

Annexure "F4"

**CORPORATE GOVERNANCE STATEMENT OF NEDCOR BANK LIMITED**



## Corporate governance

### Corporate governance philosophy, strategy and objectives

'The landscape of corporate governance, both locally and internationally, has changed dramatically in recent times.

'Nedcor believes that investors and all other stakeholders will now ascribe a governance premium to companies that have high-quality reporting and governance, and a corresponding governance discount to those that are found wanting.

'The new Nedcor Group's governance strategy, objectives and structures have been designed to ensure that the group earns its governance premium.' **Chris Liebenberg**

### Enhanced corporate governance strategy

In tandem with the arrival of Legal Day One on 1 January 2003 (the day on which the merger of the banking licences within the group occurred) for the new Nedcor Group, an enhanced process, structure and strategy for corporate governance were implemented.

The following summarises the salient aspects of these enhancements.

#### New risk management strategy

Regulation 1 of the Banks Act states that the objective of the regulations '... is to provide for the establishment of basic principles relating to the maintenance of effective risk management ...'. Regulation 38 states that the '... process of corporate governance includes the maintenance of effective risk management'. The King Report on Corporate Governance 2002 ('King II' or 'the code') contains comprehensive references to and requirements with respect to risk management. The proposed new Basel Capital Accord ('Basel II') will enforce internationally a significant increase in risk management sophistication and reporting.

Risk management in the financial services industry is now accepted as being of fundamental strategic importance to profitability, growth and long-term sustainability. It is a dynamic process that is constantly evolving.

Nedcor has adopted a new risk management strategy and methodology, enterprise-wide risk management, which has the principles of corporate governance best practice embedded in its foundation. See the Risk management section of this report for a comprehensive discussion on this.

#### Corporate governance executive office established

The group was proud to announce, in the second half of 2002, the appointment of Selby Baqwa to establish an executive office championing corporate governance on a day-to-day basis across the group.

Significantly, though, Selby reports directly to the Chairman of the Nedcor Board of Directors on all aspects related to corporate governance. Selby is an official invitee to all board and board committee meetings.



Adv Selby Baqwa  
Executive Office  
Corporate Governance

## Corporate governance continued

Specifically Selby's role is:

- in conjunction with the Company Secretary, to place a strong focus on the corporate governance role, duties and responsibilities of the board and individual directors, from both an advisory and a compliance with best practice perspective;
- to set up a corporate governance unit focused on championing and driving, with the guidance and support of the new Social and Environment Board Committee, the principles of good corporate citizenship and measurement of the group's non-financial performance, resulting in the achievement of a balanced and integrated economic, social and environmental performance (triple bottom line), which is further outlined in the Risk Management section of this report under the heading 'Non-financial risks and corporate citizenship';
- to interact with and actively support, through his direct report line to the board, the other key roleplayers in the group championing corporate governance, eg the new Group Risk Division responsible for inter alia championing enterprise-wide risk management implementation and providing audit and compliance assurance, and the Investor Relations and Group Communications Units addressing stakeholder engagement and rising disclosure and reporting standards;
- to review and consult on the corporate governance practices and processes in Nedcor's alliances, and report on these to the board; and
- to assess and report to the board on the overall corporate governance process in the group – strategically and not just in respect of formal compliance with specific requirements.

### **Enhanced internal audit and compliance governance functions**

Two key internal functions of the corporate governance system in the group are performed by Internal Audit and Compliance.

#### *Internal Audit*

Internal Audit in Nedcor performs an effective independent appraisal function that examines and evaluates the group's activities. The purpose, authority and responsibility of the function are formally defined in line with the definition of internal auditing of the Institute of Internal Auditors in a charter approved by the board.

Internal Audit reports at meetings of the Group Audit, Risk and Compliance ('ARC') Committee and has unrestricted access to the chairman of that committee, the Chief Executive and the Chairman of the board. Functionally, Internal Audit reports to the Chief Risk Officer as it is an integral component of the enterprise-wide risk management strategy.

A new major thrust of Internal Audit is to coordinate throughout the group the risk identification and assessment methodology ('Barnow') being implemented across the group, referred to in the Risk Management section of this report, as well as the control self-assessment process.

These processes will also greatly assist and enhance the risk-assessment-based audit approach adopted by Internal Audit, as well as reporting on risk and internal control to management and the Group ARC Committee.

The Nedcor and BoE Internal Audit Divisions have been successfully integrated, and planning and audit strategy across the new Nedcor Group has been completed for 2003.

#### *Compliance*

Compliance performs a fully established independent function within the Nedcor Group and also has unrestricted access to the Chairman of the Group ARC Committee, the Chief Executive and the Chairman of



the board. Compliance is an essential part of the structure of internal control needed to manage regulatory and reputational risk.

Nedcor operates within a framework created by legislation and various regulatory authorities. This is far-reaching and complex, and therefore requires the specific attention and skills of the group's compliance officers.

It is the compliance officers' role, among other things, to provide guidance, assess, monitor and report on the following:

- material breaches of the legal, regulatory, corporate governance and internal control environments;
- the impact of new legislation/regulations and the implementation of appropriate policies and procedures;
- the group's personal-account trading rules;
- the group's code of ethics and its enforcement;
- contact with regulators; and
- policies and procedures established to protect the group against loss incurred due to:
  - financial fraud;
  - insider trading;
  - market abuse; and
  - money laundering.

An effective compliance framework is regarded by the board as a necessary prerequisite for ensuring Nedcor's financial success.

It is two years since regulation 47 of the Banks Act required the establishment of an independent compliance function, and the new Nedcor Group is now well-positioned in this regard. A comprehensive Group Compliance Framework for the new Nedcor Group has been introduced.

Group compliance and divisional compliance functions have been established. The group function includes senior regional heads based in Johannesburg, Durban and Cape Town reporting to the Group Chief Compliance Officer at the centre.

Divisional compliance officers have been formally appointed and functions established in every cluster and/or division across the group. These officers have dual reporting lines to the heads of the business divisions and Group Compliance.

#### **Nedcor's King II implementation plan**

As a JSE-listed financial services company the Nedcor Group is very clearly an affected company to which King II applies.

Nedcor fully subscribes to and supports the code and has developed a comprehensive implementation and monitoring plan to meet its requirements and recommendations. This plan incorporates the corporate governance requirements of the Regulations to the Banks Act.

The plan has been approved by the board and its implementation will be monitored by the newly established board committee, the Group Corporate Governance Committee.

The new Nedcor Group is already in substantial compliance with the code, the main area of work in progress being integrated sustainability reporting and will be a major focus for 2003.

The Enterprise-wide Risk Management Framework referred to earlier was designed incorporating all relevant aspects of the code.

## Corporate governance continued

The only areas of anticipated non-compliance with the code in Nedcor, which the board is satisfied do not impair the governance system or perceptions of it, are as follows:

- The Chairman of the board is a non-executive director but is not an independent director as defined by the code only by virtue of the fact that he also serves on the board of the group's holding company, Old Mutual plc.

The Chairman has greater involvement in the group than the other non-executive directors. In the opinion of the board this level of involvement is considered necessary for the effective running of the board, but does not constitute the exercise of executive powers. The Chairman, in particular, plays a leading role in spearheading corporate governance in the Nedcor Group.

Peter Joubert is the Deputy Chairman and fulfils the role of lead non-executive director in line with international best practice, as is also recommended in King II.

- Chairmen of the following board committees are not independent directors as defined by the code, again only by virtue that they also serve on the board of Old Mutual plc:
  - Group Audit, Risk and Compliance Committee (Peter Joubert)
  - Chairman's Committee, Group Corporate Governance Committee and Nomination Committee (Chris Liebenberg).
- The Group Audit Risk and Compliance ('ARC') and Nomination Committees do not have a majority of independent non-executive directors for the same reason as outlined above.

### Corporate governance framework

The key features of Nedcor's corporate governance process, and incorporation of the code, are included in the board-approved Corporate Governance Framework presented on page 73.

Vital elements of the framework and the corporate governance process in Nedcor are the interaction between executive management and non-executive directors, and the significant emphasis, resources and structure given to independent executive management functions to champion corporate governance on a day-to-day basis and proactively assist the board, board committees and individual non-executive directors with corporate governance responsibilities.

#### Revised board committees

Board committees have been established to assist the board in the discharge of its duties and responsibilities.

In the new Nedcor Group nine board committees have been established with formal written terms of reference. The new committees introduced include a Risk Committee, which has been combined with the Audit Committee and will serve and be known as the 'Group Audit, Risk and Compliance Committee' (refer to the Risk Management section on page 90 for details on this), a Group Corporate Governance Committee, a Nomination Committee, a Group Social and Environment Committee and a Group Market Risk Committee.

Details on the composition, meetings and key terms of reference, as well as the key risk areas they are responsible for monitoring, are addressed in the Corporate Governance Framework and layer 2 of the Enterprise-wide Risk Management Framework on page 105 respectively.

Three of the key components that will be addressed by the new committees are the formal process of appointment of directors to the board, board continuity, and board and individual director evaluation.

The board is satisfied that the board committees have effectively discharged their duties and responsibilities in 2002.

#### **Formalised corporate governance objectives**

The board has formalised its corporate governance objectives, which are listed in the Corporate Governance Framework on page 73. At least annually the board will assess and document whether the process of corporate governance implemented by the group successfully achieves these objectives.

### **The board of directors**

#### **Role and composition**

Nedcor has a unitary board structure comprising 25 directors. Of these, nine are considered to be independent non-executive, as defined by King II, seven non-executive and nine executive directors.

Of the seven non-executive directors, five (including the Chairman) are disqualified as independent only by virtue of the fact that they also serve as non-executive directors on the board of the group's holding company, Old Mutual plc.

The details of all directors appear on pages 217 and 218.

The directors come from diverse backgrounds and bring to the board a wide range of experience in commerce, industry and banking. The strong independent composition of the board provides for independent and objective judgement in the decisionmaking process and ensures that no one individual has unfettered powers of decision and authority.

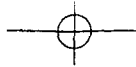
In general, directors are given no fixed term of appointment, while executive directors are subject to short-term notice periods. An executive director is required to retire from the board at age 60, while a non-executive director is required to retire at age 70. Reappointment of non-executive directors is not automatic.

The board has formal written terms of reference that have been updated in respect of, among other things, new requirements, best practice and King II. The main functions of the board are:

- determining the overall objectives (purpose) for the company;
- developing strategies to meet those objectives;
- formulating company policies;
- rating the company's own performance;
- appointing a chief executive officer for the company; and
- rating the performance of the company directors.

Within this framework, the board has identified a range of strategic and operational objectives and risks as more fully described on pages 73 and 79.

The board is responsible to the shareholders for setting the direction of the group through defined strategic objectives and key policies, which are articulated through a formal process to the applicable levels of the organisation.



## Corporate governance continued



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

This is supported by a schedule of matters reserved for the board to ensure that the directors maintain full and effective control over the group of companies, specifically for significant strategic, financial, organisational and compliance matters.

The board is accountable to Nedcor's shareholders for exercising leadership, enterprise, integrity and judgement in directing the organisation to achieve continuing prosperity for the Nedcor Group by obtaining the necessary balance between entrepreneurial enterprise and conformance with legislation, regulations and increasingly stringent governance practices.

### Chairman and Chief Executive

The roles of Chairman and Chief Executive are separate. The board is led by the Chairman, Chris Liebenberg, and the executive management of the group is the responsibility of the Chief Executive, Richard Laubscher.

This clearly accepted division of responsibilities at the head of the company ensures a balance of authority and power, so that no one individual has unfettered powers of decisionmaking.

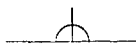
As regards the 'independence' of the Chairman, and his non-executive classification in terms of King II, by virtue of his position as Chairman and his appropriate greater involvement in the organisation, this would most likely not render him as fully independent. Recent findings in the UK query whether the Chairman should be classified as independent or not for this very reason. Notwithstanding this, his position/independence is supported by virtue of the lead non-executive director and Vice-Chairman, Peter Joubert.

### Company Secretary

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures and applicable rules and regulations are fully observed. The removal of the Company Secretary would be a matter for the board as a whole. Moreover, the board has agreed and established a procedure in furtherance of its duties whereby directors may obtain independent professional advice at the expense of the company.

### Board meetings

In 2002 the board met 11 times. It is policy for the board to meet frequently, and a formal schedule of matters is required to be submitted to the board on the basis of an annual work plan. Additional or other matters of significance to Nedcor and the group are required to be brought to the board's attention timely and in a number of instances this has required the board to convene outside the scheduled plan of meetings.



# Nedcor's Corporate Governance Framework

## The board's corporate governance objectives

- Maximum level of efficiency and profitability of the group within an acceptable risk profile.
- Implementation of the group's strategy and compliance with the strategic framework of the group.
- Commitment by executive officers of the group to adhere to corporate behaviour that is universally recognised and accepted as correct and proper.
- Balancing the interests of shareholders and other stakeholders, who may be affected by the conduct of directors or executive officers of the group, within a framework of accountability.
- Establishing and maintaining mechanisms to minimise or avoid potential conflicts of interest between the business interests of the group and the personal interests of directors or executive officers.
- Timely and accurate disclosure of matters that are material to the business of the group or the interests of stakeholders.
- Finding the correct balance between conforming with governance constraints and performing in an entrepreneurial way.
- Achievement of a balanced and integrated economic, social and environmental performance (triple bottom line) and implementation of a best-practice corporate citizenship framework.
- Efficient and effective functioning of the Enterprise-wide Risk Management Framework.
- Compliance in substance with the provisions of the Code of Corporate Practices and Conduct of the King Report on Corporate Governance – 2002 ('King II'), the Banks Act, regulations, other sources of corporate governance best practices and requirements of Nedcor's holding company, Old Mutual plc.

Corporate governance is the system by which the group is directed and controlled, and is also concerned with optimising the balance between the group's economic and social goals – to align as closely as possible the interests of individuals, society and the organisation as a whole. The Nedcor Group fully subscribes to best practice and behaviour in corporate governance, the King Report on Corporate Governance ('King II'), and compliance with regulation 38 of the Banks Act.

## The board of directors ('the board')

The board is the focal point of the corporate governance system in the Nedcor Group. It is ultimately accountable and responsible for the performance, affairs and behaviour of the group. There are formalised terms of reference ('charters') for the board and all the board committees. Salient features of these are recorded below.

### Composition of the board

- Unitary board structure consisting of non-executive and executive directors.
- Majority of non-executive directors of whom sufficient are independent, as defined by King II.
- Chairman of the board not an employee nor a member of the Group Audit, Risk and Compliance Committee.

### Membership of the board

- Roles of the Chairman and Chief Executive separate and a clearly accepted division of responsibilities.
- No one individual having unfettered powers of decisionmaking.
- Board size, diversity and demographics reviewed at least annually.
- Board Directorship Continuity Programme established.
- Procedures for appointments to the board – formal and transparent, assisted by the Nomination Committee.

### Meetings of the board

- At least six times a year or at the call of the Chairman of the board.

### Board evaluations

- Evaluation is done annually on composition, performance, processes and procedures.

### Board's key roles and responsibilities

- Upholding the interests of shareholders.
- Ultimate accountability and responsibility for the performance and affairs of the company.
- Retaining full and effective control.
- Monitoring management's performance and implementing board plans and strategies.
- Appointing and reviewing the performance of the CEO.
- Ensuring financial statements are true and fair, and contain proper and adequate disclosures.
- Enforcing high standards of ethics and corporate behaviour.
- Enforcing appropriate risk management, internal controls and regulatory compliance.
- Implementing and maintaining Corporate Governance Framework and Corporate code of conduct.
- Ensuring transparent and prompt communication with shareholders and all relevant stakeholders.
- Identifying and monitoring non-financial aspects relevant to the business of the company.
- Recording facts and assumptions to conclude that the company will continue as a going concern.
- Identifying and monitoring director selection and orientation, and evaluation processes put in place.

### Board's key roles and responsibilities (continued)

- Ensuring that the company is achieving its goal and that the correct balance between conforming to governance constraints and performing in an entrepreneurial way is achieved.
- Reviewing performance of the board committees.
- Defining levels of materiality, reserving specific power to itself and delegating other matters, with the necessary written authority to management.
- Responsibility for the total process of risk management, including disclosures on risk management and ensuring that a risk assessment is undertaken at least annually.
- Identifying and maintaining key risk areas and key performance indicators, with particular attention to technology and systems.
- Reviewing and approving remuneration policies and practices following REMCO recommendations.
- Ultimately responsible for ensuring an adequate and effective process of corporate governance is established and maintained.
- Induction of new directors
- 7-1 induction programme is conducted for all newly appointed directors.

## Board committees

| Chairman's Committee   | Group Strategic Investment Management Committee (SIMCO)   | Nomination Committee  | Group Remuneration Committee (REMCO)   | Group Social and Environmental Committee   | Group Corporate Governance Committee  | Group Credit Committee (CROM)  | Group Market Risk Committee  | Group Audit Risk and Compliance (ARC) Committee   |
|--|---|---|--|--|---|--|--|---|
| Chair: CF Liebenberg<br>WAM Clewlow<br>PG Joubert<br>ME Mkwana<br>JH Sutfin<br>RG Coetzé   | Chair: ME Mkwana<br>CML Savage<br>GS van Heekert  | Chair: CF Liebenberg<br>WAM Clewlow<br>PG Joubert<br>ME Mkwana<br>JH Sutfin<br>RG Coetzé<br>MJ Levitt   | Chair: N Davin<br>CJW Bar<br>PG Joubert<br>CF Liebenberg<br>JH Sutfin<br>JH Sutfin   | Chair: B Figs<br>MJ Levitt<br>CF Liebenberg<br>TH Huisman<br>GF Richardson<br>CO Parker  | Chair: CF Liebenberg<br>WAM Clewlow<br>PG Joubert<br>ME Mkwana<br>RG Coetzé<br>MJ Levitt<br>JH Sutfin   | Chair: CJW Bar<br>RG Coetzé<br>CF Liebenberg<br>GF Richardson  | Chair: BE Davton<br>CML Savage<br>CF Liebenberg<br>PJ Phiso<br>GF Richardson   | Chair: PG Joubert<br>Deputy: WAM Clewlow<br>RG Coetzé<br>BE Davton<br>JF Roberts<br>CJW Bar<br>(= Independent)  |
| Meetings at least quarterly<br>Key terms of reference<br>Conveys advice(s) and/or recommendations only to the board and has no decision-making powers, unless authorised on an ad hoc basis by the board.<br>Issues of fundamental importance to the group.<br>Utilisation of capital to ensure it is optimised.<br>Sounding board for issues proposed by management that are material to the group's strategies and objectives. | Meetings at least quarterly<br>Key terms of reference<br>Monitors all issues pertaining to information technology, both operational and strategic.<br>Ensures alignment of the prioritisation and magnitude of IT development spend and investment with overall group strategy.<br>Ensures that the group has a well-coordinated, efficient, effective and properly resourced IT strategy.<br>Approves and monitors large projects. | Meetings at least quarterly<br>Key terms of reference<br>Recommends appointment of new executive and non-executive directors and composition of the board.<br>Reviews the succession planning of directors.<br>Assesses conduct and competence of directors and board committees.<br>Board self-evaluation. | Meetings at least quarterly<br>Key terms of reference<br>Ensures the right calibre of executive senior management is attracted, assessed, motivated and rewarded.<br>Recommendations on the remuneration of the Chairman and non-executive directors and executive directors.<br>Approves remuneration levels for senior executives.<br>Reviews remuneration policies.<br>Ensures that a greater portion of remuneration is fixed to variable pay as opposed to guaranteed pay.<br>Reviews all aspects of remuneration, including non-cash, eg HIV/AIDS. | Meetings at least quarterly<br>Key terms of reference<br>Monitors all issues pertaining to the integrated economic, social and environmental performance.<br>Approves framework, policies and guidelines for social, environmental, and non-financial risk management.<br>Reviews reports covering matters relating to social, environmental and non-financial risks and potential liabilities.<br>Reviews measures of sustainability, socially responsible investment and corporate citizenship.<br>Reviews management of and reporting on social risks, eg HIV/AIDS. | Meetings at least quarterly<br>Key terms of reference<br>Acts as a board's expert monitor of the group's reputational risk and in particular the corporate governance requirements of the Code of Corporate Practices and Conduct ('King II') and regulation 38 of the Banks Act.<br>Maintains a board directorship continuity programme.<br>Functions prescribed by the board and Registrar of Banks.<br>Monitors the group's performance against the board's corporate governance objectives. | Meetings at least quarterly<br>Key terms of reference<br>Approves credit risk policies.<br>Approves credit authority/matrix levels sanctioned by board.<br>Assesses adequacy of provisions for credit losses.<br>Assesses trends in asset and portfolio quality.<br>Monitors the watch list, large exposures, country risk exposures, etc.<br>Provides guidance with regard to specific industries, geographical locations and clients, and generally acts as a sounding board for management. | Meetings at least quarterly<br>Key terms of reference<br>Monitors across the group the management and assessment of financial risks, including:<br>- market trading risks<br>- financial instruments (derivatives) usage<br>- ALCO risks and the ALCO process and function<br>- private-equity, private-property and debt investment risks<br>- investment exposures<br>- risk related to underwriting of share issues.<br>Reviews and approves market risk policies, limits and authority levels. | Meetings at least quarterly<br>Key terms of reference<br>Monitors that an effective control, risk management and compliance environment is enforced.<br>Monitors that the internal audit and compliance functions are effective and efficient.<br>Considers non-audit services rendered.<br>Reviews published financial statements and reporting for proper and complete disclosure of timely, reliable and consistent information and confirms that the accounting policies used are appropriate.<br>Receives regular reporting from key management functions, board committees and internal auditors.<br>Ensures formal risk assessment is undertaken annually.<br>Monitors the implementation and ongoing maintenance of an Enterprise-wide Risk Management Framework and group policies and authority levels.<br>Understands the requirements, reviews policy and monitors implementation of the pending new Basel Capital Accord ('Basel II'). |

## Group Executive Committee ('Group EXCO')

Group EXCO is delegated by the board the authority for the day-to-day running of the business and governance of the group's activities. Group EXCO is assisted by various executive committees as listed below and executive management functions laid out adjacently. The executive management committees also report into the board committees listed above. (Refer Enterprise-wide Risk Management Framework for detail).

## Group Executive Management Committees

| Group Capital Management Committee | T&O Clusters (IT Strategic risk) | Management Remuneration Committee | Group Corporate Citizenship Committee | Credit Risk Management Committees (CRAMS) | Group Alco Committee | Group Accounting and Management Info Committee | Cluster Operational Risk Committees |
|------------------------------------|----------------------------------|-----------------------------------|---------------------------------------|---|----------------------|--|-------------------------------------|
| Chair: JJ Botha                    | Chair: BUS Hore                  | Chair: AA Routledge               | Chair: SAM Baqwa                      | Chair: SAM Baqwa                          | Chair: CJ Peard      | Chair: SG Morris                               | Chair: various                      |
| Chair: JJ Botha                    | Chair: AA Routledge              | Chair: JJ Botha                   | Chair: SAM Baqwa                      | Chair: SAM Baqwa                          | Chair: M Kinnear     | Chair: SG Morris                               | Chair: various                      |
| Chair: JJ Botha                    | Chair: AA Routledge              | Chair: JJ Botha                   | Chair: SAM Baqwa                      | Chair: SAM Baqwa                          | Chair: M Kinnear     | Chair: SG Morris                               | Chair: various                      |

## Executive management governance champions

|   |                                  |
|---|----------------------------------|
| SAM Baqwa – Head of overall corporate governance groupwide<br>(Reports directly to the chairman of the board and invites to all board committees) | GS Nienaber<br>Company Secretary |
|---|----------------------------------|

## Key corporate governance components

|                |                 |                     |                       |                         |                                 |               |
|----------------|-----------------|---------------------|-----------------------|-------------------------|---------------------------------|---------------|
| Internal Audit | Risk Management | Board and directors | Corporate citizenship | Accounting and Auditing | Relationships with shareholders | Communication |
|----------------|-----------------|---------------------|-----------------------|-------------------------|---------------------------------|---------------|

## Executive functions driving the key components

|   |                                  |                                   |                                   |                                |                                |                           |
|---|----------------------------------|-----------------------------------|-----------------------------------|--------------------------------|--------------------------------|---------------------------|
| Group Internal Audit Division<br>GU Heister | Group Risk Division<br>R van Wyk | Corporate Governance<br>SAM Baqwa | Corporate Governance<br>SAM Baqwa | Office of the SFD<br>SG Morris | Investor Relations<br>E Muller | Communications<br>P Abrey |
|---|----------------------------------|-----------------------------------|-----------------------------------|--------------------------------|--------------------------------|---------------------------|

## Key duties of the executive functions

|  |   |   |  |  |  |   |
|--|---|---|--|--|--|---|
| Internal Audit<br>Direct report line to group ARC Committee and Board Chairman<br>Objective assurance provide<br>Risk-based audit approach | Designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the group.<br>Championing enterprise-wide risk management. | Primal role in championing corporate governance<br>Direct report to the board and directors with guidance<br>Advice to the board, and across the group, on good governance. | Social and environmental risks identified, measured, managed and reported effectively.<br>Framework of corporate citizenship best practice triple bottom line reporting. | Recommendations only to the Group ARC Committee on – auditing and non-auditing services – reporting of financial and non-financial information | Dialogue with institutional investors based on transparency and substance over form.<br>Reports and communications transparent.<br>Comprehensive and objective assessment of group business and socio-economic activities. | Information based on the principle of transparency and substance over form.<br>Reports and communications transparent.<br>Comprehensive and objective assessment of group business and socio-economic activities. |
|--|---|---|--|--|--|---|

## Independent monitoring functions of corporate governance

|  |
|--|
| Group compliance functions<br>To ensure that the group continuously manages its regulatory risk, that is the risk that the group does not comply with applicable laws, regulations and supervisory requirements. This includes all corporate governance provisions.<br>To promote a compliance culture throughout the group that contributes to the overall objective of prudent risk management by the group including sound corporate governance and ethical standards.<br>The continual review and enhancement of compliance framework, policies and procedures to ensure they correctly and effectively reflect any changes in the laws, regulations or supervisory requirements.<br>To develop and formalise compliance frameworks, policies and procedures proactively to assist all business divisions/companies in the practical implementation of effective and efficient compliance functions.<br>To monitor that effective compliance functions are in operation in all business units/companies in the group.<br>To report on concerns, deficiencies or breakdowns in compliance at all levels and bring these to the attention of the CEO/board of directors/Audit, Risk and Compliance Committee and, as appropriate, to the relevant business units and assist with the prompt resolution thereof.<br>Group Compliance is an integral component of the Group Risk Monitoring Division, but has a direct report line to the Group ARC Committee and the Chief Executive. |
|--|

Divisional compliance functions  
Primary responsibility for compliance rests with the divisional director and line management.  
Divisional compliance officers report directly to the divisional directors and have a dotted line to Group Compliance.

## External

|  |
|--|
| Independent firms of accountants and auditors<br>Desta & Touche<br>KPMG etc. |
|--|

## Alliances

|              |               |             |
|--------------|---------------|-------------|
| Peoples Bank | Imperial Bank | Capital One |
|--------------|---------------|-------------|

|   |  |
|---|--|
| Board representation from Nedcor                  | Capital One Nedcor Alliance (CONA) Governing Board |
| CF Liebenberg<br>RGM Loubser<br>5 other directors | Peoples Bank<br>Amex                               |

|  |   |
|--|---|
| Audit, Risk and Compliance Committees representation from Nedcor | AA Routledge<br>BUS Hore<br>TA Boardman |
| SG Morris<br>R van Wyk   |   |

## Nedcor independent executive monitoring

|   |  |
|---|--|
| Nedcor Group Internal Audit discharges internal audit functions<br>Nedcor Group Risk monitors Credit, Market & Operational risks<br>Nedcor Group Compliance monitors compliance framework and environment<br>Nedcor Group Supervision monitors regulatory supervision | Nedcor Group Compliance monitors compliance framework and environment<br>Nedcor Group Risk monitors Credit, Market & Operational risks<br>Nedcor Group Supervision monitors regulatory supervision |
|---|--|

## Nedcor independent external supervision

|   |   |
|---|---|
| Joint external auditors (KPMG Inc and Desta & Touche)<br>common regulatory supervision team | Joint external auditors (KPMG Inc and Desta & Touche)<br>common regulatory supervision team |
|---|---|

## Old Mutual

|  |
|--|
| Six Nedcor non-executive directors are also directors on the Old Mutual plc Board of Directors<br>Three Old Mutual plc directors sit on the Nedcor Board of Directors, including the Old Mutual plc CEO and FD who are also members of the Corporate Governance, Nomination, Chairman's, Remuneration and Group ARC Board Committees<br>The Nedcor Group ARC Committee Chairman reports to the Old Mutual plc Audit Committee. |
|--|



## Corporate governance continued

## The record of attendance at board and board committee meetings for Nedcor Limited and Nedbank Limited for 2002

|                             |               | Nedcor<br>Limited<br>Board | Nedbank<br>Limited<br>Board | Chairman's<br>Committee | Remu-<br>neration<br>Committee | Audit<br>Committee | Strategic<br>Innovation<br>Management<br>Committee | Group<br>Finance<br>Committee | Credit<br>Risk-<br>Monitoring<br>Committee |
|-----------------------------|---------------|----------------------------|-----------------------------|-------------------------|--------------------------------|--------------------|--|-------------------------------|--|
| <b>Number of meetings</b>   |               | 11                         | 7                           | 4                       | 6                              | 7                  | 3  | 4                             | 4  |
| <b>Directors</b>            | <b>Status</b> |                            |                             |                         |                                |                    |  |                               |  |
| CJW Ball <sup>1</sup>       | xx            | 3/3                        | 2/2                         |                         | 1/1                            | 2/2                |  |                               | 0/1  |
| TA Boardman <sup>1</sup>    | *             | 3/3                        | 2/2                         |                         |                                |                    |  |                               |  |
| J Botha <sup>1</sup>        | *             | 2/3                        | 1/2                         |                         |                                |                    |  |                               |  |
| WAM Clewlow                 | #             | 9/11                       | 6/7                         |                         |                                | 6/7                | 1/1  | 1/1                           |  |
| RG Cottrell <sup>2</sup>    | xx            | 2/2                        | 1/1                         |                         |                                | 6/7                |  |                               | 1/1  |
| PTW Curtis <sup>2</sup>     | xx            | 4/8                        | 3/5                         |                         |                                | 3/5                |  | 4/4                           | 2/3  |
| BE Davison <sup>2</sup>     | xx            | 1/2                        | 0/1                         |                         |                                | 0/1                |  |                               |  |
| N Dennis <sup>2</sup>       | xx            | 0/2                        | 0/1                         |                         | 0/1                            |                    |  |                               |  |
| JF de Blanche <sup>2</sup>  | *             |                            | 5/5                         |                         |                                |                    |  |                               |  |
| B de L Figaji <sup>2</sup>  | xx            | 1/2                        | 0/1                         |                         |                                |                    |  |                               |  |
| BJS Hore                    | *             | 11/11                      | 7/7                         | 4/4                     |                                |                    | 3/3  |                               |  |
| PG Joubert                  | #             | 10/11                      | 7/7                         | 4/4                     | 6/6                            | 7/7                |  | 3/4                           |  |
| MM Katz                     | *             | 10/11                      | 6/7                         | 4/4                     |                                |                    | 3/3  |                               | 3/4  |
| RCM Laubscher               | *             | 11/11                      | 7/7                         | 4/4                     |                                |                    | 2/3  |                               |  |
| MJ Leeming <sup>4</sup>     | *             | 4/4                        | 2/2                         | 1/3                     |                                |                    | 0/1  |                               | 2/2  |
| MJ Levett                   | #             | 9/11                       | 6/7                         | 2/4                     |                                |                    |  |                               |  |
| CF Liebenberg               | #             | 11/11                      | 7/7                         | 4/4                     | 6/6                            |                    | 3/3  | 2/4                           | 2/4  |
| JB Magwaza                  | xx            | 5/11                       | 5/7                         |                         | 5/6                            |                    |  |                               |  |
| ME Mkwanazi                 | xx            | 6/11                       | 5/7                         | 1/4                     |                                |                    | 2/2  |                               | 1/3  |
| E Molob <sup>2</sup>        | xx            | 5/8                        | 4/5                         |                         |                                |                    |  |                               |  |
| SG Morris                   | *             | 10/11                      | 7/7                         | 4/4                     |                                |                    | 1/3  |                               | 4/4  |
| DGS Muller                  | *             | 10/11                      | 6/7                         | 4/4                     |                                |                    | 3/3  |                               |  |
| ML Ndlovu                   | *             | 11/11                      | 7/7                         |                         |                                |                    |  |                               |  |
| PF Nhleko <sup>2</sup>      | #             | 1/3                        | 0/1                         |                         |                                |                    |  |                               |  |
| TH Nyasulu <sup>2</sup>     | xx            | 6/6                        | 4/4                         |                         |                                |                    |  |                               |  |
| CC Parker <sup>2</sup>      | xx            | 7/8                        | 4/5                         |                         |                                |                    | 2/3  | 3/4                           | 3/3  |
| JVF Roberts                 | #             | 10/11                      | 7/7                         |                         | 5/5                            | 6/7                |  |                               |  |
| AA Routledge                | *             | 10/11                      | 7/7                         | 4/4                     |                                |                    | 3/3  |                               |  |
| CML Savage <sup>1</sup>     | xx            | 2/3                        | 1/2                         |                         |                                |                    |  |                               |  |
| JH Sutcliffe                | #             | 9/11                       | 6/7                         | 1/1                     | 0/1                            |                    |  |                               |  |
| GS van Niekerk <sup>2</sup> | #             | 8/8                        | 6/6                         |                         |                                |                    | 3/3  |                               |  |
| WP Venter <sup>2</sup>      | xx            | 4/8                        | 2/5                         |                         | 4/5                            |                    |  |                               |  |
| <b>Committee members</b>    |               |                            |                             |                         |                                |                    |  |                               |  |
| GH Butlerman                |               |                            |                             |                         |                                |                    |  |                               | 4/4  |
| JN Hamman                   |               |                            |                             |                         | 7/7                            |                    |  |                               |  |
| A Racov                     |               |                            |                             |                         |                                |                    | 1/3  |                               |  |

\* Executive

# Non-executive

xx Independent non-executive

<sup>1</sup> Appointed - 1 November 2002<sup>2</sup> Appointed - 25 November 2002<sup>3</sup> Resigned - 31 October 2002<sup>4</sup> Retired - 28 May 2002<sup>5</sup> Appointed - 29 July 2002

### **Director development and board evaluation**

All non-executive directors, on appointment, are appropriately familiarised with the operations of the group, senior management and the business environment and, where relevant, inducted in terms of their fiduciary duties and responsibilities as well as matters specific to the board.

New directors, where relevant, are provided with appropriate training in their duties and responsibilities.

Briefing of the board takes place on a regular basis to ensure that members are familiarised with local and international developments, risk management and corporate governance as well as the impact of each of these individually and collectively.

### **Succession planning**

Considerable emphasis is placed on succession planning at executive and senior management level by the board. Detailed and intensive planning is conducted through the Chairman's Office in consultation with the Group Corporate Governance and Nomination Committees.

The Chief Executive is required to report regularly to the board on the group's management development and employment equity programmes.

## **Remuneration**

The board's Group Remuneration Committee consists of non-executive directors only. In addition, the Chairman and two of the other five members are independent as defined by King II.

A separate Remuneration Report, commencing on page 90, covers all the corporate governance aspects and disclosure with respect to remuneration of executive directors.

## **Personal share dealings**

Nedcor has adopted a formal policy and set of rules for personal-account trading, which is based on current legislation and international best practice.

These rules prohibit directors and employees from dealing in Nedcor shares during defined closed periods prior to the announcement of interim and final results or in any other period considered sensitive.

All personal-account trading is subject to authorisation by the independent group compliance function. Such dealings also require the prior approval of an individual's senior.

Any non-compliance with policy is reported to the Group ARC Committee by the Group Chief Compliance Officer, and disciplinary action is taken.

All dealings by directors in Nedcor shares are advised to the Listing Division of the JSE, as required in terms of the JSE Listing Requirements, and such information is published through SENS. These dealings are also reported at the quarterly board meetings.

The group also has an insider-trading policy to assist directors and affected employees in their commitment towards maintaining a culture of integrity, adhering to legislative requirements and enforcing zero tolerance of crime.

## Corporate governance continued

### Risk management

The Nedcor Board acknowledges its responsibility for the entire process of risk management, as well as for forming an opinion on its effectiveness. Management is accountable to the board for designing, implementing and monitoring the process of risk management, and integrating it with the day-to-day activities of the group.

The Enterprise-wide Risk Management Framework, approved by the board, formalises the management of risk throughout the group.

This, as well as the application of and reporting on risk management, is detailed in the separate Risk Management section of this annual report.

The Group ARC Committee is responsible for assisting the board in reviewing the risk management process and the significant risks facing the group.

A formal risk assessment of the new group will be undertaken annually, including a risk profile and appetite analysis. This is in conjunction with the Barnowl and control self-assessment processes that will be implemented throughout the group and enforced by the Group ARC Committee on behalf of the board.

### Internal control

The directors have responsibility for maintaining a system of internal control that provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. In this context the directors have regard to what, in their judgement, is appropriate to the group's business, to the materiality of the financial risks inherent in the business and to the relative costs and benefits of implementing specific controls.

The directors have established an organisational structure with defined responsibility for internal control in each of the group's businesses. This, together with the associated responsibility for reviewing periodically the effectiveness of such internal control, is formally acknowledged by the head of each business unit once a year.

Regulation 39(4) of the Banks Act requires that the board of directors annually report to the Registrar of Banks on the adequacy of internal controls, adherence to these, maintenance of ethical standards, any material malfunctions and whether a bank will continue as a going concern.

The heads of each business unit throughout the group (including the non-bank operations) are required to sign a representation letter based on regulation 39(4). They are presented to the Group Audit, Risk and Compliance Committee, together with consolidated Nedbank Limited and Nedcor Limited representation letters.

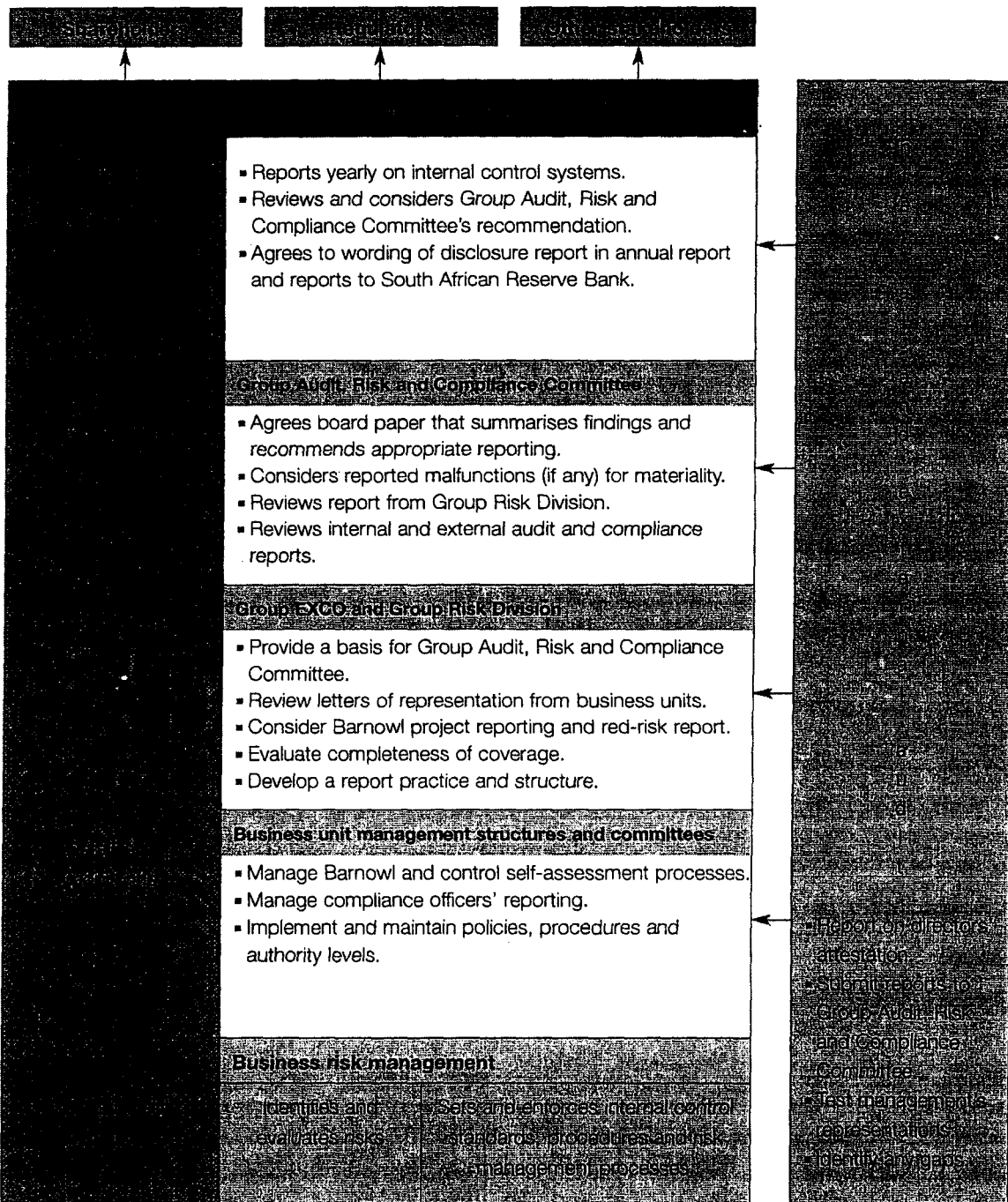
The letters are in turn presented to the board for review and endorsement. Internal and external auditors are required formally to comment on these letters as to whether they concur, based on their audit procedures and investigations, on the representations made by senior management.

The board reports that:

- no material malfunction in the group's internal control system has occurred during the period under review;
- it is satisfied with the effectiveness of the group's internal controls and risk management;
- it has no reason to believe that the group will not operate as a going concern for the year ahead;
- it has no reason to believe that the group's code of ethics has been transgressed in any material respect;



Reporting on internal control – the process and hierarchy



## Corporate governance continued

- it has no reason to believe that the group's policies and authority levels have not been enforced and adhered to in any material respect; and
- there have been no material breaches of compliance with any laws and regulations applicable to the group during the period under review.

In the new Nedcor Group a process and hierarchy for reporting on internal control have been approved by the Group ARC Committee on behalf of the board. This is presented on the previous page.

### Financial statements and external review

#### Going concern

The directors of Nedcor confirm that they are satisfied that the group has adequate resources to continue in business for the foreseeable future. These assumptions are recorded at the time of the approval of the annual financial statements by the board. For this reason the Nedcor Board continues to adopt the going-concern basis for preparing the financial statements.

#### Directors' declaration

The directors of Nedcor confirm and acknowledge:

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

#### External auditors

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

The Report of the Independent Auditors on page 153 sets out the responsibilities of the external auditors with regard to reviewing the financial statements and the group's compliance with both statutory and accounting standard requirements. The external audit is structured to provide sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. The audit review also considers the external auditors' support of the directors' statements on going concern and adequacy of the internal control environment.

### Relations with shareholders and other stakeholders

Nedcor's business is about wealth creation, built on a sound foundation of relationships with people and taking account of their needs, values and cultures, as well as the environment in which the Nedcor Group operates.

#### Code of ethics

A charter of employment, which serves as the group's code of ethics, commits management and employees to high standards of ethical behaviour in their dealings with one another and with the group's shareholders and other primary stakeholders. Failure to maintain ethical standards may result in disciplinary action.

**Code of banking practice**

The Nedcor Group subscribes to the Code of Banking Practice endorsed by member banks of the Banking Council of South Africa. This code governs Nedcor's conduct regarding relationships with authorities, clients, competitors, employees, shareholders, local communities and other primary stakeholders. The group has put in place appropriate procedures and mechanisms to ensure that all elements of the code are adhered to fully. The Nedcor Group also works constructively with the Banking Adjudicator's Office to ensure that client complaints are resolved appropriately and timely.

Further initiatives are being planned as part of the group's corporate citizenship strategy driven by Selby Baqwa, which embrace the high commitment to ethical conduct and entrenching a sound corporate ethic.

**Internet site**

Nedcor's internet site ([www.nedcor.com](http://www.nedcor.com)) has extensive information on the group, its annual, preliminary and interim reports and the price of its shares. It also provides a regular update on business developments and other matters of interest in relation to the Nedcor Group.

**Occupational health and safety**

Nedbank is committed to complying with all aspects of the Occupational Health and Safety Regulations. SA Emergency Care, the foremost company in providing training in first aid and fire fighting, awarded Nedbank the floating trophy as the number-one company for 'overall contribution to safety awareness'.