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Mike Brown

PRESENTATION

Mike Brown

Ladies and gentlemen, I think there's still quite a few people caught in traffic, but we'd like to get going because in this day and age, these presentations are not only to us in person, but also, of course, webcast and teleconferencing and whatever have you. So my name is Mike Brown from etfSA and The Investment Analysts Society, not to be confused with the other Mike Brown. He, thankfully, is doing the presentation. Mike and I have worked over the years, which is which. So hopefully, we won't confuse you too much having all these Mike Browns around. We have for the presentation on the interim results of the Nedbank Group for the period ending 30th of June, 2018. The Nedbank is a company with deep roots. See that it started in 1888. That's not a mistake, 1888, 130 years history. They've been listed since 1969, so that's 50 years. And I think for most of those 50 years, I've done presentations like this to the stakeholders and to the shareholders and to The Investment Analysts Society, and I'd like to thank them for that because I think this is a very important occasion for us to get to hear in depth about the results of this group and to hear from all Mike's management team, who are here both doing presentations, and we get a chance to talk to them afterwards. So thank you very much indeed for that, Mike and your team.

We also, of course, have here in person, we get to have a copy of this magnum opus with hundreds of pages of facts and figures and some pictures, and it's a very impressive effort indeed. And I'd like to thank you for that as well.

The presentation will be started by Mike Brown, Chief Executive. So let me, without any further ado, introduce Mike, and he can start the presentation and take you -- introduce you to the rest of this team.

Thank you very much indeed, Mike.

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Right. Thanks very much, Mike, and good afternoon, everybody. Actually, the oldest parts of Nedbank go back to the 1830s, if you look at the businesses that are with us today. So good afternoon, everybody, here at 135 Ravinia Road, to those people on the web and those watching on Business TV and those on the phone lines. As usual, our presentation format today is going to start with me giving you a high-level overview of the financial results. Then our CFO, Raisibe Morathi, will take you through the detail of those results. Each of our (inaudible) managing executives will talk to their respective business performance, and I'll come back at the end to have a look at the outlook for the rest of 2018 and for the strategy going forward.

Right. So before we get into the detail, I'm really going to start with a high-level summary of our first half performance. At a headline earnings level, you can see we produced a strong performance. Headline earnings up 27%, and the interim dividend was up nearly 14%. The headline earnings increase was primarily driven by our share of associate income from ETI, returning to profitability from the hard work of the respective management teams at Nedbank and the ETI board over the last few years. And this, I think, highlights that our strategy to fix this investment following the difficult period they went through in Nigeria, in particular, in 2016 and 2017 was, in fact, the correct strategy to follow.

Managed operations, which is everything excluding ETI, delivered positive but low growth in a difficult operating environment. The recovery in the South African economy post December has certainly been slower than we had expected it to be, and I'll share some thoughts on this a little later.

We have, however, seen some green shoots, particularly in both the loan application and payout volumes in our Retail business. And in CIB, we have a very solid loan pipeline. But in the first half, loan growth in wholesale markets remained weak, and early repayment levels from clients remained high.

Raisibe will unpack in detail the impacts of IFRS accounting changes a little later on. And while these didn't have a material impact on the overall bottom line of our income statement, because the prior year numbers were not restated, they did change the growth rates on a line-by-line item basis through our income statement. And we'll try to show you this just to give you a like-for-like feel for the underlying trends in our business.

Generally, underlying revenue growth was solid, but it was impacted by both IFRS changes as well as the subdued economy. Impairments or bad debts continued to perform ahead of our expectations and reflect the high quality of Nedbank's advances portfolio, and expenses were very well managed but also benefited from a credit from postretirement medical aid as we closed out our actuarial liability to this employee benefit. And again, Raisibe will unpack this a little later.

We continue right across Nedbank to focus very strongly on investing in technology and digital delivery and, as a result, improving our client experiences, growing revenues and improving efficiencies. Importantly, in the current environment in South Africa, Nedbank maintains extremely high governance standards, and the bank is run with a very strong focus on long-term sustainability, governance, culture and ethics.

As we think about expectations of green shoots and stronger economic growth in South Africa, I think it's really important to understand that we are currently at the very left-hand side of the slide that you can see here, at the early stages of a complex political and institutional turnaround in South Africa. In particular, the lack of progress that we've seen on much-needed structural reforms and policy uncertainty around land reform, the mining charter and systemically important state-owned enterprises, like Eskom, are impediments to improvements in confidence. And addressing these is absolutely vital to improve and increase levels of both domestic and foreign investment that are in turn needed for higher levels of economic growth and job creation.

Although this is a simplistic illustration of a really complex issue, too often, I think, in South Africa, we think that there is some shortcut to the right-hand side of this slide. And we measure our continuum on this progress -- on this slide by looking at data points on the very right-hand side, be that Q1 GDP or be that unemployment numbers. And we don't start with progress on the left-hand side, which is really the foundation for progress on the right-hand side.

So we are aware that economic growth in South Africa has been slow post the December political developments. That said, the global environment remains broadly supportive, although escalating trade disputes and geopolitical tensions do pose an increasing risk to the current global environment of synchronized global growth. Having started the year relatively strongly, recent changes in sentiment have resulted in emerging markets experiencing capital outflows, particularly those that are seen to be slow with structural reforms and those that are running both fiscal and current account deficits.

The South African economy started the first quarter on a weaker note. But not always well understood is the impact of the upward GDP revisions that were made to 2017 data, in effect creating a higher base. At Nedbank, we had forecast a contraction in GDP in the first quarter. Our forecast was minus 1.5%. And our forecast also show that unless the June data is strong, there is a possibility of a small Q2 contraction as well.

Policy uncertainties certainly do remain top-of-mind, and we have recently submitted our response to the land expropriation without compensation debate, highlighting our support for accelerated land reform and restitution but not through a change in Section 25 to the Constitution, which already provides for expropriation without compensation, in particular, circumstances where a court decides that it is just inequitable or in the national interest to do so. If changes are made to the Constitution to clarify this matter, the precise wording of these changes will be absolutely vital.

Changes of key state-owned enterprises are certainly progressing well on the governance front, but there's still a lot of much harder work ahead to resolve strategic operational and funding challenges, particularly at Eskom, which in the context of South Africa is a monopoly that is too big to fail. After a long period of sovereign downgrades, it's also pleasing to see that the sovereign rating now appears more stable.

On the left-hand side, you can see that business and consumer confidence increased strongly in the first quarter but pulled back in the second quarter as the reality of the long road ahead, as illustrated in my previous slides, became more apparent. On the right-hand side, we have seen some green shoots in parts of our business, and I'll illustrate a few of these.

Credit application volumes in our Retail product lines have increased strongly, double-digit growth in vehicle finance and home loans, and payouts are also up strongly in personal loans and vehicle finance. All of these indicative of stronger loan growth in Retail in the periods ahead.

At the bottom of the graph, in CIB, loan growth has disappointed as the strong pipelines that we have were offset by slow conversion rates and high levels of early repayments from our customers. Our focus on delivering value to shareholders is illustrated by this slide, which Nedbank investors should be very familiar with as we show it every single year at our results presentation.

Starting on the left-hand side. Our net asset value or shareholders' funds grew by just under 5% as the headline earnings increase of 27% was offset by both dividends as well as the impact of Day 1 IFRS accounting changes. Excluding these IFRS changes, NAV per share would have increased by 8.8%.

Turning to the center. Our return on equity improved as ETI returned to profitability, and this supported an increase in economic profit being the gap between return on equity and cost of equity as represented by the green shaded area in the middle of that graph. Clearly, our return on equity also benefited from the IFRS opening balance adjustments, which reduced equity, not a high-quality way to improve return on equity. But importantly, ROE, excluding these adjustments, also improved period-on-period.

Turning to the right-hand side. Our strong capital position enabled the declaration of a first half dividend of ZAR 6.95, up nearly 14% and a 2x cover exactly in the middle of our target range of 1.75 to 2.25x. This growth of around about 14% is also roughly in the middle of the growth rate we showed in total of 27% and the 2% growth rate that you saw in managed operations, bearing in mind that ETI itself is not yet dividend-paying. Just for information, our dividend cover ratio, if we excluded ETI completely, would be 1.96x.

Finally for me, a slide on the very important role that Nedbank plays in society and delivering holistically to all of our stakeholders, evidencing our purpose statement. It goes without saying that globally, and particularly here in South Africa in the current environment, this view of the long-term sustainability of a business is absolutely vital as the social license to operate. There's a lot of important data on this slide. I'm just going to touch on a couple of aspects and leave the rest for you to digest.

Starting in the top left. On the staff front, we continue to invest in leadership and cultural change programs. And in particular, in both Retail and Group Technology are moving rapidly from historic waterfall development methodologies to agile squads and tribes aligned behind client journeys, something that we refer to as new ways of work. Our workforce also continues to transform to better reflect South Africa's demographics with nearly 80% of our workforce now black.

On the client front, we have remained firmly open for business with ZAR 82 billion in new loan payouts. That's up 8% on the equivalent 6-month period last year. And we continue to support and grow our customer base across both Retail and CIB, in particular, in more digital and self-service ways. And in July, we were asked by the Reserve Bank and the curator to help service more than 17,000 VBS clients after that business was placed in curatorship.

We continue to have positive interaction with both shareholders and regulators and remain focused on serving the communities within which we operate, including supporting local business through our procurement initiatives. You can see 75% of our goods and services are procured locally as well as our interactions with the CEO initiative. In addition, we have made -- remained a Level 2 contributor under the amended FSC codes.

I'm now going to hand over to Raisibe to take you through the details of the financials and the drivers. But firstly, just a little bit of a housekeeping. For those of you who are following in the hard copies, you'll see that some of the slides in the top right-hand corner say booklet slides. Those are just for information. So we won't be speaking to them, and you'll need to flip through those to keep up with the presentation.

Thank you.

Raisibe Kgomaraga Morathi - *Nedbank Group Limited - CFO & Executive Director*

Thank you, Mike, and good afternoon. Nedbank produced strong financial performance driven by ETI turnaround and positive growth in our managed operations. And this is in line with our trading statement that we published on SENS on the 26th of July.

As you noted in prior results, the 2 lenses are provided for better comprehension of the key drivers of our results, and this disclosure will be discontinued at the end of 2018. Our results, including ETI in the first column, reflects a strong increase in headline earnings with the resultant increase in diluted HEPS at 26% and ROE improving by more than 3%. The tough economic environment and the impairment base in the prior year led to our managed operations growing at a lower rate.

Pleasingly, for both group and managed operations, the pre-provisioning operating profit growth was positive, and our economic profit increased by more than 100% to ZAR 1.7 billion, partly benefiting from reduced cost of equity.

We are also pleased with the improvement in our net interest margin, our credit loss ratio, which remained below our through-the-cycle target range and the reduction in efficiency ratio. And I will unpack all of this in later slides. Our strong CET1 ratio supported a 13.9% growth in dividend, which was paid out at 2x cover on HEPS.

The waterfall graph shows that the slow revenue growth and higher impairments were offset by the large ZAR 1.3 billion change in associate income. In addition, we were pleased with the lower growth on our expenses, noting that this is inclusive of a credit from PRMA, or postretirement medical aid, which I will discuss in detail a little later. As indicated previously, all costs relating to ETI are allocated to managed operations as was the case in prior periods.

Before we get into the details of our '18 drivers, it is important to note that the impact of IFRS accounting changes on the income statement affected literally all the line items. We show this analysis to illustrate the like-for-like underlying performance of our business. In the booklet, we provide more details on the changes, but at the high level, the changes reduced growth levels across NII, NRR impairments and expenses, resulting in ZAR 77 million or 1.2% impact on our headline earnings for managed operations.

Net interest margin increased by 9 basis points due to asset mix change and pricing, offset by negative endowment as interest rates declined by 25 basis points in July 2017 and 25 basis points in March 2018. The IFRS changes are net neutral on net interest margin due to the NII changes from suspended interest and from reclassification of the initiation fees, respectively. High-quality liquid asset optimization added 2 basis points as we switched from treasury bills to government bonds, and this change also supported our liquidity ratios.

Moving to advances. Our advances grew modestly at 0.7% year-to-date annualized, reflecting the IFRS 9 Day 1 impact of ZAR 3.3 billion and muted growth in the book. The period grew faster than the second half of 2017, and it was driven by RBB, while CIB declined largely due to strategies in which we reduced trading advances in line with reduced trading deposits. Banking advances in CIB were also slightly down due to low credit demand and early settlements.

Payouts were ZAR 82 billion. However, due to accelerated settlements in CIB, our net growth was only ZAR 5 billion. Excluding the IFRS 9 Day 1 impact, our net advances grew by 1.6% since the 1st of January 2018.

Taking a product lens. The wholesale product advances growth was impacted by large repayments, delays in pipeline drawdowns and competitive pricing in the industry. Notwithstanding this, commercial property grew year-on-year despite shedding some market share, while term loans were down 1.2% but increased year-to-date as new payouts offset the muted -- were offset by the muted environment.

Our Retail product growth momentum continued, and we grew market share in vehicle finance, in personal loans and in card, supported by growth in home loans, which was in line with the industry.

Other loans are comprised of foreign client lending and other interbank placements and these products categorized as trading advances declined. Preferences also included in this category was impacted by reduced client appetite.

Our deposits grew 5% ahead of advances, improving the group's loan-to-deposit ratio to 89%. Through the active management in the RBB franchise, deposits grew 8.8%, maintaining a strong household deposit market share of 19%. During the 12 months to June 2018, Nedbank successfully reduced its use of more expensive foreign currency funding, which was used in the general rand funding pool, and this was through growth in NCDs, structured deposits, fixed deposits and current as well as savings accounts. This strategy contributed to positively managing the long-term funding profile and contributed to reducing overall funding costs.

The positive tilt towards more Basel III-friendly RBB deposits and the reduction in the categories that I mentioned contributed positively to ensuring cost-effective regulation compliance while maintaining a strong balance sheet position. And as a result, our LCR and NSFR were 106% and 113%, respectively.

NRR grew 4%, reflecting a resilient performance, which was offset by the aforementioned IFRS changes. On the left, our growth in NRR benefited from private equity gains off a low base. Insurance income growing compared to a decline in 2017 where we -- when we experienced significant weather-related claims and our trading income growth, which was modest given muted activity levels particularly in the second quarter of 2018.

Commission and fees, which contributes the largest proportion of our NRR, was up 3%. From a cluster lens, NRR growth in CIB was strong supported by commission and fees and private equity. Importantly, the bulk of the renewable energy transactions are still expected to close in the second half of this year.

RBB grew NRR at 1.5% after absorbing ZAR 270 million from IFRS changes. The underlying growth reflects the momentum in the middle market, professional and SME market client segments. And this provides the evidence of our strategy to grow our transactional banking franchise.

In Wealth, insurance income recovered from 2017, partly supported by absence of catastrophic events and lower business trend relating to insurance policies. However, the tough macros kept commission and fees growth modest with the resultant 2.2% NRR growth for this cluster.

As indicated in my earlier slide, the overall NRR growth of 4.3% is a solid 6.6% on a like-for-like basis, and this delta is incorporated in commission and fees, specifically in RBB.

Turning to the credit loss ratio. The graph on the left provides an overview of the credit loss ratio, which increased to 53 basis points, reflecting increased impairments in CIB, Wealth as well as Rest of Africa, offset by further reduction in our impairments in RBB. Except for Rest of Africa, all our clusters are below the through-the-cycle target ranges for their credit loss ratios.

Over the 6 months, defaulted advances increased by 16% to ZAR 23 billion, representing a NPL ratio of 3.1%. This increase was primarily from CIB as a result of stresses in construction and cement industries. Prudent coverage levels were maintained against defaulted advances now reflected on an IFRS 9 basis. The specific coverage ratio decreased as a result of CIB, although the RBB coverage ratios strengthened. We remind investors that in CIB, impairments are individually determined based on specific security for each client. 88% of specific impairments are concentrated in approximately 10 counters, and this are adequately provided for. Portfolio coverage increased to 91 basis points, following the IFRS 9 Day 1 adjustment.

Turning to expenses. We remained focused on cost management, demonstrating disciplined and careful management of discretionary expenses in an environment of slow revenue growth. Our efficiency ratio improved, and we achieved a positive jaws across the group and specifically also in our managed operations. All our frontline clusters reduced expenses growth as we begin to see benefits of our cost optimization initiatives. During the period, we concluded a settlement with our staff with regards to the postretirement medical aid obligations and benefits, resulting in a provisional ZAR 250 million credit being the reversal of liabilities historically expensed through the income statement. Excluding this credit of ZAR 250 million, expense growth would have been 4.4%. This transaction relating to PRMA will be concluded in the second half where further credits remained probable.

Looking at the underlying expense movement, a large part of our business-as-usual growth was offset by cost efficiencies. The efficiencies gained created investment capacity, enabling continued investment for growth largely in improving our business processes, in introducing digitalization and also in IT.

Good progress was made on various initiatives aimed at reducing our cost income ratio over the next 2 to 3 years. Over the past 12 months, we reduced headcount by over 1,000 people, primarily through natural attrition. We are reducing manual and ineffective business processes through the use of automation and robotics. We implemented 51 software robots to enhance efficiencies and reduce processing errors in administratively intense areas. We continue to optimize our branch footprint with a reduction in floor space, while maintaining our coverage of the bankable population at 84%. And this will help to bring RBB's efficiency ratio closer to 58% and is a key enabler of reducing our group's efficiency ratio to our target of below 53%.

Through Managed Evolution, our IT strategy to rationalize, standardize and simplify core systems, we have decommissioned 126 systems to-date. And this enabled savings in support maintenance as well as licensing costs. In addition to ongoing cost savings initiatives, our target operating model initiative unlocked ZAR 512 million of run rate savings to June 30, and we expect to deliver ZAR 1.2 billion of pretax cost savings by 2020.

As reflected in my earlier slides, the historic volatility of ETI's earnings is depicted on this graph, and Mfundo will provide a further perspective. However, ETI's progress is in line with this guidance for 2018. And this supports a rebound in its valuation.

As indicated in the center of this graph, the carrying value of our investments since December 2017 was adjusted down by ZAR 400 million to now ZAR 2.9 billion, including our share of ETI's transitional IFRS 9 adjustment of $299 million. The market value has been higher than the carrying value in the last 13 months. We monitor the valuation of this investment at each reporting period for inter-area indicators of impairments. As observed, since quarter 1 2017, the persistence of a value-in-use calculation above carrying value could, in future, trigger a reversal of all, or part, of the impairment taken on this asset in December 2016.

Our CET1 ratio remains well above the sub-regulation requirements and was the top end of our board-approved ratios of a range between 10.5% and 12.5%. The movement in our CET1 ratio was driven by strong capital generation as earnings grew, while we absorbed the IFRS 9 Day 1 impact of a total of 25 basis points, which is fully phased into our capital adequacy ratios in 2018.

Our strong capital position and organic capital generation has supported our ability to increase our dividend to -- by 13,9%, and our dividend cover is within our board-approved target range of 1,75 to 2.25x cover and is in line with our guidance. From investment perspective, our dividend yield remains attractive.

Let me give you a brief overview of our performance in the clusters before I hand over the respective management executives. Our 2 large clusters, CIB and RBB, continue to deliver growth notwithstanding a difficult first half. Wealth had a subdued 6 months, while our Rest of Africa subsidiaries grew strongly off a low base, and ETI contributed meaningfully as discussed before.

Finally, the increase from 14% to 17% in our group ROE was driven primarily by ETI returning to profitability as well as the benefit of the IFRS 9 Day 1 impact. This is also reflected by the slow growth in allocated capital in RBB, notwithstanding good balance sheet growth.

In managed operations, ROE declined across most clusters as allocated capital increased, as reflected on the right-hand side. This was driven by multiple factors, including client downgrades in CIB and changes in capital allocation parameters.

I thank you and now hand over to Brian, who will take you through CIB's performance.

Brian Kennedy - *Nedbank Group Limited - Managing Executive of Nedbank Corporate and Investment Banking*

Thank you, Raisibe, and good afternoon, everybody. The CIB franchise continues to yield positive returns through its ability to grow revenue and PPOP in a slow economic environment. This revenue growth, combined with proactive risk management as well as cost containment, has produced growth in headline earnings of 3% to ZAR 3,296 billion. We have maintained a leading efficiency ratio, improving to 40.9% as we navigate our business through a challenging and slow-growing economy.

Cost growth was also well managed at 3.6%, notwithstanding significant investment in systems and platforms as we capitalize on digital opportunities to ensure an improved client experience.

ROEs maintained above our target of 20% despite allocated capital increasing 6.6%, primarily due to rating migrations during this period.

The dotted line on the top left-hand side shows that ROE has remained consistent, above 20% over time, when restated using the current methodology. We have a well-developed network shown on the right-hand side, which enables us to provide our clients with access to global flows, capital pools and investment opportunities.

Given uncertain macro environment, we have maintained our market share of new business, while seeing delayed or postponed corporate investment, early repayments as well as delays in projects and drawdowns, resulting in total average loans and advances decreasing 3% for the period.

Banking average advances were down 5% to ZAR 176 billion, mainly due to early repayments as mentioned before. ZAR 28 billion of our repayments were unscheduled. We have had drawdowns of ZAR 64 billion of leading deals in investment banking and property finance during the first half, positioning us to be a significant debt provider to corporate South Africa. Some of these deals are displayed in the booklet slide. Furthermore, we have made progress into Africa with 7 deals concluded during the first half, including the government of Kenya. Our pipeline remains strong with momentum expected to increase in the second half.

On a positive note, property finance continued to grow average advances, increasing the book by 4% to ZAR 142 billion, maintaining a strong position with a market share of about 33%.

CIB has achieved the top ranking in the Bloomberg Underwriter Rankings for both volume and value in DCM during the first half of the year.

One of the positive features in this set of results is the low credit loss ratio of 1 basis point. This is a function of the quality of the book as well as proactive risk management by our multidisciplinary teams that resulted in many successful restructures and resolutions of distressed exposures. In the current climate, it's comforting to note that 73% of lending book is investment grade. Margins have been maintained at 213 basis points despite the increased levels of competition in the marketplace in the hunt for quality assets. Additional detail on the property portfolio has been included in the booklet slide.

Our defaulted advances increased to 1.5% of total advances as a result of a number of distressed restructures in the last quarter. These exposures are mainly involved in either corporate action at present or still need to evidence performance under the restructure before being reclassified within the performing book. Even though the specific coverage ratio decreased to 14.1%, we believe that we are adequately provisioned on a defaulted book given the security that we hold in the form of physical assets and guarantees.

Another positive feature was NRR growth of 14.4% year-on-year, improving the NIR expense ratio to 127.9%. We had favorable market liquidity and flows in the first quarter but subdued market conditions in the second quarter, resulting in good trading revenue growth of 6%. The market's business has grown strongly over the last 4 years with a CAGR of 14%. Increased cross-sell has been evident across CIB.

Commission and fees increased 7%, mainly due to advisory fees in RB, coupled with successful primary client wins and retention of top-tier clients and coverage. Private equity and other income was strongly up to ZAR 445 million, mainly due to higher investment income in property investing and dividend income in the investment bank.

NIR generation in CIB has been a key focus area, and you will notice the very positive trend line of NIR to advances in red on the top left-hand side, currently up to 2.25%.

Turning to prospects. We continue to start to serve our clients better through greater client insights and creating and executing unique client solutions. The pipeline is strong, and the second half is off to a good start with ZAR 12 billion of renewable energies deals closed during the month of July. The momentum in our transactional and working capital franchise is evident and remains a core focus area. We continue to attract talent in key growth areas, such as private equity and Africa sector financing, including property finance.

We expect 2018 headline earnings growth to be in line with normal GDP growth, and our 2020 targets remain an ROE greater than 20% and the cost to income ratio of less than 40%.

In closing, I'm confident that the strategy we have in place for CIB is setting us up for continued long-term success.

Thank you, and I will now hand over to Ciko to do RBB.

Ciko Thomas - *Nedbank Group Limited - Managing Executive of Retail and Business Banking*

Thank you, Brian, and good afternoon, everyone. Retail and Business Banking reported earnings growth of 1.5% and maintained ROE at 18.6% in what is an extremely challenging environment. RBB headline earnings have been impacted by IFRS 9 in '15, changes which were introduced in 2018. Adjusted for the impact of these changes, headline earnings increased by 4.5%. NII grew by 3.5%, impacted by margin compression in the deposits business in spite of pleasant growth in advances and deposits, with average advances growing by 5% driven by market share gains in MFC, in card and in personal loans.

Our household deposit balances grew by 8.5%, supporting ongoing gains in market share.

NIR grew at 6.1% on an interest consistent basis driven by gains in clients. We grew expenses at a judicious 3.7%. This is after including our investment in physical and digital distribution. This modest growth in expenses was achieved through ongoing focus on and on active cost management and efficiencies. The credit loss ratio is at 106 basis points. Adjusted for IFRS, it is 112 basis points. It continues to benefit from our quality book from our collection efforts and on our focus on resolutions.

Retail banking NIR grew at over 6% if adjusted for the impact of IFRS on our numbers with strong underlying growth in quality transactional revenues. Total IFRS adjusted transactional NIR is up by 8% on the prior year. This growth is despite the moderate increases in pricing. Growth has been driven by the 2.5% growth in overall main bank clients. It is also worth mentioning that the 2.5% growth level is underpinned by clients who continue to bank with us but at ever-pressured levels effectivity due to the tough macroeconomic environment.

Our main bank client numbers continue to grow and are up by 2.5%. They remain impacted by the tough macro environment, which continues to cause existing clients to fallout of our internal definitions of main banks. Most of the client segments have, however, shown growth in the year with only the youth segment having declined. Pleasingly, in these numbers, it is good to see the robust growth in the middle market segment in our numbers at 9%. We are confident for the youth and young and student market that the recently introduced Unlocked. Me banking proposition will address the decline.

We have enjoyed a very energizing last 6 months in our focus on innovation. In particular, we have landed some exciting and groundbreaking digital solutions in the market. Alongside these, we have also successfully launched several innovative products during the year. I have highlighted 3 of these on this slide. But before I talk to these, for me, the most exciting part has been the launch of several exciting and new-to-market features on our Nedbank money app. I have a slide that's coming that speaks to these.

Back to this slide. Some of the other exciting launches this year have been: one, the Stokvel proposition, an innovative and first-in-market product that aims to satisfy the real needs of the Stokvel community. Stokvels are important to the South African way of life for most South Africans and play a part in how individuals and communities save money in this country. And yet, they continue to be underserviced by banks, and this is why this solution is so exciting because it plugs a vital gap.

Secondly is Nedbank is MobiMoney, which was only launched last week. This is a USSD-based payment wallet platform that allows clients to receive and to send money; buy airtime and electricity from a cell phone and withdraw money at any Nedbank ATM or without a formal bank account and using nothing more than a simple feature phone.

Thirdly, Nedbank Online Banking was relaunched in April of this year and brings all the exciting functionality and user experience of the web -- of the app to the web.

A fourth innovation worth mentioning is the [Clever Tool], which we use for our frontline staff. Clever is a needs analysis tool designed to assist our staff have comprehensive and relevant conversations with our clients and do so on a consistent basis.

And now back to our exciting app. We launched the Money App in November of 2017. I'm proud to announce that we now have reached the 1 million mark for Money App downloads, with over 450,000 of our customers profiles downloaded. We have added 42 compelling services since the launch, some of these are never seen capabilities in South African banking. My personal favorite has to be the card freeze and unfreeze feature on the app, seeing that I have a habit of often misplacing my card. We have an ambitious plan to get a further 140-odd new services launched on the app by 2020, and we are well on our way to achieve this number.

Our digitally-enabled clients have increased dramatically since 2016, with a pleasing increase in digitally active clients, which now include clients that transact with us via the USSD string. We anticipate that we'll accelerate the growth in the number of active clients as we land new and relevant services onto the cross-spectrum of our digital platforms.

We have also seen pleasing growth in deposit volumes with our digital channels now contributing 58% of cash deposit volumes. On the top right of the slide, you can also see the growth in our self-service devices and channels. And then at the bottom, this is translated into the number of transactions with good traction being made in all of these.

There are currently 324 cost initiatives that we continue to track and deliver through our business transformation office and Retail and Business Banking against the 4 themes reflected on this slide. Back office optimization as a result of digitization is evidenced by the slowdown of net new branch rollouts.

We continue to make good progress on the organizational design in Retail and Business Banking, with a net headcount reduction of 1,325 over the last 18 months, all of which have been achieved through natural attrition.

ZAR 237 million of additional cost efficiencies were delivered in 2018. And further efficiencies will be harvested as we lend key enablement through our digital onboarding and servicing initiatives, our organizational redesign efforts and the continuing rollout of robotic processes as well as machine learning in our credit environment.

We have optimized our staffed points of presence by closing a net of 5 branches in the reporting period, whilst we continue to maintain our coverage of the bankable population at 84%. We are well on track to reduce more than our target of 30,000 square meters, which is 10% of total branch space, by the end of 2020, whilst we continue to improve our coverage of the market, which is a target we review consistently -- continuously.

We have set ourselves a target to get to an efficiency ratio of less than 58% by 2020. As you can see from this slide, this will be achieved through more than just one lever and includes a focus on efficiencies, on active clients -- client and advances growth as well as some benefits that we hope to get from endowments.

In Business Banking, we have delivered good growth, with headline earnings increasing 7,6% to ZAR 736 million, whilst maintaining a strong ROE of 24,2%. These results have been delivered despite the slow economy growth, which has seen lower levels of business confidence with owners of businesses delaying key investment decisions as they manage their cash flows more carefully. Notwithstanding these economic factors, average advances growth is up 6,1%, driven largely due to an 18,7% increase in new loan payouts of ZAR 11,4 billion, coupled with an increase in client drawdowns of existing facilities.

And finally, moving on to prospects for the rest of 2018 and beyond. Our focus still remains to grow transactional clients faster than the market through a focus on acquisition, retention and cross-sell, driven by our now familiar 4 strategic levers.

Again, I'll remind what these are. They are: digital first and being first in digital; disruptive CVPs, or client value propositions; sales and service excellence and a loyalty and rewards program. We have added a fifth lever in this reporting period, which speaks to a focused elevated -- sorry, elevated focus on data as a key strategic enabler. For 2018, our target remains to grow headline earnings in line with nominal GDP. Our 2020 targets of delivering a ROE greater than 20% and a cost-to-income ratio of below 58% remain and they are to be enabled by improved client experience, transactional market share gains, continued origination, or quality origination, and operational efficiencies, driven, in part, by increasing adoption of robotic process automation.

Thank you very much, ladies and gentlemen, and I'd like to hand over to Iolanda.

Iolanda Ruggiero - *Nedbank Group Limited - Managing Executive of Nedbank Wealth*

Thank you, Ciko, and good afternoon, everyone. Nedbank Wealth's headline earnings remained steady at ZAR 519 million, impacted primarily by prevailing economic and market conditions as well as negative investor sentiment. ROE declined to 25.4% as a result of an increase in allocated capital. These results are attributable to reasonable performance in asset management, insurance and Wealth Management International, offset by a decline in earnings in Wealth Management Local, impacted by the tough environment.

Taking a look at our divisional performance. Wealth Management's headline earnings declined by 7.9%. A strong international performance was offset by a weaker local performance impacted by lower portfolio management fees and gross commission earned as a result of a difficult economic and market environment. Overall, Wealth Management had moderate balance sheet growth with liabilities up 4.3% and advances up 5.5%. Our integrated international proposition continues to attract new clients as well as an increase in net client cash flows, as reflected in the bottom left-hand graph.

Nedbank Private Wealth continues to be recognized as a top wealth manager with numerous awards, which demonstrates our commitment to delivering exceptional client experiences. To mention a few, locally Nedbank Private Wealth won first place for Philanthropic Advice in the Annual Euromoney Private Banking and Wealth Management Survey. The Nedbank Private Wealth app was rated sixth worldwide in MyPrivateBanking Research review. Internationally, Nedbank Private Wealth won the award for Best U.K. Private Bank for the fourth consecutive year at the City of London Wealth Management Awards.

Turning to asset management. Despite the challenging environment, our asset management business increased its headline earnings by 5.1%. Nedgroup Investments also maintained its top 3 ranking in offshore management companies in SA in the recent PlexCrown Unit Trust Survey and is ranked fourth-largest local and third-largest offshore unit trust manager in SA.

The negative investor sentiment put pressure on the industry in the first half of the year, resulting in net outflows of ZAR 3 billion, however, still achieving good AUM growth of 6.4% to ZAR 314.2 billion. The business continues to see strong growth in passive, international and cash solutions.

Moving on to insurance. Insurance earnings increased 0.9%. These results were supported by lower claims experienced in homeowner cover relative to the catastrophic weather events experienced in the prior year as well as lower business strain in the funeral book. Prior year results also benefited from a release of reserves after an actuarial review.

Life value of new business grew 16.9% to ZAR 173 million. This was mainly due to an increase in credit life policy volumes and premiums, partially offset by higher lapses across all product groups and lower levels of single investment premium policies, following the high growth experienced in prior years. Nonlife insurance gross written premiums grew marginally by 1.5% to ZAR 616 million. And life embedded value decreased by 4.3% to ZAR 2.7 billion after taking into account a dividend payment.

Taking a look at recent developments to enhance client experience. We have continued to focus on developing innovative market-leading solutions to enhance our client experiences. In Wealth Management, the Nedbank Private Wealth app is frequently updated with enhancements to include new features and functionalities in order to maintain its gold standard. Nedgroup Investments has continued to improve its chatbot EVA, and recently won the FT Banker magazine Tech Project Award in the AI and Robotics category for its robo-advice solution. We have made significant strides towards digitizing business processes and recently improved the onboarding process to be completely paperless and can be done in under 3 minutes.

And finally, in insurance, recent improvements in our chatbot, NIC, include a live agent service functionality and funeral quoting capabilities. Our geyser telemetry pilot has been successful and will be now increased to 500 users. Insurance has also completed a key phase in the journey of implementing the single-policy administration system for both life and nonlife insurance. This initiative supports our vision of building a more effective operating environment while enhancing our ability to deliver better client experience.

And finally, turning to prospects. We anticipate the second half of the year to remain challenging with continued lower investor confidence. We will continue to improve on client experience through digital innovation and enhanced value propositions. A top priority remains providing long-term performance in investments and driving market share across all of our offerings.

And lastly, we will continue to explore new opportunities for growth and deepen collaboration within the group. For the remainder of 2018, we anticipate headline earnings in line with nominal GDP, dependent on market and investor sentiment. And our 2020 targets remain ambitious with ROE of more than 30% and a cost-to-income ratio of less than 60%.

It now it gives me pleasure to hand over to Mfundo.

Mfundo Clement Nkuhlu - *Nedbank Group Limited - COO & Executive Director*

Thank you, Iolanda. The Rest of Africa delivered strong growth in headline earnings, turning around a loss of ZAR 1,1 billion in H1 of 2017 to positive earnings of ZAR 245 million in H1 of 2018.

Preprovisioning operating profit increased by 41% to ZAR 205 million. The improvement in performance was driven by turnaround in ETI, which has now recorded 6 consecutive quarters of profitability and revenue uplift in all SADC subsidiaries that was partially offset by a higher impairment charge with a credit loss ratio of 199 -- 109 basis points, falling outside the upper bend of the target range.

Allocated economic capital increased by 19%, well ahead of growth in advances, driven, in part, by the ratings of sovereign assets in our models. This resulted in an ROE of 7,6%, an improvement on the negative ROE of 2,4% in H1 of 2017, but still well below our target of greater than cost of equity.

(inaudible) business operations grew earnings by 59% to ZAR 111 million. Average advances were up 3,7% in an environment of subdued economic growth with excess liquidity invested in sovereign assets. Average deposits declined by 2,2% due to selective origination of liabilities and foreign currency liquidity shortages in Zimbabwe and Mozambique.

Net interest margin widened by 53 basis points to 7,62%, reflecting the present benefits of investing in higher interest-earning treasury bills. This resulted in NII growth of 7%.

Noninterest revenue grew by 12% to ZAR 546 million, showing the combined positive effects of new client growth of 6%, driven, in part, by the Nedbank [At Work] initiative and the successful implementation of value-added services, such as mobile banking, prepaid air time and electricity, following the investment in core banking technology system.

In SADC, we have also focused on growing our revenues while containing costs with operating income increasing at 7,1% ahead of the 4% growth in costs. We made good progress in growing client numbers, lifting by 6% to underpinning the growth in noninterest revenues. As part of the digital delivery, mobile app transactions increased by 146% and point-of-sale devices deployed in the market were up 65%. On the cost side, we'll optimize the headcount with staff numbers growing by 3,6%. The number of branches and ATMs grew by 8% and 14%, respectively, as we rightsized our distribution infrastructure.

On delivering improved client experiences. In the city in Malawi, as in other geographies, we delivered value-added services, such as prepaid air time and electricity solutions to provide convenience to clients. In Zimbabwe, we rebranded our business to Nedbank and benefited in client growth as we experienced flight to quality.

Banco -- in Mozambique, Banco Único launched a social app that allows our clients to manage transactions within their network of family, friends and [all] savings groups. Banco Único recently won the International Finance Magazine Award for being the Best Consumer Internet Bank in Mozambique for 2018, the fifth consecutive year it has achieved this accolade.

In support of client-focused initiatives and to improve business capabilities, in March of this year, we completed the implementation of the Flexcube core banking project when we delivered the system in Zimbabwe, the last of 5 countries to do so. The focus now is on post-implementation remediation to enhance the stability of this system and to roll out value-added services and digital banking solution for the benefit of clients.

We have refined our business risk appetite and devolved credit decision mandates, as we improve risk management capability.

Automated client onboarding is reducing the time it takes to on board new clients as customer processes and client convenience improve.

ETI delivered 6 consecutive quarters of profitability as the turnaround gained traction. This has vindicated the strategic choice to fix the investment and recover value. In H1 2018, ETI reported a 28% increase in attributable income to USD 135 million. Given that we report ETI a quarter in arrears, this translates in our H1 2018 headline earnings of -- it translates to headline earnings of ZAR 134 million in our H1 of 2018, net of funding costs. With ETI having publicly reported its quarter 2 2018 earnings, we estimate that this will give us associate income of ZAR 162 million in quarter 3, assuming an exchange rate of ZAR 13.27 to the U.S. dollar. This performance was driven largely by a 35% drop in impairments as credit risk management improved.

The advances book slowed by 7%. However, the nonperforming loans remained elevated at 9,6%, underscoring the persistent challenges in collections and recoveries.

Customer deposits grew by 12%, and NII was up 3%, as interest rates declined in both Ghana and Nigeria.

NIR declined by [3%] with trading revenues down 20% as FX volatility reduced. But transactional income grew strongly with cash management up 30% and [CAD] revenues up 19%.

Investment in digital is progressing well with over 7 million customers onboarded on the Ecobank mobile app, providing access to new transactional revenue streams. Of course, we are well managed, growing only by 2%.

Collaboration with ETI continues to gain traction with over 90 Nedbank clients having opened 200 new accounts at Ecobank. Increased trading and treasury activities have resulted in improved business flows, and there's further scope for these activities to grow even stronger.

More recently, we have partnered with Ecobank to launch an integrated cross-border remittance transfer solution that allows Nedbank app -- Nedbank Money App users to transfer money to an Ecobank account in 33 countries. In the coming phases, we'll be expanding the remittance transfer solution across all our subsidiaries in SADC.

Nedbank Private Wealth has started to work with Ecobank on a financial planning initiative. Nigeria was the first country selected for developing a financial planning business. And for referral to Nedbank of clients in existing Ecobank territories. This will be expanded into Ghana, Cote d'Ivoire and Senegal in the second half of the year.

Turning to prospects. The IMF has forecast a GDP in Sub-Saharan Africa with a rise to 3,3% in 2018 from 2,9% in 2017. But high debt levels and currency depreciation pose threats to recovery. Looking ahead, the prospects for the Rest of Africa are positive and they will sustain the momentum and business performance for the rest of the year.

In the southern businesses, we will continue to improve client experience and provide optimal solutions, delivered through a digitally driven fit-for-purpose operating model. We will continue to upgrade operational risk controls and regulatory compliance to underlying the sustainability of improving business performance. In our engagement with ETI, the focus will be to support the board in driving the strategic agenda and work with management to leverage the investment by unlocking opportunities to increase business flows.

The turnaround in our Rest of Africa franchise is well underway, and the business will be a material contributor to the group's full year earnings growth in 2018. Our business performance in Africa is on track to provide us with earnings growth and income diversification. We remain committed to achieving our 2020 targets of returns greater than the cost of equity and the cost-to-income ratio of less than or equal to 60%.

Thank you, and I turn it back to Mike.

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Great. Thanks very much, Mfundo. So now having spent much of the presentation, looking backwards over the first half of the year, I'm going to conclude now by looking forwards towards the end of the year and beyond.

So this table sets out our forecast for the key macroeconomic data for the period ahead. And as you can see, GDP growth remains low in both South Africa and Sub-Saharan Africa. And our forecast for SA GDP growth now suggests disappointingly low growth of only 1% and in fact, lower growth in 2018 than we saw in 2017, with Sub-Saharan Africa growth forecast to be around about 3x that of South Africa.

As a consequence of this sort of macro environment, we think that client activity should improve off a low base with some uptick expected in wholesale leading to higher levels of asset growth and revenue generation as we move into the second half of this year and more strongly so, into 2019 and '20. Inflation is expected to remain well within the Reserve Bank target ranges. And as a result, interest rates are expected to remain stable, meaning that the impairment cycle should remain benign.

On the strategy front, our central focus at the top of this slide is on creating great client experiences and as a consequence, growing our client base faster than the market.

We aim to deliver this through on the left-hand side, our investments in technology, supported by our Managed Evolution and Digital Fast Lane programs as well as on the right-hand side, our investments in people, talent, culture and brand. These are delivered through our target operating model, and that is starting to develop to generate benefits. I said in my initial slides, we now have about 500 people working under new ways of work, and we expect to have 1,500 by the end of this year. We are definitely delivering innovations to our customers faster and cheaper than before, and we remain on track to deliver ZAR 1.2 billion of savings as a consequence of our target operating model by 2020.

The benefits of these strategies are becoming more evident in Nedbank growing our client numbers across all of our franchises as well as simultaneously improving on efficiencies.

At our 2017 results announcement, we announced that these strategic enablers should assist us to deliver our 2020 financial targets of a return on equity, excluding goodwill, greater than 18% and a cost-to-income ratio of less than 53%.

In each of the presentations, you've heard from our [custom] management executives, they've touched on what's being delivered in the client experience front. So right at the top of this slide, in the last 6 months. And on the right-hand side, you can see a number of exciting developments that we have planned to release in the second half of this year to ensure that we continue to accelerate our client growth.

Turning now to the Old Mutual managed separation process, the strategy of Old Mutual plc that was announced in March 2016. So following the delisting of Old Mutual plc, Old Mutual Limited, or OML as I'll refer to it, successfully listed on the Johannesburg Stock Exchange as a primary listing and the London Stock Exchange as a secondary listing on the 26th of June this year. We are closely monitoring the changes in the OML shareholder base. And after a suitable period, which we estimate to be within 6 months of the listing of OML, OML is expected to unbundle the majority of its shares in Nedbank, so as to retain a 19.9% strategic minority investment to underpin our ongoing commercial collaboration. This period, post the Old Mutual listing, should provide adequate time for the OML shareholder base to transition to be one that is South African and emerging markets focused and mandated. As a reminder, Old Mutual does not intend to sell any of its shareholding in Nedbank to a new strategic investor.

As a consequence of the unbundling, the Nedbank free float will improve from about 45% to about 80%, enabling increased holdings from a number of so-called tracker and hugger funds, and we have also suitably increased our levels of investor engagement leading up to the unbundling.

Also importantly, as we have consistently communicated, for Nedbank, it is largely business as usual, and the managed separation has had no impact on our strategy, staff, clients or operations. We have not integrated our systems or brands, and our collaboration is on an (inaudible) basis overseen independent board structures.

Turning to the usual format of the guidance that we provide. For the full year ahead, based on the macroeconomic conditions that are highlighted on a previous slide as well as the progress that we have made in the first half of this year.

Starting in the top left for net interest income. We expect average interest earning banking assets to grow below nominal GDP growth. So if GDP is 1% and inflation's around about 4% or 5%, so it's below 5% or 6%, and we have revised this down from our previous estimates of around nominal GDP, mostly as wholesale growth has been slower than expected in the first half and is only expected to pick up in the second half. And generally speaking, advances growth across the industry has been slower than we expected it to be when we gave our initial forecast at the beginning of the year.

We continue to expect a slight increase in the net interest margin from the 2017 levels from both a favorable asset mix, as retail grows faster than wholesale, as well as improvements in funding costs, and this is no change to the guidance that we gave at the beginning of the year.

On the credit loss ratio, we have a high-quality advances portfolio, and while we do expect there to be a gradual increase in our credit loss ratio from these low levels, we now expect that for the full year, it will remain below the bottom end of our target range of 60 to 100 basis points. And this is a better outcome than we had previously anticipated.

On noninterest revenue, we expect growth above mid-single digits, and there's no change to that guidance.

On associate income, as we saw in the first half, the turnaround in ETI from their 2017 base continues to be the largest contributor to earnings growth. And now that they've published their full first half numbers, our third quarter number is more certain, as Mfundo showed you earlier. So we still expect, for the year, that the turnaround of the ETI will be the largest contributor to Nedbank's overall earnings growth for the full year.

Finally, on expenses. We strive really hard to balance investment with optimization. And we're now targeting expense growth below mid-single digits, as we benefit from the postretirement medical aid credits and also focus on efficiencies across our business, primarily as a result of our investments in technology. So this is slightly lower expense growth than we would've expected at the beginning of the year.

So if you put all of this together, we have maintained our full year guidance for growth in diluted headline earnings per share to be greater than or equal to nominal GDP plus 5%. So no change in the full year guidance.

In conclusion, we do believe that Nedbank offers an attractive investment opportunity as we grow and make progress in building a bank that is more client-focused, more digital, more agile and more competitive. We are well placed to benefit from the economic turnaround underway in South Africa and the Rest of Africa, even if these are slower than we would like them to be. You've seen that our balance sheet is strong, both in capital and liquidity terms, and that provides a very solid foundation for future growth, particularly if wholesale asset growth increases as we expect. The closing of the round 4 of the renewable energy deals, which took place in July and August, is a really good start to the second half, and Nedbank's earnings and returns should also continue to benefit from the ongoing turnaround in ETI.

As you've heard from all of our custom managing executives, we have growing franchises. We've improved market share in most of them. And we have clear strategy and plans in place, focusing on customer experiences, enabled by technology and people.

Ongoing delivery against these strategy and plans, we believe, means that we remain on track to deliver our 2020 targets in terms of both return on equity and the cost-to-income ratio. Our foundations at Nedbank, together with the hard work of our 30,000 people to support our customers, should deliver ongoing shareholder value creation, both during and after the managed separation from Old Mutual is completed in the upcoming months.

So just finally, before we move to questions and answers, I'd like to specifically congratulate Raisibe Morathi and the finance teams across the bank on 2 first-place reporting awards that we won recently for the quality of our financial reporting, and we hope that you enjoy the really thick booklet that we have left with you. The Investment Analysts Society, Mike, so that's from your guys. We won first place for financial reporting in the banking category. And then last week, from Ernst & Young, we were placed first in the integrated report category for 2017.

So we're going to start with taking questions here in the auditorium. And then we'll move up for any questions on the phone and the web. If you want to raise a question, please raise your hand. We'll bring a microphone to you. If you could just state your name and your organization and then continue with the questions.

QUESTIONS AND ANSWERS

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

I had a bet with my executive team that Charles would be the first question.

Charles L. Russell - *Citigroup Inc, Research Division - Director*

Well, then, you won your bet. Yes, it's is Charles here from Citi. Two questions, if I may. The first one relates to Slide 6 where you show the uptick in consumer confidence in Q1. The question is, whether or not you see any change in credit demand or higher-credit applications on the back of that? And then the second question relates to CIB, you mentioned [trouble] exposures in construction and cement can we take that to mean that you're not concerned about exposures in the Retail sector locally and internationally as well as SOEs?

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Okay, thanks, Charles. I'll take the first question, and then Brian can deal with the second question. So what we try to do, and I'll just see if I can jump back to the slides here, if you don't mind. Takes a while to get through these slides. What I tried to do in my initial slides was try and point out the increases that we've seen in -- I'll get there in a second. Yes, this slide here. So really, as a consequence of that increase that you saw in consumer confidence. If I start on the top left-hand corner, what we're showing here is that increases in application volumes in personal loans, relatively slow at 1%. But payouts up 33%. If you look at vehicle finance, we've had strong increase in application volumes, 10%, so I think there's some confidence underneath that; and 17% increase in payouts; and home loans, 16% increase in application volumes but payouts, in fact, dropped. And Business Banking, which, I guess, is a little bit of a mix, we've had a decent increase, in fact, in payouts. So I think there is some underlying increase in activity on the Retail side of our business as a consequence of that increase in consumer confidence. And we do think that will sustain the loan growth rates that we've seen in the first half of around mid-single-digit levels.

Brian, do you want to deal with the credit issues and CIB?

Brian Kennedy - *Nedbank Group Limited - Managing Executive of Nedbank Corporate and Investment Banking*

Thanks, Mike, and thanks, Charles, for that question. So I think the best way to answer is, if you go to Page 45 -- Slide 45, which is a booklet slide. You will see there -- so that's on Page 24 of the deck, and it's Slide 45, booklet slide. We list the sectors that you specifically mentioned, state owned entities, retailers and construction and in our view of our book, we think, in all of those sectors, the migration risk is high, which means we can take some more provisions, but we believe the downside risk in all of those is medium, which means that we think currently, we adequately provided.

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Right. Any other questions here in Johannesburg?

Harry Botha - *Avior Capital Markets (Pty) Ltd. - Banks Analyst*

It's Harry Botha from Avior Capital Markets. Two questions, please. One is around the target you have for the cost-to-income ratio by 2020. If we were remain in a low-growth economic environment, do you think that is still achievable? And just on those rating migrations in the CIB business, does -- do your comments also apply historically, the rate of migrations that we did see come through already?

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Okay. So I'll probably have a go at the first one, then Brian, if you want to come back at the second one? So I think the targets that we've set, we think, are achievable off the macroeconomic forecast that I put out on my slide, which is still relatively low rates of GDP growth. If you have a look at -- that's expecting, I think, GDP growth in 2020 to be 2.2%, which is still relatively low. Clearly, if GDP growth is even lower than that, and as a consequence, maybe interest rates are lower or cut and we don't get any endowment benefit, which also helps a little bit in the cost-to-income ratios, those ratios will be much harder to achieve. So as we sit here, of these forecasts, we believe we can achieve them. But if the environment changes materially, we certainly wouldn't damage the business in the short term merely to achieve a target.

All right, Brian, do you want to talk about CIB?

Brian Kennedy - *Nedbank Group Limited - Managing Executive of Nedbank Corporate and Investment Banking*

So again to -- if I understood the question on those 3 sectors, whether we had rating migration during the first 6 months and have taken additional provisions because of that. In most cases, that is indeed the case. Does that answer the question?

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Okay. Were still here in Johannesburg for any other questions. All right. If you can then move -- do we go first to the web? Are there any questions from the web?

Unidentified Company Representative

No questions from the webcast, Mike.

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Any questions on the phones?

Operator

There are no questions from the lines.

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Okay, if you could go ahead?

Operator

There are no questions from the lines.

Michael William Thomas Brown - *Nedbank Group Limited - Chief Executive & Executive Director*

Oh, no questions from the lines. Okay. All right, last chance here in Johannesburg. Otherwise, certainly the executives will remain behind afterwards to take any questions people have.

All right. So thanks very much for joining us. And I'm sure there are some drinks and snacks waiting for you outside. Appreciate it.
