

Barclays Africa Group full year results presentation

for the period ended 31 December 2016

23 February 2017

Maria Ramos, Chief Executive Officer

Good morning and welcome. Thank you for joining us for the presentation of our full year results for 2016. I will shortly be asking Jason Quinn, our Finance Director to share the details.

Today, we mark a milestone in the development of Barclays Africa. In 2013 I said that Barclays Africa was much more than a name. It was an ambition. I set a number of goals, confident that we were executing the right strategy and with the right plan in place.

The creation of the Barclays Africa Group was a crucial strategy play. It created the platform for us to develop this franchise. It has given us a significant footprint across Africa. We set out a vision to create a proudly African bank. Three years on, I believe we are delivering on this ambition. Today, I want to demonstrate how we have been building on this foundation and creating further momentum and opportunity as we grow our business.

Let me remind you of the key foundation blocks we have put in place which at the time, I described as a process of turnaround and transformation.

Retail and Business Banking

First, a priority was the turnaround of our Retail and Business Banking franchise in South Africa. It is our biggest market and RBB is the bedrock of our business. From a deteriorating position a few years ago, we have transformed RBB's performance, stemmed losses and added 2.5 million new customers to the bank, generating strong returns. It's evidence of the successful execution against our strategy..

Corporate Banking

Second, I stated that our intention was to significantly invest in Corporate Banking across the continent and to close the gap with other leading banks in our markets. Today our Corporate Bank is achieving double digit revenue growth. Importantly the Rest of Africa now contributes approximately half of CIB's headline earnings. It's evidence of the momentum we are generating.

Wealth, Investment Management and Insurance

Third, I said that we would seize the opportunity in Wealth, Investment Management and Insurance (WIMI), especially in the expansion of our insurance business. We have comprehensively restructured WIMI, making acquisitions and selling non-core operations. Today, WIMI is a fully integrated business achieving an attractive 24% ROE. It's further evidence of the momentum we are building.

Infrastructure

Fourth, we set out to invest in our infrastructure. At the time, I described it as a transformational investment programme. Over and above our annualised spend on IT infrastructure, we have invested an incremental R3 billion over the last three years to improve our IT, and the service we offer customers across the continent. We are investing in innovation and creating new ways for customers to access our services.

World's first chat banking platform

We have even created the world's first chat-banking platform, which we launched on Facebook Messenger, and a South African first on Twitter. If you haven't already done so, log on and try it! It's evidence of the momentum we are creating for the future.

These building blocks have all added to the momentum in our business performance:

- We now have a balance sheet of over a trillion rand with strong levels of capital and liquidity.
- Our return on equity has increased since 2013.
- Our cost to income ratio has improved, year on year.
- We have realised our objective of growing the proportion of revenue we receive from Rest of Africa.
- Our earnings performance has been resilient throughout.
- And, we have continued to provide good dividend growth.

In summary, we are delivering on what we set out to do, building momentum behind our vision.

PLC shareholding

Exactly 12 months ago, Barclays PLC decided to reduce its shareholding in Barclays Africa. While the decision was not of our making, as I said at the time, I believe it represents a huge opportunity to accelerate our vision to be a pan-African bank, with our destiny firmly in our own hands. As part of this process we have been negotiating the terms of the separation. We have now completed this work and have reached an agreement, subject to regulatory approvals.

This provides for contributions by Barclays PLC totalling GBP 765 m: primarily to fund the investments required for Barclays Africa Group to separate from Barclays PLC. Jason will provide more detailed comment on this later. This is a good outcome and enables us to complete the separation and provide certainty to our stakeholders. We will invest in technology and in re-branding over time. We have also set up dedicated teams to manage the separation.

Currently we are progressing the regulatory approvals that will pave the way for Barclays PLC to reduce its shareholding. We continue to work closely with our Board and our regulators to ensure that the separation is managed in an appropriate way. An important feature of our discussions has been the provision for a broad based black economic empowerment scheme. Whilst the full details are still under consideration, I am pleased to announce that Barclays PLC has agreed to contribute an amount equivalent to 1.5% of Barclays Africa market capitalization, based on BAGL's closing share price on 31st December 2016, towards the establishment of such a scheme. Alongside a broad based black economic empowerment scheme we also plan to create an equity proposition for our employees in the next 12 to 18 months. This will give our people the opportunity to benefit from share ownership, and to share in the future growth of our business. Both these schemes will help us build an ownership-based, entrepreneurial culture that goes to the heart of our commitment to the communities we serve.

Let me now turn to our 2016 results.

- I am pleased to say that our 2016 performance has been resilient as we sustained the positive direction outlined in our three year plan. Group headline earnings increased 5% as growth in revenue and continued cost discipline saw income outpacing cost increases. Headline earnings from the Rest of Africa grew 17% with South Africa lower at 2%.
- We achieved revenue growth of 8% overall, underpinned by a consistently strong contribution from our Rest of Africa business, partially offsetting the lower revenue growth from our South African market.
- Contribution to total group revenue from the Rest of Africa grew to 23 per cent year-on-year
- Our cost-to-income ratio improved from 56% in 2015 to 55.2% last year.

Our performance over the past year was, to an extent, hindered by the weakening economic conditions across the continent as well as market volatility brought about by global events such as Brexit. The fact that these events did not throw us off track is testament to the strength and resilience of our strategy.

As these financial results demonstrate, we are now a very different business to the one we started in 2013. Our ambition, my ambition, remains the same and undiminished. We are building a great pan-African bank with the potential to unlock the real opportunities and competitive advantages we enjoy.

- In our [Retail and Business Bank](#), we are focused on growing across all our markets as we believe we can capture further opportunities, paying particular attention to the core middle market customer segment.
- In [Corporate Banking](#), the last three years have demonstrated significant growth opportunities. We believe that there are further opportunities to expand our Corporate and Markets business, and we have the depth and expertise to do so.
- And in [WIMI](#), we continue to benefit from the closer co-operation with our Retail and Corporate Banking businesses. WIMI also benefits from investments in its footprint outside South Africa and its asset management business. We are now focused on extracting the full value from our investments in technology and in markets outside South Africa.

These businesses benefit from their longstanding presence and knowledge across our markets. It gives them a deep insight into customer needs and local conditions. This means that we combine pan-African and very local understanding. It's a source of competitive advantage.

I have talked of the momentum we now have, but for this to continue there are a number of other factors that are critical:

[Effective leadership](#) for any business is a prerequisite. At Barclays Africa we have recognised the need to grow and broaden our leadership. We are investing in our people across the business but I have also restructured the top team. With David Hodnett now running our South African business, Peter Matlare heading our Rest of Africa operations, Nomkhita Nqweni leading our WIMI business, and with a strengthened Exco, we have the right people in the right jobs to provide strategic focus and take the business forward.

[Culture and Values](#) are a fundamental part of our DNA. They need to be nurtured and shaped. How we conduct ourselves is for me, non-negotiable.

We take the issues raised in the SACC referral extremely seriously, and will continue to cooperate with the SACC.

We deeply regret that this conduct took place within our organisation. It is unacceptable and incompatible with our purpose and values. I want to assure our customers, clients and colleagues that we remain committed to ensuring that we conduct ourselves in accordance with both the law and our values. Those who are found to have contravened our rules of conduct will, in due course, be held accountable. We will continue to take all the necessary steps to ensure that this conduct cannot be repeated.

At the heart of our culture is a philosophy and a deeply held belief in Shared Growth. Let me explain what this means for us. It means delivering client and customer solutions that address their current and future needs. It also means an employee culture that places our clients, customers and communities at the centre of everything we do. We take our role as a pan-African bank very seriously and are investing in education and entrepreneurship across the continent. This year alone we are committing R210m to fund 3000 university students. We also have an ongoing commitment to Financial Inclusion, providing wider access to disenfranchised communities. We have chosen these areas, as they are powerful enablers of growth and development.

In conclusion, I believe that our results today are evidence of the resilience and momentum that are hallmarks of our business:

- Resilience - in our ability to withstand economic headwinds and to remain un-diverted from our purpose, as we navigate the change in our controlling shareholder.
- Momentum - in our ability to unlock the full potential of our business, to seize opportunities and to be resolutely ambitious.

I believe Barclays Africa is now at another inflection point. We have already achieved so much. But we are now determined to maintain our hard-won momentum which is why our strategic targets remain unchanged.

Our destiny of becoming a proudly standalone pan-African bank is within our reach.

Jason Quinn, Group Finance Director

Thank you Maria.

A key feature of our financial performance has been the resilience we displayed and so, before delving into our numbers, I want to highlight 4 factors that impacted us in 2016. Firstly, economic growth remains low. South Africa's growth disappointed for the fourth consecutive year, with GDP increasing about 0.4%, well below the 1.8% we had forecast. Growth was also modest across our other presence countries, averaging 3.7%, the lowest for over a decade.

Secondly, currency fluctuations affected our results, particularly after the material rand weakness in December 2015. The translation impact was very noticeable in the first half, when rand depreciation increased Rest of Africa's earnings by 26% and its loans and deposits by 14% year-on-year. However, after rand strength in the second half, the spot rate reduced rest of Africa's loans and deposits by 13% year-on-year, while the average rate still added 9% to its earnings, or 1% at a group level. Regulatory changes also continued to impact our operations, earnings and balance sheet. For example, after lower interchange fees reduced retail's revenue by R300m in 2015, the net impact of the NCA introducing revised rate caps last May was over R300m of lower revenue, with a similar amount expected in 2017. Regulatory changes are also occurring in the rest of Africa, particularly Kenya.

Given these challenges, our resilient performance demonstrates the benefit of being a well-diversified group, both by activity and geography, and within and across our businesses. At a divisional level, CIB's strong earnings growth offset lower earnings from WIMI and RBB, our biggest franchise. And rest of Africa continues to grow faster than our South African earnings.

Pre-provision profit drove earnings growth

Against this backdrop, our 5% earnings growth and 16.6% RoE are a satisfactory outcome, particularly since we also dealt with a large single name exposure during the year. The shape of our income statement was largely as we guided. Revenue growth improved to 8%, which exceeded 6% higher operating expenses. Average rand weakness added 1% to both of these lines. Our positive operating JAWS meant pre-provision profits grew 10% to over R32bn. This enabled us to absorb 26% higher credit impairments, as we prudently added another R300m of macro overlays.

Maintained revenue growth in target areas ...

Despite the tough operating environment, we continue to grow revenue in several target areas. In the past 4 years, we have built a Markets business in the rest of Africa, which grew strongly. With revenue up 26% to R1.8bn, it contributes a third of CIB's total. We expect further growth here, particularly as our corporate flows increase medium-term. Corporate in South Africa maintained its double digit revenue growth to R4.5bn, with strong increases in term debt and working capital and we expect to continue to grow Corporate's non-interest income on the back of recent client acquisitions.

... including less capital-intensive activities

We also saw growth in some of our capital lite, fee generating activities. We remain Africa's largest card merchant acquirer, with volumes up 13% and our debit card volumes also increased 13%. In WIMI, our SA Life Insurance net premium income growth remains solid at 10%, with its embedded value of new business up 21%. This business produces attractive returns, as we focus on capital efficient lines.

Rest of Africa improved group net interest margin

Our net interest margin was better than we expected, rising 11 basis points to 4.92% and together with 7% higher average interest bearing assets, it generated 9% net interest income growth.

Our net interest margin has consistently improved from 4.46% in 2013, due largely to a better deposit margin and the contribution from the rest of Africa. As usual, there were several moving parts within our net interest margin worth noting. Unlike last year, our lending margins narrowed, due to regulatory changes, higher interest suspended and lower margins in Vehicle and Asset Finance, plus the mix impact of strong CIB loan growth at a lower margin than Retail. These outweighed improved Home Loan and Personal Loan margins.

Our deposit margin continued to widen, despite higher wholesale liquidity premiums. Our structural hedge released R268m, 11bps less than the R1.1bn in 2015, which offset the 10bps endowment uplift on capital and deposits. Rest of Africa's margin improved by 23bps, which together with its mix effect, added 10bps to our Group margin. However, the impact of some rate cuts, rand strength and regulatory changes were evident in the second half. Lastly, 'other' on the slide includes the benefit from 75bps of prime rate increases in the first half, and a substantial reduction in loans to banks. These outweighed higher borrowed funds and increased liquid assets. Increasing our liquidity coverage ratio cost us an additional R150m last year.

Loan growth across the group mixed ...

Loan growth varied considerably across the group. Starting with RBB in South Africa, Personal Loans grew 7%, given strong digital sales and a continued shift towards higher-quality customers. Vehicle and Asset Finance increased 4%, despite the 8% fall in the total vehicle finance market and 11% lower new car sales. We continue to benefit from partnerships and the shift to used cars, where our market share is higher than in new car sales. Our largest book, Home Loans, decreased 2% reflecting a 5% decline in industry registrations and our reduced share of new business, as we continue to concentrate on lower LTVs.

Card decreased 4%, due to new income verification requirements and a reduction in our Edcon book. Business Banking's book rose 9%, its strongest growth for several years, as commercial property finance increased 14% and Agri loans 13%. In total then, RBB's loans grew 1% in South Africa. Despite slowing noticeably in the second half, CIB's South African loans grew 13%, with high-quality new business across healthcare, technology, media, telcos and various industrial sectors. Growth was strong in target areas such as debt finance and trade loans. Rest of Africa's loans fell 12%, due entirely to rand strength, since it grew 1% in constant currency. The low 1% underlying growth reflected the difficult macro backdrop and us tightening lending criteria in personal loans. However, we had solid constant currency growth in mortgages of 8% and commercial loans of 12%. As a result, our total net customer loans grew 2% to R720bn, or 4% in constant currency.

... as balance sheet growth slows

Although our average balances increased reasonably last year, it is clear that our loan growth slowed in the second half, which will dampen our revenue growth into this year. Part of this was due to rand appreciation, as currency reduced rest of Africa's loans by 13% year-on-year, having added 14% to it in the first half. But our South African loan growth slowed to 3% annualized in the second half, with CIB's growth halving to 13%. Note that our deposits declined 2% last year, with South Africa growing 1% and the rest of Africa falling 15%, again largely due to the strong rand.

Strong Markets lifted non-interest income

Our revenue remains well balanced, with non-interest income at 48% of net revenue after credit impairments.

Non-interest income has a high annuity component, with fee and commissions growing 3% to almost R21bn and accounting for 68% of the total.

RBB's non-interest income increased 5%, with South Africa up 5%, as strong 11% Card growth offset low transactional revenue growth, as customers continue to migrate to cheaper products and digital channels. Business Banking's growth included 6% higher electronic banking and cheque account fees, offset by 2% lower cash-related fees.

RBB Rest of Africa reflects growth in active customer numbers and strong growth in acquiring and bancassurance.

CIB's non-interest revenue reflects strong growth in Markets, which increased 25% in total, with fixed income and credit up 51% and foreign exchange and commodities rising 21%, partly offset by 11% lower equities and prime services, and lower investment banking fees.

WIMI's non-interest income was adversely impacted by higher reserving in the rest of Africa, increased claims and new business strain, which offset solid underlying growth.

Efficiencies continue to fund investment

Our operating expenses grew 6% to R40bn, or 5% in constant currency, improving our cost-to-income ratio to 55.2% from 56.0%. The largest component, staff costs, increased 6% and accounted for 55% of the total. It rose less than inflation on a constant currency basis, in part due to our headcount declining 1%. Structural cost programmes continue to produce efficiency gains that allow us to invest in strategic initiatives. Property-related costs grew 5%, as we continue to optimize this portfolio.

We see further savings opportunities in our operations area, the rest of Africa cost base and technology, and remain focused on discretionary costs. A reduction in sponsorships decreased marketing by 9%, although our share of voice increased year on year and has more than doubled since 2013. Professional fees fell 5%, given less reliance on external service providers for IT development. We continue to invest in technology, as direct IT costs rose 38%. Our total IT spend, including staff and other costs, grew 17% and accounted for 19% of our expenses. Lastly, Amortisation of intangibles grew 35%, but remains relatively low.

Credit impairments rising ...

As we flagged last year, the credit cycle has turned, and our credit impairments grew 26% to almost R9bn, increasing our credit loss ratio from 92 basis points to 108. This is in line with our through-the-cycle expectation of 110 basis points, and when compared on a like-for-like basis to peers, our credit loss ratio was 104 basis points after excluding R300m of collection costs.

Our non-performing loans increased for the first time in many years to 3.9%. It rose across most portfolios, particularly CIB. Our specific NPL coverage improved to 44%, increasing in most categories, with only mortgages declining slightly, as we accelerated write offs in the legal book.

Looking at the components, our retail credit loss ratio in South Africa increased as the charges in Home Loans, VAF and Personal Loans normalised, while Card remained relatively low. We saw late arrears increasing, while early arrears improved reflecting our prudent credit granting and strong focus on collections.

Business Banking's credit loss ratio was stable, as our well-diversified agri book continued to perform well, despite South Africa experiencing its worst drought on record.

RBB Rest of Africa's credit loss ratio rose noticeably, largely due to scheme personal loans in two countries and a substantial increase in portfolio provisions.

CIB's charge increased materially, due to a large single name exposure in the first half. It had net recoveries in the second half, as a mining exposure improved. CIB's credit impairments decreased in the rest of Africa, because of the non-recurrence of a large single name exposure in the base.

... including continued portfolio provision build

We also built total portfolio provisions, which grew 19% to R6bn or 79bps of our performing loans, from 65. Macroeconomic overlays have more than doubled since 2014, increasing by an additional R300m this year to R1.4bn. Excluding the increase in our macro overlay and the single name exposure, our underlying credit loss ratio was only slightly higher than our charge in 2015.

Capital levels remain strong

Our balance sheet remains prudently positioned, with strong liquidity and capital levels, and sound provisioning. Our Group risk-weighted assets grew marginally to R704bn, in part due to higher counterparty risk RWAs. We remain capital generative, as earnings added 2.1% to our Common Equity Tier 1 ratio. Paying R8.5bn of ordinary dividends reduced our ratio by 1.3%, while our foreign currency reserve declined by R4.1bn, which was offset by the RWA reduction from the stronger rand. Our resulting

Common Equity Tier 1 ratio was 12.1%, which is well above the 11.5% top end of our Board target range. Positively, Absa Bank's CET1 ratio improved to 11.6% from 10.5%.

While we are still evaluating its likely impact, introducing IFRS 9 is expected to reduce our Common Equity Tier 1 next year, the quantum of which depends on final clarity regarding its implementation phasing. The Group's total capital ratio increased to 14.8%, at the top end of our board target range. Our strong capital levels enabled us to declare a 3% higher dividend per share, taking into consideration the challenging operating environment, our internal capital generation, strategy and growth plans.

Resilient returns considering higher credit costs

Looking at returns, our RoE declined slightly to 16.6% from 17, which is a resilient outcome considering the operating environment and our large single name credit impairment. Excluding the latter, our return on equity would have increased year-on-year. South Africa's RoE was 17.1%, while Rest of Africa banking improved to 15.8%. Our RoA decreased slightly to 1.34%, which is still similar to 2008's high of 1.38%.

A well diversified franchise

Moving to our divisional contributions, WIMI and RBB's returns remain above 20%, while CIB's improved noticeably despite its higher credit impairments. Our earnings remain well diversified. Although Retail Banking in South Africa generates 40% of group earnings, it is well diversified itself, and includes four large businesses.

CIB drove group earnings growth

CIB was the main driver of group growth, given 27% higher earnings, as 34% higher pre-provision profits absorbed significantly higher credit impairments. CIB's strong growth outweighed RBB and WIMI's slightly lower earnings.

Retail Banking SA navigating weak macros

Retail's earnings decreased 4% to R6.4bn, reflecting slightly negative operating JAWS and 14% higher credit impairments. It continues to benefit from having a diversified portfolio, as growth in Personal Loans, Card and our transactional business offset lower earnings in our secured lending operations.

Home Loans earnings declined 8% given 34% higher credit impairments and negative JAWS, while Vehicle and Asset Finance fell 25% due to lower revenue and rising credit impairments.

Despite the reduced NCA lending caps, Personal Loans grew revenue 14% and earnings 10%, while Card's earnings rose 3%, largely due to lower impairments. However, both slowed noticeably in the second half. Retail's Transactional and Deposits segment contributed 17% of group earnings, after growing 1%, in part due to its solid 7% deposit growth. However, its core transactional revenue grew 1%, reflecting flat total customer numbers, low fee increases, increased Rewards costs, and continued migration to cheaper value bundles and electronic channels.

While our total customer base was stable, we continue to grow our affluent and private bank base. Our middle market customers declined slightly, largely due to losing inactive transactional accounts and secondary customers with single credit products. Our mass customer base grew slightly, while our new youth product saw that segment grow strongly in the second half. Retail costs were well contained, although we increased spend on IT and revitalizing our digital channels, plus improving customer experience, which saw our net promoter score increase.

Scope to improve Business Banking SA growth

Business Banking South Africa's earnings grew 1%, to R2.1bn, as 5% higher pre-provision profits absorbed slightly higher credit impairments. Its revenue grew 6%, with underlying non-interest income up 3%, despite lower cheque payment volumes and cash-related income, as we migrated customers to digital channels. Our SME customer numbers continued to decline, largely due to closures of inactive accounts in the second half, while our Commercial customers remained stable. Positively, its loan growth improved to 9%, with solid growth in agri and commercial property finance. Customer migration to digital channels also reduced costs, which we continue to reinvest in systems and additional relationship managers. As I mentioned earlier, its credit loss ratio remained quite resilient.

Business Banking is a strong net provider of deposits to the group and continues to generate attractive returns, producing a 26% return on regulatory capital.

Corporate Bank underpins strong CIB growth

CIB delivered a strong performance, with revenue growing 17% and earnings increasing 27% to R5.1bn. We have spent several years moving CIB from an institutionally focused investment bank to a full service Corporate and Investment Bank. Corporate's earnings were bigger than our Investment Bank, after growing 44% to R2.7bn, on 18% revenue growth and lower credit impairments. We gained a number of mid-Corporate clients last year and won some large mandates in the retail and public sector.

CIB's rest of Africa earnings rose 43%, or 35% in constant currency, with strong growth from both Markets and Corporate. Although Markets in the rest of Africa has almost doubled its revenue since 2013, we continue to see opportunity for further growth, particularly as it works with Corporate. Corporate revenue in the rest of Africa grew 24% to R4.2bn, given increased transactional volumes, strong loan growth and improved margins. It now accounts for almost half our corporate revenue.

As I mentioned earlier, Markets revenue in South Africa grew 25% after a disappointing 2015. It benefited from both increased client flows and improved market liquidity. CIB's loan growth slowed, particularly in the rest of Africa, in part due to the strong rand. We continue to focus on high quality corporates in sectors where we are underweight, and the quality of new business was better than our existing book. Going forward, our focus is less on loan growth and more on growing our transactional offering to our increased client base. Although operating expenses grew 2%, CIB continues to invest in technology, where costs increased 18%. CIB's strong earnings growth improved its return on regulatory capital to almost 20%, with particularly strong returns in the rest of Africa.

WIMI – rest of Africa loss offset solid SA results

WIMI's earnings declined 4% to R1.4bn, with continuing business lines down 1%. However, South African earnings from continuing business lines grew 11% to R1.5bn, with Life Insurance up 19%, due to solid net premium income growth, recognition of a deferred tax asset and 43% higher income from shareholder funds.

Life's net premium income grew 10% in South Africa, which reflected strong growth in standalone basic life cover sold through our bank branches. Our Wealth and Investments earnings grew 5%, as assets under management increased 5% to R288bn given improved net inflows of R13bn.

Rest of Africa lost R112m from a profit of R49m, due to higher reserving, increased motor claims and substantially higher new business costs due to integrating First Assurance in Kenya and investing in expansion. Barring any other external influence, we are confident of a better performance from these operations.

Overall, WIMI remains an attractive, cash generative business that produced an attractive 24% RoE and 33% return on embedded value.

Rest of Africa enhances group trajectory ...

As Maria mentioned, our rest of Africa operations continue to enhance our group growth. Revenue grew 16%, or 11% in constant currency, well above South Africa's 5% increase. Its 17% headline earnings growth also exceeded South Africa's 2%. In fact, our Rest of Africa earnings have grown at more than twice our South African rate since 2013, to account for 19% of Group earnings from 15%.

... with strong banking growth outside SA

Our rest of Africa banking earnings grew 25% to almost R3bn, given wide positive JAWS of 8% that increased pre-provision profits 29% to R7bn. Consequently, it was able to absorb 43% higher credit impairments, largely within RBB. These operations remain well-diversified, given our broad portfolio of countries, which protected us from difficult operating conditions in certain markets last year.

As I discussed earlier, the rand had a material impact on translating our rest of Africa earnings and balance sheet. I should caution that at current levels, the strong rand will be a drag on Rest of Africa's earnings this year, particularly in the first half. Although the Barclays operations we acquired in 2013 had a large retail component, CIB's strong growth has increased it to 77% of our rest of Africa banking earnings. However, we still see scope to grow CIB's revenues, both in trading – as markets deepen – and the transactional component of Corporate.

We also believe RBB offers a long-term structural growth story in retail, while we are underweight in Business Banking, especially in SMEs, agriculture and the public sector, reflecting the clear growth opportunity. We continue to see a path to improving our banking RoE in the rest of Africa, through reducing both its high effective tax rate and RBB's high 68% cost to income ratio, and turning around the few remaining under-performing operations.

Well positioned to separate from Barclays Plc

Since 1 March last year, we have worked jointly with the PLC and our regulators and I am pleased that we have made good progress in preparing to separate from Barclays PLC. We have agreed the terms of the transitional services arrangements and separation payments with PLC, subject to regulatory approval. We believe these will leave us well positioned to separate from Barclays successfully and ensure we are sustainable thereafter.

The proposed terms include contributions totaling £765m, in recognition of the investments required to separate. These are expected to leave us broadly capital and cash flow neutral after the required investment is made. There are three main components. Firstly, there is a £55m payment to cover separation-related expenses. We received half of this in December. There is also a £195m payment, to terminate the existing service level agreement for the rest of Africa operations we acquired from Barclays. And lastly, there is a £515m contribution in recognition of the investments required in technology, rebranding and other separation projects.

As part of the terms, we can continue to use the Barclays brand in the rest of Africa for three years from the date on which Barclays PLC reduces its shareholding in BAGL to below 50%. We will also continue to receive certain services from Barclays on an arms' length basis for a transitional period of up to three years. Separating from PLC will impact our financial results for a number of years, most notably by increasing our costs, but also our capital base and endowment revenue near-term. As a result, we will report normalised numbers that better reflect our underlying performance once the process starts. In addition, PLC has agreed to contribute an amount equivalent to 1.5% of our market capitalization towards the establishment of a larger broad-based black economic empowerment scheme. The current value of their contribution is

R2bn. We will provide more detail on this and our separation in due course, once regulatory approvals have been obtained.

Outlook for 2017

Before we take your questions, I want to run through our expectations for 2017. In South Africa, we expect a modest economic recovery and see GDP growth improving to 1.0%. Inflation should return to within the SARB's target band in the second quarter, resulting in flat interest rates for some time. And we forecast average GDP growth of 4.5% in our other presence countries in Africa. Against this backdrop, and barring any unforeseen regulatory and macroeconomic developments, we continue to expect low to mid-single digit loan growth, with CIB growing faster than RBB and South Africa lagging the Rest of Africa's growth in constant currency.

Our net interest margin is expected to decline slightly this year, in part due to regulatory changes. Slower revenue growth is likely to produce negative JAWS near-term, despite continued cost containment. We expect the strong rand and regulatory pressures to dampen our growth in the first half. At the same time, our credit loss ratio should improve in 2017, in part due to the large single name provision in the base, while last year's reduction in early delinquencies in Retail in South Africa also bodes well. Our CET1 ratio is likely to remain above Board targets, and our normalised RoE should be broadly similar to 2016's and our dividend cover is likely to continue increasing slightly medium-term. While separating from Barclays will impact our near-term returns, we still believe that our stated longer-term targets remain appropriate for our Group, including an 18% RoE and low 50s cost to income ratio. In closing, I am proud of our resilient 2016 performance and believe that we are financially well positioned to deal with the separation from Barclays PLC going forward.

Our ability to build on this, seize the opportunities and execute effectively is our absolute focus this year. Thank you, Maria and I will now take your questions.

[END]
