NEDBANK GROUP

A Member of the OLD MUTUAL Group

'We are pleased with the balance we have achieved between delivering on our short-term performance targets and investing to build a platform for long-term growth. Although our financial performance is now benchmarking closer to that of our peers, we are not yet satisfied and aspire to improve our performance further. We remain firmly committed to our vision of becoming southern Africa's most highly rated and respected bank. As part of this vision we will continue our transformation into a truly southern African bank, representative of and providing banking services to all.'

Tom Boardman *Chief Executive*

ROE increased
from 18,6% to 21,4%

ROE (excl goodwill) increased
from 22,1% to 24,8%

Efficiency ratio improved
from 58,2% to 54,9%

Headline earnings up
33,5% to R5 921 million

Final dividend per share up
23,2% to 350 cents

Overview

The operations of South African banks remained largely unaffected by the volatility and risk aversion that have characterised international financial markets. Our domestic environment was impacted by increasing interest rates, rising household debt and ongoing pressure on margins. Notwithstanding these constraints, Nedbank Retail grew strongly and Nedbank Corporate showed good growth as both government and the corporate market increased investment in infrastructure. After a disappointing first half Nedbank Capital delivered improved earnings in the second half.

Throughout the period the group continued to invest in creating a platform for sustainable long-term growth and performance through:

- investing in people and values, and focusing on corporate culture as a competitive advantage, which lead to improvements in staff morale and client service levels;
- building the brand and positioning Nedbank as a bank for all South Africans;
- differentiating on price and ensuring the bank's competitiveness in key markets;
- growing the infrastructure and distribution network to service clients better;
- increasing the bank's client base through enhanced focus, accountability, streamlined processes and improved client service;
- using risk management as a business enabler and competitive advantage, by leveraging the group's Basel II programme as a catalyst to implement worldclass risk management practices; and
- building the group's relevance as a sustainable bank and good corporate citizen.

Banking environment

The South African economy remained resilient throughout 2007. Key features in the banking environment included the following:

- Sustained competitive pressure on fees and margins in both the wholesale and retail banking markets. The report on the Competition Commission's inquiry into bank fees is ongoing and is expected to be released in the first quarter of 2008.
- The increase in interest rates that had a positive endowment effect on banks' interest margins; however, this has been offset by pressure on margins from the continued industry reliance on wholesale funding.
- Rising inflation, the high individual debt burden and the increase in interest rates resulting in a slowdown in consumer spending and increasing consumer default rates. This trend is expected to broaden in 2008.
- The growth trend in fixed-capital formation and government consumption expenditure resulting in positive momentum in wholesale banking.
- Increasing regulatory issues, in particular the implementation of the National Credit Act (NCA) on 1 June 2007 and the introduction of Basel II with effect from 1 January 2008, both of which are likely to benefit the banking industry in the medium to long term.

Financial performance

Headline earnings increased by 33,5% to R5 921 million. Basic earnings grew by 32,9% to R6 025 million.[1]

Headline earnings per share (EPS) increased by 33,8% to 1 485 cents (2006: 1 110 cents). Diluted headline EPS increased by 32,8% from 1 076 cents to 1 429 cents. Basic EPS grew by 33,1% from 1 135 cents in 2006 to 1 511 cents in 2007.[1]

The group's return on average ordinary shareholders' equity (ROE) improved from 18,6% to 21,4% for the year, exceeding the target of 20% that was set in 2004 at the start of the group's recovery programme. ROE, excluding goodwill, improved from 22,1% to 24,8%.[1]

Shareholders will again be offered a capitalisation award with a cash dividend alternative of 350 cents per share. Total awards for the year amount to 660 cents per share, up 33,9% from the 493 cents per share declared for 2006.

Net interest income (NII)

NII grew 29,0% to R14 146 million (2006: R10 963 million) due to strong growth in average interest-earning banking assets of 29,0%.

The group's net interest margin for the 12-month period was 3,94%, the same level as reported in 2006. The margin:

- benefited from the endowment impact of interest rate increases on capital and current and savings accounts of 0,4%;
- decreased from liability margin compression of 0,1% as deposit interest rates continued to price in upside risk and as the sector had to source a higher proportion of funding from the wholesale deposit market; and
- decreased from asset margin compression of 0,3% mainly from the impact of strategic changes in the product mix of personal loans and competitive pricing behaviour, particularly in home loans and commercial mortgages.

Impairment losses on loans and advances

The credit loss ratio increased from 0,52% in 2006 to 0,62% for the year. The growth in advances and the increase in the credit loss ratio are reflected in a 45,9% increase in the impairments charge to R2 164 million. Impairment levels have risen in Nedbank Retail and Imperial Bank while the credit loss ratios in Nedbank Capital and Nedbank Corporate have remained at lower-than-expected levels, assisted by active credit management and unusually high levels of recoveries. The effect of the deteriorating retail environment has been mitigated to an extent through tighter credit policies and an early focus on collections processes and systems. The group has continued to apply stringent credit management policies and has tightened credit granting requirements in the retail areas most affected by the worsening credit cycle over the last two years.

Nedbank has no direct exposure to US subprime mortgages. The group is indirectly exposed through banking relationships with large institutions who themselves have subprime exposure. These are relatively small and are not expected to lead to any losses to the group.

Nedbank Retail raised an additional incurred but not reported (IBNR) provision of R167 million in December 2007 to adjust for the effect of the current higher interest rates not yet evident in the historic data used for provisioning calculations.

Impaired advances increased by 37,6% from R7 743 million to R10 652 million as the credit environment worsened. Impairment provisions increased by 17,2% from R5 184 million to R6 078 million, this increase being limited by improvements in underlying security values.

Non-interest revenue (NIR)

NIR for the period increased by 10,3% to R10 446 million (2006: R9 468 million).

This growth in NIR was driven primarily by the following:

- Commission and fee income growth of 15,0%, including fees in Bond Choice, which grew by 22,1% from R614 million to R750 million.
- An increase of 58,3% in private equity revaluations, realisations and dividend income from R578 million to R915 million.

This growth was partially offset by the following:

- Weak trading results as reported in the first half, mainly due to poor trading within the business alliance with Macquarie, resulting in trading income for the year decreasing by 19,0% to R1 334 million.
- The competitive pricing structure for transactional products adopted in Nedbank Retail, where fees have been reduced by an average of 19% since mid-2006.
- A continuous move from cheques to electronic channels by business banking clients.

Expenses

Expenses continue to be well-managed, increasing by 13,5% to R13 489 million. The 'jaws' ratio continued to improve, with total revenue growth of 20,4% being 6,9% above expense growth, resulting in the efficiency ratio improving from 58,2% for 2006 to 54,9%.

Growth in operating expenses slowed, as anticipated, from 14,8% at June 2007. Staff expenses increased by 16,4%, reflecting the investment the group has made in client-facing staff and an increase in variable pay as a result of the continued improvement in operating performance. Staff numbers increased by 10,4% during the year. Marketing costs increased as planned by 13,4% as the group continued to invest in repositioning the Nedbank brand.

Expenses include:

- costs for the integration of Old Mutual Bank into Nedbank of R64 million;
- Bond Choice's expenses, which grew by 17,2% from R538 million to R630 million; and
- the share-based payments charge in respect of the group's black economic empowerment (BEE) transaction, which increased by 6,5% from R138 million to R147 million.

Direct taxation

The effective taxation rate decreased from 27,8% to 26,3% as the group benefited from lower tax risk provisions.

Associate income

Associate income increased from R153 million to R239 million. This increase arose from strong growth in the NedLife and BoE Private Clients bancassurance joint ventures with Old Mutual SA, which collectively grew core earnings by 43,0%. In addition, this was boosted by a profit of R65 million from the sale of JSE Limited shares in the first quarter of the year by the BoE Private Clients joint venture.

Non-trading and capital items[1]

Non-trading and capital items of R104 million after tax (2006: R98 million after tax) comprised mainly profits on the sale of:

- MasterCard Worldwide shares issued to the group at the time of the listing of MasterCard of R85 million;
- a portion of the shares in Bond Choice of R12 million; and
- the group's investment in Taquanta Investment Holdings Limited of R10 million.

Balance sheet

Capital[1]

The group is well-capitalised under Basel I, with a Tier 1 group capital adequacy of 8,3% and total group capital adequacy ratio of 12,2%. Under Basel II parameters the group remains well-capitalised with a pro forma Tier 1 group capital adequacy of 8,0% and a pro forma total group capital adequacy ratio of 11,2%. Under Basel II the regulatory minimum for Tier 1 is 7% and for total group capital adequacy 9,75%.

Advances

During the period under review advances grew 21,2% to R374 billion, with average interest-earning banking assets increasing by 29,0% to R359 billion.

As a result of the strong advances growth, total assets increased 15,1% to R489 billion. Growth in higher-risk areas, such as personal loans, slowed as the group tightened credit criteria and focused on higher-quality, lower-margin personal loans.

Advances growth by cluster is as follows:

Rm	2007	2006	Increase (%)
Nedbank Corporate	**153 718**	133 254	15,4
Nedbank Capital	**51 233**	40 560	26,3
Nedbank Retail	**133 492**	106 974	24,8
Imperial Bank	**35 320**	27 735	27,3
Other	**193**	40	
Total	**373 956**	308 563	21,2

Deposits

Deposits increased by 18,5% from December 2006 to R385 billion at December 2007.

Nedbank's liquidity remains sound in an overall liquidity environment that was made more challenging by the negative international liquidity developments. Contagion of South African markets has been limited, with little direct exposure by local banks to US subprime markets. The impact on Nedbank and the South African markets has, to date, been limited to a reduction in international liquidity (which has traditionally not been a large portion of the funding base) and an increase in the pricing of capital market debt. This has had a small negative impact on the cost of rolling over conduit paper and new subordinated-debt issues.

During 2007 Nedbank successfully launched its inaugural auto loans and residential mortgage-backed securitisation programmes, raising R1,7 billion and R1,87 billion respectively. These programmes have diversified the funding base and lengthened the bank's existing funding profile. In addition, Nedbank issued a further foreign syndicated club loan of $500 million in February 2007, raising additional foreign funding and creating further funding diversification.

Cluster performance

Nedbank Capital

Nedbank Capital increased headline earnings by 11,1% to R1 272 million and improved its ROE to 36,8% (2006: 31,3%).

NII increased by 2,7% to R693 million. Loans and advances grew by 26,3%, but this was offset by a higher proportion of preference share deals and the funding effect of an increased investment portfolio. The credit loss ratio improved from 0,28% in 2006 to 0,05% for 2007 as the cluster benefited from impairment recoveries and reduced credit losses.

NIR grew 4,2% to R2 135 million. Within NIR:

- commission and fee income increased by 33,3%, benefiting from strong deal flow in Specialised Finance and Corporate Finance;
- income from private equity investments amounted to R608 million for the year, an increase of 108,9% (2006: R291 million); but
- trading revenue decreased by 22,6% to R1 172 million, mainly as a result of disappointing trading from the business alliance with Macquarie, as previously reported, in the first half of 2007.

After a disappointing first half it was pleasing to see second-half earnings grow by 33,4%, compared with the first half, and up 27,8% on the same period last year.

The Specialised Finance business performed particularly well. It has built a competitive presence in its sectors of focus and deal flow momentum from the first half continued into the second half. A highlight of the year was the performance of the resources team, including winning *The Banker* Deal of the Year Award 2007 for Africa and southern Africa for the Exxaro Resources Limited BEE deal.

On the back of strong mining-related deal flow and to mitigate risk, a commodities desk was established during the year to focus on metals hedging for project finance clients.

Corporate Finance won some good mandates and continued to benefit from BEE-related transactions. Private Equity performed well, with good gains in the current year relating to investments made in previous years. Certain positions were realised and others hedged to provide some protection in volatile markets.

The outlook for 2008 remains positive. However, recent uncertainty may impact on the rate of domestic project spend and could adversely impact earnings growth.

Nedbank Corporate

Nedbank Corporate increased headline earnings by 21,8% to R3 063 million. At 21,4%, ROE was marginally down on the 2006 ROE of 21,6%.

The investment in Lion Match was disposed of effective 1 July 2007 and the shareholding in Bond Choice was reduced from 80% to 62% in July 2007, resulting in reduced earnings contributions in 2007 from these entities.

The core banking activities generated headline earnings growth of 27,9%, with the major businesses all performing well, reflecting the inherent strength of Nedbank's wholesale banking franchise. Headline earnings grew by 30,7% in Business Banking to R1 227 million, 40,1% in Corporate Banking to R674 million, 16,3% in Property Finance lending activities to R694 million and 63,5% in Nedbank Africa to R90 million.

Revenue grew strongly, impairments were well-managed and expense growth was controlled below the level of income growth.

Property investment activities generated headline earnings of R313 million, down by 4,2% on the record level produced in 2006, but still exceeded expectations.

NII and NIR grew 19,6% and 9,9% respectively, through strong growth in average advances and good progress in gaining primary banking clients in both the public and private sectors in all the businesses, supported by the significant improvement in the electronic banking offering. Average advances increased by 25,8%, notwithstanding the initiative to reduce the level of short-term, low-margin advances in Corporate Banking. Core transactional fee income grew by 10%, despite the continued impact of disintermediation on the cheque business as clients switch to cheaper electronic platforms and credit cards. The investment in electronic banking systems has provided the impetus for growth in this area, with electronic banking volumes growing by 31,0% following successful client conversions and acquisitions.

The credit loss ratio of 0,11% remains low and is attributable to the quality of the portfolio and bad-debt recoveries through effective credit management.

Despite investment in electronic banking and risk management systems, increasing frontline sales headcount and further regulatory compliance costs, expenses were well-managed and increased by 12,6%.

Nedbank Africa is focused on building its existing operations and on selectively extending its presence on the continent. Merchant Bank of Central Africa (MBCA), the group's subsidiary in Zimbabwe, continued to make a profit in rand terms, but due to economic conditions and exchange control regulations in that country the investment remains fully impaired.

The businesses in Nedbank Corporate are well-positioned to perform in the more challenging environment.

Nedbank Retail

Nedbank Retail had an excellent year, growing headline earnings by 37,3% to R2 008 million and delivering an ROE of 24,3%. The efficiency ratio improved to 62,5% and overall advances growth was strong at 24,8%.

The credit environment continued to deteriorate and, as anticipated in this environment, Nedbank Retail's credit loss ratio worsened from 1,1% to 1,26%. Over the past two years the division has consistently tightened credit policies across most products and invested in increased capacity and systems in its collections areas. These initiatives will stand Nedbank Retail in good stead in the future.

The hard work done in the division continues to bear fruit and, with the retail turnaround now completed, Nedbank Retail is focused on delivering on its 'fastest-growing retail bank' strategy.

Some of the highlights of the year included the following:

- Market share gains in many categories, including Home Loans, Personal Loans, Card, Mzansi and Vehicle Finance.
- Disciplined execution of the client service strategy, including the introduction of the AskOnce undertaking, resulting in improved client service metrics as well as the top banking service award in the Ask Afrika Orange Index Survey.
- Continued efforts to build Nedbank Retail as the most affordable provider of banking services, including transactional-fee reductions of 19% over the last two years.
- Net growth of 88 000 clients who use Nedbank as their primary bank (2006: 53 000).
- Rollout of the distribution plan, including 411 ATMs (1 636 at December 2007) and 71 staffed outlets (744 at December 2007), with all elements of the distribution plan currently performing better than the original business case.
- Creating a more balanced portfolio of businesses to reduce the historic dependency on the Home Loans Division. In particular the Bancassurance and Wealth, Small Business Services and Personal Loans Divisions now contribute significantly to the cluster's earnings.
- Strong growth of bancassurance, with new-business premiums increasing by 12,6% from R5 731 million to R6 455 million and the annual premium equivalent of credit and single life products of Nedgroup Life (the joint venture with Old Mutual SA) growing by 21,9%.
- The acquisition of Old Mutual's 50% interest in Old Mutual Bank for a net consideration of R140 million. This integration offers significant opportunities to roll out the intermediary-friendly strategy in Nedbank and to rationalise duplicated infrastructure and overlapping branches. The integration is well underway and should be completed by June 2008.
- Significant progress in rolling out the transformation and mass-market strategy, including new products such as DreamMaker and FutureSure. 60% of the planned growth in distribution will be into mass-market areas. Progress has been made in internal transformation, including employment equity, with the division exceeding all of its Financial Sector Charter (FSC) access, low-income housing, black small- and medium-enterprise (SME) lending and Mzansi targets.

While the retail environment will be significantly tougher in 2008, the business is well-positioned to compete vigorously in the South African market and remains committed to building its market share and relevance on a sustainable and profitable basis.

Imperial Bank

Imperial Bank increased headline earnings by 24,1% to R479 million (2006: R386 million), although ROE declined from 24,7% to 23,9%. Nedbank Group's share of these earnings was up 17,6% to R227 million (2006: R193 million).

NII grew by 38,2%, driven by loans and advances growth of 27,3%.

Following the continued increases in interest rates, impairments have risen steadily throughout the year. The impairments charge increased by 95,3%. The credit loss ratio of 1,28% continues to be within acceptable parameters.

Expenses increased by 21,0% and there was a further improvement in the efficiency ratio from 35,4% last year to 30,2% for 2007.

The effective tax rate has increased from 23,7% to 30,0% as the benefits of the assessed loss in the previously acquired NRB entity have now been fully utilised.

Motor Finance, Property Finance and Supplier Asset Finance all achieved acceptable ROEs. Medical Finance achieved good-quality growth and is performing according to expectations, but needs to achieve critical mass in order to earn an acceptable ROE in the long term.

Nedbank recognises the significant contribution made by Bill Lynch, the former Chairman of Imperial Bank, to the success of Imperial Bank and extends condolences to his family on his recent passing.

Central services

The unallocated costs in central services were R649 million, a decrease of 26,3% from R881 million in 2006. This improvement arose mainly from lower costs on subordinated debt, a higher net endowment on surplus capital, and lower taxation risk provisions, offset by a higher funding charge on goodwill and higher preference share dividends in the environment of higher interest rates.

Technology

R581 million was spent on technology innovation projects across all business clusters. These included:

- data and voice network infrastructure upgrades to new state-of-the-art technology;
- a new Microsoft enterprise software licence implemented for the group;
- industry-leading cash box systems installed for many corporate clients;
- substantial investments to comply with the NCA; and
- Basel II and enterprise data warehouse systems and infrastructure projects.

Risk and capital management

Nedbank has successfully implemented its Basel II blueprint. This is in line with the revisions to the Banks Act and the new internationally based Basel II banking regulations introduced by the South African Reserve Bank (SARB), which were effective from 1 January 2008. The main purpose of Basel II is to promote significant enhancement and sophistication of risk and capital measurement and management, thereby further elevating the safety and soundness of the banking industry.

One of Nedbank's notable Basel II achievements was receiving formal approval from the SARB for the Advanced Internal Ratings Based (AIRB) approach for credit risk, noting that Imperial Bank, Fairbairn Private Bank and the African subsidiaries have adopted the standardised approach. Nedbank's risk and capital management positioning provides the bank with sophisticated management science and capabilities to optimise the risk-return equation and grow our businesses profitably within the clearly established risk appetite of the group.

During the period the group continued to manage its capital actively and:

- redeemed the expensive NED2 R4 billion bond on its call date in July 2007;[1]
- concluded several Tier 2 subordinated-debt issues totalling R6,77 billion, thereby continuing to build a smooth and diversified subordinated-debt maturity profile (a highlight was the R2 billion inaugural Tier 2 investment in a South African bank by the International Finance Corporation and the African Development Bank);[1]
- completed a R1,7 billion Imperial Bank asset securitisation;[1]
- completed a R1,87 billion Nedbank Retail home loan securitisation;[1] and
- issued Tier 1 perpetual preference shares of R364 million.[1]

Hybrid capital instruments now qualify as Tier 1 regulatory capital under Basel II and the group is well-advanced in planning its inaugural issue.

Nedbank Group, Nedbank and Imperial Bank all received rating upgrades from Moody's and Fitch during 2007. This was very pleasing and recognises the successful turnaround of the group over the past few years.

The group expects to issue further Tier 2 capital and hybrid forms of Tier 1 capital in 2008. Nedbank is committed to improving its profile as an issuer in the debt capital markets and this should result in a more robust subordinated-debt yield curve for the group.

The amendments to section 38 of the Companies Act will, subject to ordinary shareholder and BEE participant approval at an extraordinary general meeting to be held in May 2008, enable the group to amend the terms of its BEE ownership scheme and revert to cash-only dividends in future.

Focus on staff morale and client service

It is Nedbank's objective to create a great place to work for our staff, characterised by a fully inclusive culture that is vision-led and values-driven. The group believes organisational culture can be a key differentiator and competitive advantage. With this focus on staff, Nedbank has again experienced a significant shift in staff morale, measured through the annual employee surveys, which improved by 5,2 percentage points in 2007 on top of the 6,7 percentage point increase in 2006.

These increases in staff morale have been the catalyst for improvements in client service across all clusters.

Transformation

Nedbank has placed a significant focus on transformation, although much work still lies ahead.

With the conclusion of its broad-based BEE transaction in 2005 the group met its direct-ownership criteria for its FSC scorecard. In 2007 the group has scored 13% for direct ownership (using FSC criteria) against a target of 10%. The group has also progressed well in other areas measured by the FSC scorecard and currently scores 96,2 out of a potential 98 against the FSC scorecard. This score has been audited by SizweNtsaluba, but is still to be verified by the FSC Council in accordance with FSC requirements.

The group also measures and tracks itself against the Department of Trade and Industry (dti) codes, where the group has also met its direct-ownership requirements with a score of 17,5% for direct ownership, which complies with the 15% minimum set by the codes. The group is currently rated as a level 4 BEE contributor (up from level 5 at the end of 2006) against the dti scorecard, with a score of 67,4 as verified by SizweNtsaluba. The group has set an objective of achieving at least level 2 status over time.

While we continue to align the group with the dti codes, we are committed to delivering on our FSC obligations in the areas of access, empowerment financing and BEE financing, which are not covered by the dti codes.

Various opportunities have been identified and significant progress has been made through leveraging the relationships with our black business partners, the Brimstone and the Wiphold consortia, and through our business development partner, Aka Capital. The relationship between Nedbank and our black business partners is constantly improving and is at a level where it is extremely beneficial for all parties.

Transformation is, however, much more than compliance and numbers. Nedbank believes that transformation is a key strategic differentiator and is employing both transformation and the development of a unique corporate culture as cornerstones of its strategy.

Collaboration with the Old Mutual Group in South Africa

Group collaboration benefits achieved by Nedbank since the start of the recovery now exceed R650 million per annum. The bulk of the additional revenue was derived from the retail joint ventures, while the joint initiative to reduce the cost of data and telecommunications continues to deliver significant savings. The various initiatives started over the past two years have largely been integrated into business-as-usual activities and promise to deliver ongoing benefits.

Prospects

The slowdown in consumer spending, the increase in consumer credit stress, continuing electricity shortages and ongoing volatility in credit and equity markets are likely to make the year ahead significantly more challenging for the South African economy and the banking sector. The key factors influencing performance in 2008 are likely to be the following:

- Slower growth in retail advances, together with continued good growth in wholesale advances, although the influence of electricity shortages on the economy may slow this growth. As a result, total advances are expected to grow in the mid-teens.
- Lower margins as margin compression in certain categories of advances and continued industry reliance on wholesale funding are expected to be only partially offset by an endowment benefit in the margin resulting from past interest rate increases.
- Higher impairment charges due to the impact of higher interest rates on the retail portfolios and lower wholesale recoveries.
- Fewer positive once-off items and revaluations in the private equity portfolios.

While the general banking environment will be much tougher than in previous years, the group is confident of continuing to improve its performance off the solid platform built over the past four years. The group's focus is now on working towards our vision of becoming southern Africa's most highly rated and respected bank.

The main focus areas of the group in 2008 are as follows:

- Building on its transformation journey.
- Growing the group's
  - retail distribution network,
  - transactional banking market share,
  - relevance in the public sector,
  - business banking franchise and
  - mass-market presence.
- Involvement in social and community projects.
- Managing the credit cycle.
- Disciplined expense management.
- Ongoing capital management activities.
- An active process of continuous improvement in all operations.
- IT projects to improve staff and client experiences.
- Economic-value-based management. From 2008 economic profit (EP) replaces ROE as the primary internal financial performance measure in the group. EP is a best-practice measure since it incentivises an appropriate balance between return and growth, and better aligns with shareholder value creation.

Medium- to long-term financial targets

After successfully delivering on the short-term financial targets of a 20% ROE and 55% efficiency ratio in 2007, the group has set the following key medium- to long-term targets:

- ROE (excluding goodwill) 10% above the group's monthly weighted average cost of ordinary shareholders' equity.
- Growth in diluted headline EPS of at least average CPIX plus GDP growth plus 5%.

In the medium term the group targets to meet or exceed the comparable performance of its peers.

Board changes during the year

Nick Dennis resigned as an independent non-executive director (31 December 2007) and Rosie Harris was appointed as a non-executive director (10 December 2007). Subsequent to the year-end Barry Davison announced his decision to resign as a director effective 2 August 2008 and Cedric Savage will retire effective 14 May 2008. Chris Ball, an independent non-executive director since 2002, was appointed as senior independent non-executive director (16 February 2007).

Accounting policies[1]

Nedbank Group Limited (the 'company') is a company domiciled in South Africa. The preliminary reviewed financial results of the company at and for the year ended 31 December 2007 comprise the company and its subsidiaries (together referred to as the 'group') and the group's interests in associates and jointly controlled entities.

The group's principal accounting policies have been applied consistently over the current and prior financial years. During the year the group has implemented international financial reporting standard (IFRS) 7 Financial Instruments: Disclosure and international accounting standard (IAS) 1 Presentation of Financial Instruments: Capital Disclosures (amendment). IFRS 7 replaces the disclosure requirements in terms of IAS 32 in respect of financial instruments and the disclosure requirements in terms of IAS 30 in respect of banks. The implementation of IFRS 7 has not affected the group's current or prior annual results.

Nedbank Group's reviewed financial results have been prepared in accordance with the recognition and measurement criteria of IFRS, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and the presentation and disclosure requirements of IAS 34: Interim Financial Reporting.

In the preparation of these financial results the group has applied key assumptions concerning the future and other indeterminate sources in recording various assets and liabilities. These assumptions were applied consistently to both the company and group financial statements for the year ended 31 December 2006. These assumptions are subject to ongoing review and possible amendments.

Subsequent events[1]

As of the date of this announcement there are no post-balance-sheet events to report.

Reviewed results – auditors' opinion

KPMG Inc and Deloitte & Touche, the group's independent auditors, have reviewed the preliminary financial statements that comprise the consolidated balance sheet at 31 December 2007, consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cashflow statement for the year then ended, and selected explanatory notes, and have expressed an unmodified review conclusion on the preliminary financial statements. The selected explanatory notes are marked with[1]. The review report is available for inspection at the company's registered office.

Forward-looking statements

This announcement contains certain forward-looking statements with respect to the financial condition and results of operations of Nedbank Group and its group companies, which by their nature involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: global, national and regional economic conditions; levels of securities markets; interest rates; credit or other risks of lending and investment activities; and competitive and regulatory factors.

Capitalisation award with a cash dividend alternative

Notice is hereby given that the directors of the company have resolved to issue fully paid ordinary shares in the company as a capitalisation award to ordinary shareholders. Ordinary shareholders will be entitled, in respect of all or part of their shareholding, to elect to receive new fully paid ordinary shares, which will be issued only to those ordinary shareholders who elect in respect of all or part of their shareholding, on or before 12:00 on Friday, 11 April 2008, to receive the capitalisation award shares. Shareholders not electing to receive new fully paid ordinary shares in respect of all or part of their shareholding will be entitled to receive a cash dividend alternative of 350 cents per ordinary share (the cash dividend alternative).

In accordance with the provisions of Strate, the electronic settlement and custody system used by JSE Limited, the relevant dates for the capitalisation award election and the cash dividend alternative are as follows:

	2008
Last day to trade to participate in the capitalisation award or the cash dividend alternative	Friday, 4 April
Shares trade ex the capitalisation award election and the cash dividend alternative on	Monday, 7 April
Listing of the maximum number of new ordinary shares that may be taken up in terms of the capitalisation award on	Monday, 7 April
Last day to elect to receive capitalisation award shares (by 12:00), failing which the cash dividend alternative will be received	Friday, 11 April
Record date to participate in the capitalisation award or receive the cash dividend alternative	Friday, 11 April
Payment of the cash dividend alternative to shareholders who have not elected to participate in the capitalisation award or have participated in the capitalisation award in respect of only part of their shareholding on	Monday, 14 April
New shares issued and posted or participant or broker accounts credited regarding the shares to be issued to shareholders participating in the capitalisation award in respect of all or part of their shareholding on	Monday, 14 April
The maximum number of new shares listed in terms of the capitalisation award, adjusted to reflect the actual number of shares issued in terms of the capitalisation award on or about	Wednesday, 16 April

Shares may not be dematerialised or rematerialised between Monday, 7 April 2008, and Friday, 11 April 2008, both days inclusive.

The above dates and times are subject to change. Any changes will be published on the Securities Exchange News Service (SENS) and in the press.

The number of capitalisation shares to which shareholders are entitled will be determined in the ratio that 350 cents per ordinary share bears to the 30-day volume-weighted average price for the company's share, to be determined no later than Thursday, 27 March 2008. Details of the ratio will be published on SENS no later than Friday, 28 March 2008, at 11:00 and in the financial press the following business day. Trading in the Strate environment does not permit fractions and fractional entitlements. Accordingly, where a shareholder's entitlement to new ordinary shares calculated in accordance with the above formula gives rise to a fraction of a new ordinary share, such fraction will be rounded up to the nearest whole number, where the fraction is greater than or equal to 0,5, and rounded down to the nearest whole number, where the fraction is smaller than 0,5.

A circular relating to the capitalisation award and the cash dividend alternative will be posted to shareholders on or about Wednesday, 19 March 2008.

Note:
Dematerialised shareholders are required to notify their duly appointed participant or broker of their election in terms of the capitalisation award in the manner and at the time stipulated in the agreement governing the relationship between shareholders and their participant or broker.

For and on behalf of the board

Dr RJ Khoza
Chairman

TA Boardman
Chief Executive

27 February 2008

Registered office:
Nedbank Group Limited, Nedbank Sandton, 135 Rivonia Road, Sandown, 2196; PO Box 1144, Johannesburg, 2000

Transfer secretaries:
Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001; PO Box 61051, Marshalltown, 2107

Directors:
Dr RJ Khoza *(Chairman)*, Prof MM Katz *(Vice-chairman)*, ML Ndlovu *(Vice-chairman)*, TA Boardman* *(Chief Executive)*, CJW Ball**, MWT Brown* *(Chief Financial Officer)*, TCP Chikane, BE Davison, MA Enus-Brey, Prof B de L Figaji, R Harris *(British)*, RM Head *(British)*, JB Magwaza, ME Mkwanazi, CML Savage, GT Serobe, JH Sutcliffe *(British)*
* Executive ** Senior independent non-executive director

Company Secretary: GS Nienaber
Reg No: 1966/010630/06
Share code: NED
ISIN code: ZAE000004875
Sponsors: Merrill Lynch South Africa (Pty) Limited
Nedbank Capital

This announcement is available on the group's website – www.nedbankgroup.co.za – together with the following:

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- Financial results presentation to analysts.
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For further information kindly contact Nedbank Group Investor Relations by email at nedbankgroupir@nedbank.co.za.

Reviewed preliminary financial results for the year ended 31 December 2007

These results and additional information are available on www.nedbankgroup.co.za.

Financial highlights

at 31 December		Reviewed 2007	Reviewed 2006
Statistics			
Number of shares listed	m	459,3	450,9
Number of shares in issue, excluding shares held by group entities	m	401,9	394,7
Weighted average number of shares	m	398,7	399,5
Diluted weighted average number of shares	m	414,4	412,3
Headline earnings per share	cents	1 485	1 110
Diluted headline earnings per share	cents	1 429	1 076
Ordinary dividends declared per share	cents	660	493
– Interim	cents	310	209
– Final	cents	350	284
Dividend paid per share	cents	594	394
Dividend cover	times	2,25	2,25
Net asset value per share	cents	7 513	6 363
Tangible net asset value per share	cents	6 207	5 106
Closing share price	cents	13 600	13 350
Price/earnings ratio	historical	9	12
Market capitalisation	Rbn	62,5	60,2
Number of employees		26 522	24 034
Key ratios (%)			
Return on ordinary shareholders' equity (ROE)		21,4	18,6
Return on total assets (ROA)		1,30	1,14
Net interest income to average interest-earning banking assets*		3,94	3,94
Non-interest revenue to total income		42,5	46,3
Credit loss ratio		0,62	0,52
Efficiency ratio		54,9	58,2
Effective taxation rate		26,3	27,8
Group capital adequacy ratios			
– Tier 1		8,3	8,3
– Total		12,2	11,8
Balance sheet statistics (Rm)			
Total equity attributable to equity holders of the parent		30 193	25 116
Total equity		35 125	29 388
Amounts owed to depositors		384 541	324 685
Loans and advances		373 956	308 563
Gross		380 034	313 747
Impairment of loans and advances		(6 078)	(5 184)
Total assets		488 856	424 912

* 2006 restated

Consolidated income statement

for the year ended 31 December Rm	Reviewed 2007	Audited 2006
Interest and similar income	42 001	28 521
Interest expense and similar charges	27 855	17 558
Net interest income	14 146	10 963
Impairments charge on loans and advances	2 164	1 483
Income from lending activities	11 982	9 480
Non-interest revenue	10 446	9 468
Operating income	22 428	18 948
Total expenses	13 489	11 886
Operating expenses	13 341	11 740
BEE transaction expenses	148	146
Indirect taxation	305	345
Profit from operations before non-trading and capital items	8 634	6 717
Non-trading and capital items	111	124
Impairment of goodwill		(70)
Profit on sale of subsidiaries, investments and property and equipment	118	248
Net impairment of investments, property and equipment and capitalised development costs	(7)	(54)
Profit from operations	8 745	6 841
Share of profits of associates and joint ventures	239	153
Profit before direct taxation	8 984	6 994
Total direct taxation	2 343	1 933
Direct taxation	2 336	1 907
Taxation on non-trading and capital items	7	26
Profit for the year	6 641	5 061
Attributable to:		
Profit attributable to equity holders of the parent	6 025	4 533
Profit attributable to minority interest – ordinary shareholders	344	309
– preference shareholders	272	219
Profit for the year	6 641	5 061
Basic earnings per share (cents)	1 511	1 135
Diluted earnings per share (cents)	1 454	1 099
Dividend declared per share (cents)	660	493
Dividend paid per share (cents)	594	394

Earnings reconciliation

for the year ended 31 December	Reviewed 2007		Audited 2006	
Rm	Gross	Net	Gross	Net
Profit attributable to equity holders of the parent		6 025		4 533
Less: non-trading and capital items	111	104	124	98
Impairment of goodwill			(70)	(70)
Profit on sale of subsidiaries, investments and property and equipment	118	111	248	208
Net impairment of investments, property and equipment and capitalised development costs	(7)	(7)	(54)	(40)
Headline earnings		5 921		4 435

Consolidated balance sheet

at 31 December Rm	Reviewed 2007	Audited 2006
Assets		
Cash and cash equivalents	10 344	12 267
Other short-term securities	25 793	25 756
Derivative financial instruments	9 047	15 273
Government and other securities	29 637	22 196
Loans and advances	373 956	308 563
Other assets	9 313	12 468
Clients' indebtedness for acceptances	2 251	2 577
Current taxation receivable	59	161
Investment securities	8 318	7 155
Non-current assets held for sale	31	490
Investments in associate companies and joint ventures	978	907
Deferred taxation asset	25	120
Investment property	171	158
Property and equipment	3 929	3 377
Long-term employee benefit assets	1 393	1 444
Computer software and capitalised development costs	1 349	1 266
Mandatory reserve deposits with central bank	8 364	7 039
Goodwill	3 898	3 695
Total assets	488 856	424 912
Equity and liabilities		
Ordinary share capital	402	395
Ordinary share premium	10 721	9 727
Reserves	19 070	14 994
Total equity attributable to equity holders of the parent	30 193	25 116
Minority shareholders' equity attributable to		
– ordinary shareholders	1 511	1 202
– preference shareholders	3 421	3 070
Total equity	35 125	29 388
Derivative financial instruments	11 432	12 904
Amounts owed to depositors	384 541	324 685
Other liabilities	34 225	37 847
Liabilities under acceptances	2 251	2 577
Current taxation liabilities	337	434
Other liabilities held for sale		417
Deferred taxation liabilities	1 616	1 649
Long-term employee benefit liabilities	1 157	1 215
Investment contract liabilities	5 846	5 278
Long-term debt instruments	12 326	8 518
Total liabilities	453 731	395 524
Total equity and liabilities	488 856	424 912
Guarantees on behalf of clients	20 579	15 250

Condensed consolidated statement of changes in equity

Rm	Total equity attributable to equity holders of the parent	Minority shareholders' equity attributable to preference shareholders	Minority shareholders' equity attributable to ordinary shareholders	Total equity
Balance at 31 December 2005	22 490	2 770	1 049	26 309
Dividends paid to shareholders	(1 562)	(219)	(23)	(1 804)
Issues of shares net of expenses	875			875
Shares acquired by group entities	(1 620)			(1 620)
Shares issued/(repurchased) by subsidiary		300	(150)	150
Total income and expense for the year	4 933	219	326	5 478
Profit for the year	4 533	219	309	5 061
Net income recognised directly in equity	400	–	17	417
Release of reserves previously not available	(105)			(105)
Foreign currency translation reserve movement	334		21	355
Available-for-sale reserve movement	(110)			(110)
Property revaluation reserve movement	77			77
Share-based payments reserve movement	225			225
Other movements	(21)		(4)	(25)
Balance at 31 December 2006	25 116	3 070	1 202	29 388
Ordinary minority shareholders' share of preference dividends paid		13	(13)	–
Dividends paid to shareholders	(2 402)	(295)	(41)	(2 738)
Issues of shares net of expenses	1 168	361		1 529
Shares acquired by group entities	(167)			(167)
Shares issued by subsidiary			150	150
Total income and expense for the year	6 478	272	213	6 963
Profit for the year	6 025	272	344	6 641
Net income recognised directly in equity	453	–	(131)	322
Release of reserves previously not available	(219)			(219)
Foreign currency translation reserve movement	(3)		(41)	(44)
Available-for-sale reserve movement	(38)			(38)
Property revaluation reserve movement	374			374
Share-based payments reserve movement	329			329
Acquisition of subsidiaries	3			3
Disposal of subsidiaries			(81)	(81)
Buyout of minorities			(21)	(21)
Other movements	7		12	19
Balance at 31 December 2007	30 193	3 421	1 511	35 125

Condensed consolidated cashflow statement

for the year ended 31 December Rm	Reviewed 2007	Audited 2006
Cash generated by operations	12 453	9 297
Change in funds for operating activities	(10 691)	(3 739)
Net cash generated from operating activities before taxation	1 762	5 558
Taxation paid	(2 419)	(953)
Cashflows (utilised by)/from operating activities	(657)	4 605
Cashflows utilised by investing activities	(2 063)	(1 057)
Cashflows from/(utilised by) financing activities	2 122	(1 131)
Net (decrease)/increase in cash and cash equivalents	(598)	2 417
Cash and cash equivalents at the beginning of the year*	19 306	16 889
Cash and cash equivalents at the end of the year*	18 708	19 306

* Including mandatory reserve deposits with central bank.

Condensed operational segmental reporting

for the year ended 31 December	Reviewed 2007 Rbn Total assets	Audited 2006 Rbn Total assets	Reviewed 2007 Rm Operating income	Audited 2006 Rm Operating income	Reviewed 2007 Rm Headline earnings	Audited 2006 Rm Headline earnings
Nedbank Corporate*	213	175	8 858	7 596	3 063	2 515
Nedbank Capital	144	138	2 803	2 605	1 272	1 145
Nedbank Retail	154	125	10 221	8 591	2 008	1 463
Imperial Bank	38	30	1 207	932	227	193
Shared Services*	7	8	113	286	(12)	(138)
Central Management*	19	13	(527)	(859)	(637)	(743)
Eliminations	(86)	(64)	(247)	(203)		
Total	489	425	22 428	18 948	5 921	4 435

* Segmental reporting comparative results have been restated for improved profitability measurement.

Condensed geographical segmental reporting

for the year ended 31 December Rm	Reviewed 2007 Operating income	Audited 2006 Operating income	Reviewed 2007 Headline earnings	Audited 2006 Headline earnings
South Africa	21 024	17 616	5 623	4 176
Business operations	21 024	17 616	6 039	4 516
BEE transaction expenses			(144)	(121)
Profit attributable to minority interest – preference shareholders			(272)	(219)
Rest of Africa	669	657	116	76
Business operations	669	657	119	99
BEE transaction expenses			(3)	(23)
Rest of world – business operations	735	675	182	183
Total	22 428	18 948	5 921	4 435

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* Executive ** Senior independent non-executive director

Sponsor in Namibia: Old Mutual Investment Services (Namibia) (Pty) Limited

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Transfer secretaries in Namibia:
Transfer Secretaries (Pty) Limited
Shop 8, Kaiserkrone Centre, Post Street Mall, Windhoek, Namibia
PO Box 2401, Windhoek, Namibia
Company Secretary: GS Nienaber
Reg No: 1966/010630/06 **ISIN code:** ZAE000004875
JSE share code: NED **NSX share code:** NBK

Sponsors: Merrill Lynch South Africa (Pty) Limited, Nedbank Capital