming the most highly rated and respected bank in southern Africa evolves naturally into building Africa's most admired bank.

The group has emerged stronger from 2009 and has built a platform for sustainable growth. We have recognised the strategic importance and growth potential of bancassurance within our business and have created a standalone Bancassurance and Wealth cluster, with the Managing Executive, Dave Macready, joining the Group Exco. Following the acquisition of the Old Mutual shares of the BoE Private Clients, Nedgroup Life Assurance and Fairbairn Private Bank joint ventures, Nedbank now owns all the levers in this high non-interest revenue (NIR), high economic profit business. The integration of Imperial Bank is also key to our strategy and Ingrid Johnson, the Managing Executive of Retail and Business Banking, will be accountable for the integration process.

Our alliance relationship with Ecobank provides our clients with access to

seamless banking in 33 countries across Africa, and also protects our domestic banking franchise.

Looking at our more established businesses, Nedbank Capital has performed well in a difficult market and the challenge is now to grow faster, but remain within acceptable risk limits. While Nedbank Corporate is an excellent lending franchise, we need to gain the same reputation in transactional banking. Business Banking too is a strong franchise with attractive returns, and our focus will be on leveraging the decentralised business model and increased levels of NIR.

Nedbank Retail is currently overweight in secured loans and underweight in transactional banking. Our major challenges in this business are to grow in scale and increase the footprint, as well as address the underperforming home loan business.

Outlook for 2010

The year 2010 is expected to be another difficult period, although the prospects for the year ahead are likely to be better than those for 2009 as the country emerges from the recession.

The group currently anticipates gross domestic product growth of around 2,2% in 2010, indicating slightly better prospects for the banking sector. The global environment and the 2010 FIFA World Cup are primary factors influencing domestic recovery. The global recovery remains fragile and the balance can easily be tipped by unexpected shocks, such as the recent sovereign funding crisis affecting countries like Greece.

The local retail trading environment is expected to improve as disposable income stabilises, retrenchments ease, labour conditions start to improve, debt burdens moderate and house prices start to recover. Interest rates are likely to remain steady at current levels and lead

to lower impairment levels. However, the recovery will be slow as consumers remain highly geared. We would expect the full benefit of interest rate relief to take another 12 to 18 months to feed into the economy.

The 2010 FIFA World Cup is expected to lift confidence and encourage an increase in household credit demand and transactional banking volumes.

Fixed-investment activity is expected to remain modest as a result of excess capacity in the private sector and some loss of momentum in the government infrastructure spending programme as several large projects relating to the World Cup are completed. These developments are likely to contain corporate demand for credit, while competition will place pressure on margins.

Interest rate cuts from 2009 will continue to have a negative endowment effect on banking interest margins, but should be partially offset by a gradual decrease in impairments as recoveries and arrears levels improve. The reversal of provisions in the balance sheet is expected to take longer as defaulted advances continue to increase, although at a slower rate. The group remains cautious about impairments as, although corporate impairments have been relatively benign, there can be large once-off charges that are difficult to predict, and it is uncertain how the current economic challenges could further impact consumers.

The drivers of the group's performance for 2010, as well as the financial targets, are outlined in the Chief Operating Officer's Report on pages 80 to 83.

Objectives for 2010

We expect to increase profitability over 2009 and are committed to growing economic profit. A critical factor driving growth in earnings will be our ability to manage impairments. This includes

managing the defaulted-loans book within Nedbank Retail and preventing surprises in the wholesale businesses.

In this environment of fragile recovery the group aims to continue to increase net asset value and further strengthen capital and liquidity positions, and we expect to increase our core Tier 1 capital ratio further in 2011 in preparation for the introduction of Basel III at the end of 2012.

Other priorities in the year ahead are to complete the integration of Imperial Bank and to refocus Retail on a more client-centric model.

Thanks

Nedbank Group can reflect with pride on what has been achieved under the leadership of Tom Boardman over the past six years. It is often said that the true measure of a chief executive is to leave behind a sustainably better organisation than the one inherited. Tom has certainly achieved this and I aim to do the same.

Under Tom's guidance we have built a good bank; the challenge for myself and the new Group Exco is to make it a great bank.



Mike Brown
Chief Executive Designate
24 February 2010