Financial Director's review

Our resilient performance demonstrates the benefit of being a well-diversified group, both by activity and geography. While separating from Barclays PLC will impact our near-term returns, we believe that we are financially well positioned to deal with the separation.

Jason Quinn
Financial Director

- ▼ Return on Equity 16.6%
- ▼ Return on risk-weighted assets 2.14%
- ▲ Net interest margin 4.92%
- ▲ Credit loss ratio 1.08%
- ▼ Cost-to-income ratio 55.2%
- ▲ Pre-provision profit R32.4bn
- ▲ Headline earnings per share 1 769.6c
- ▲ Dividend per share 1 030c
- ▲ Net asset value per ordinary share 10 980c
- ▲ Common Equity Tier 1 12.1%
- ▼ RBB headline earnings R9.3bn
- ▲ CIB headline earnings R5.1bn
- ▼ WIMI headline earnings R1.4bn

Overview of 2016

We produced another resilient performance, considering the disappointing macro backdrop and increasing regulatory pressures. Our 2016 trends were largely as we guided, as continued revenue growth in target areas and cost control produced solid 10% pre-provision profit growth, which enabled us to absorb higher credit impairments. With headline earnings up 5%, our return on equity declined slightly to 16.6%.

We improved our revenue trajectory, as our top line increased 8%, driven largely by net interest income growth. It is evident, however, that our asset and deposit growth have slowed, given the sluggish economy and our prudent credit strategy. Costs remain well-managed, as savings in identified areas continue to fund investment in growth initiatives. We indicated last year that the credit cycle had turned, and our charge increased 26%, as we dealt with a single name CIB exposure and further strengthened our portfolio provisions, while retail credit impairments increased off a relatively low base.

Full details of our financial performance are contained in our 2016 Financial Results booklet and our 2016 Consolidated and separate financial statements, which can be downloaded from barclaysafrica2016ar.co.za.

Our balance sheet remains prudently positioned, with robust levels of capital, liquidity and provisioning. Strong internal capital generation improved our Common Equity Tier 1 ratio to 12.1%, above the 11.5% top end of our Board target range, enabling us to declare a 3% higher dividend per share.

We continue to benefit from our well-diversified portfolio, with CIB's strong 27% earnings growth offsetting RBB and WIMI's respective 3% and 4% lower earnings. Our Rest of Africa operations continue to enhance Group growth, with earnings and revenue increasing 17% and 16% respectively, in part due to average rand weakness during the period, which reversed towards the end of the year.

Factors influencing our performance

Disappointing macro backdrop

South Africa's economic growth disappointed for the fourth consecutive year, with real GDP growing 0.3%, well below the 1.8% we had forecast. A weak job market, low consumer confidence, rising interest rates and higher inflation placed strain on households, impacting credit quality and retail loan growth. Businesses responded to the volatile environment and weak demand by curtailing investment spending, and a severe drought impacted the agriculture and related sectors.

The commodity cycle downturn, drought, electricity shortages, an adverse external environment and weaker fiscal balances in several countries also reduced economic growth in the Rest of Africa. Consequently, real GDP growth moderated to 3.7% on average across our presence countries, the lowest level since 2002. We have limited exposure to oil-exporting countries and growth across our portfolio remained well above that of South Africa.

Currency fluctuations

With Rest of Africa's increasing contribution to the Group, currency translations again impacted our results, particularly after the rand weakness in December 2015. This was noticeable in the first half of 2016, when rand weakness added 15% to Rest of Africa's revenue and 26% to its headline earnings. However, with the rand strength in the second half, the spot rate reduced our Rest of Africa loans and deposits by 13% year-on-year, while the weaker average rate for the year added 5% to our Rest of Africa revenue, and 3% to its costs and headline earnings. The impact of currency fluctuation was less at a Group level, as the average exchange rate added 1% to our earnings, a revenue and costs. It is worth noting that the current rand strength would be a drag on Rest of Africa's contribution in 2017, particularly in the first half.

Regulatory changes

Regulatory changes continue to impact our operations, earnings and balance sheet. Changes to interchange fees reduced our debit and credit card income in South Africa by R300m in 2015 and a further small amount in 2016. The National Credit Regulator introduced lower retail lending interest rate caps in South Africa effective from May 2016, which reduced our margins in personal loans and credit cards. The net impact was over R300m after mitigation, largely in the second half and will remain a drag in the first half of 2017. Introducing the National Credit Act income verification requirements reduced our credit card asset growth. Regulatory changes have impacted our balance sheet. These included new liquidity requirements, which we estimate cost an additional R150m in 2016 to improve our already strong liquidity levels.

We continue to see regulatory changes across the Rest of Africa, most notably, the Central Bank of Kenya introduced a retrospective interest rate cap on lending, and floor on deposits in September. These will reduce our Kenyan revenue in 2017, prior to any mitigation actions.

A diverse franchise

Our resilient 2016 performance demonstrates the benefits we enjoy from having a diverse portfolio of businesses, both by activity and geography. Within WIMI, solid South African growth largely absorbed losses in the Rest of Africa. At a divisional level, CIB's strong earnings growth offset lower earnings from WIMI and our largest franchise, RBB. It was also further evident within operating divisions, including RBB South Africa's well-balanced mix where, despite regulatory pressures, solid growth in Personal Loans and growth in Transactional and Deposits, Card and Business Banking partly offset reduced earnings in Home Loans and Vehicle and Asset Finance.

Rest of Africa strategy continues to deliver

Despite the tough macro environment in the Rest of Africa, our operations continued to enhance 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 double our South African rate since 2013, to now account for 19% of Group earnings from 15%. The acquisition of Barclays' Rest of Africa franchise remains earnings-enhancing. Importantly, these operations remain well-diversified, given our portfolio of countries, which protected us from difficult operating conditions in certain markets last year. It also has a good mix between CIB, where earnings grew 43%, and RBB, where earnings declined 3%. Hence, our Rest of Africa banking earnings grew 25%, to R2.8bn.

We continue to see attractive growth prospects in the Rest of Africa. Within RBB, retail credit penetration and access to banking are relatively low and offer a structural growth story in the longer term. We are also underweight in Business Banking, particularly SMEs, agriculture and the public sector. We expect to reduce RBB Rest of Africa's high 67.9% cost-to-income ratio through rolling out new products, improving its efficiency and growing its top line. There is scope to grow CIB further, initially in Markets and through targeted lending, and then by increasing our corporate transactional component. Hence, we aim to improve Rest of Africa's 15.8% banking return on equity medium term. Although WIMI posted a loss outside South Africa, barring any other unforeseen external influence, we are confident of a better performance from these operations.

Income statement analysis

		Results booklet page number[1]	2013 Rm	2014 Rm	2015 Rm	**2016 Rm**	YoY change %
	Net interest income	23	32 351	35 601	38 407	**42 003**	9
	Non-interest revenue	26	27 055	27 524	28 791	**30 391**	6
3 2	**Total revenue**		59 406	63 125	67 198	**72 394**	8
4	Operating expenses	33	(33 420)	(35 848)	(37 661)	**(39 956)**	6
1	**Pre-provision profit**		25 986	27 277	29 537	**32 438**	10
1 5	Credit losses	30	(6 987)	(6 290)	(6 920)	**(8 751)**	26
	Other impairments and indirect tax		(1 033)	(1 412)	(1 443)	**(2 120)**	47
	Associates and joint ventures		130	142	129	**115**	(11)
	Profit before taxation		18 096	19 717	21 303	**21 682**	2
6	Taxation	35	(5 222)	(5 573)	(5 899)	**(5 835)**	3
	Profit after taxation		12 874	14 144	15 404	**15 847**	(1)
	Attributable earnings		11 981	13 216	14 331	**14 708**	3
	Non-controlling interest		893	928	1 073	**1 139**	6
7	Headline earnings	21	11 843	13 032	14 287	**14 980**	5

[1] 2016 financial results booklet available for download at barclaysafrica2016ar.co.za.

1 Pre-provision profit drove earnings growth

The shape of our income statement was largely as we guided. Revenue growth improved to 8%, exceeding a well contained cost increase of 6% to grow pre-provision profits by 10%. A 26% rise in credit impairments, including a large single client exposure in CIB, dampened our earnings growth.

2 Maintaining revenue momentum in targeted areas

Despite the tough operating environment and regulatory pressures, we continue to grow revenue in several targeted areas. For example, we remain the largest card acquirer in Africa, with volumes up 13%, as we added new merchants. Debit card volumes also grew 13%. In Business Banking South Africa, commercial property finance grew for the first time in several years, rising 14%. Our total Corporate revenue grew 18% to R8.7bn. Within this, Corporate SA achieved double digit growth for the fourth consecutive year, with revenue increasing 13% to R4.5bn, with strong increases in term debt and working capital. Corporate in the Rest of Africa grew 24%, given strong balance sheet growth and improved margins. In Markets, our Africa desk has almost doubled its revenue since 2013 to R1.8bn, or 35% of CIB's total trading revenue. It continues to benefit from increased client activity, our expanded product offering and improved cross selling. In WIMI, Life Insurance's embedded value of new business grew 23%, in part due to improved sales of standalone products via our bank branches.

We did not sustain RBB's positive revenue momentum in South Africa. This was partly due to the weak macro backdrop and regulatory pressures, but also slow growth in primary customers. We did, however, continue to grow our affluent, private bank and youth customer base. Addressing overall rental customer growth remains a priority.

3 Solid net interest income growth

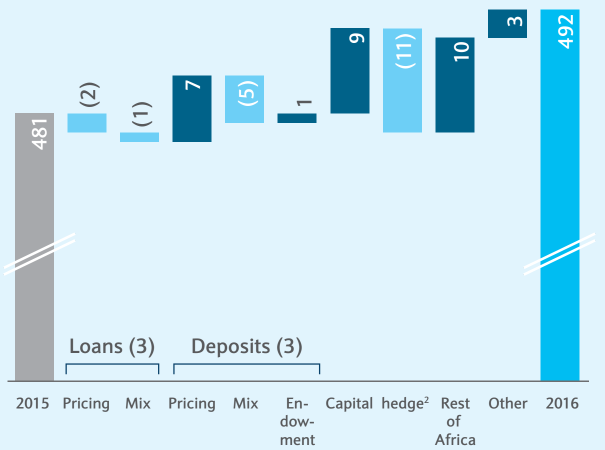
Net interest income grew 9% to R42.0bn, benefiting from 11 basis points of margin expansion to 4.92% and 7% higher average interest-bearing assets. Our Group net interest margin has consistently improved from 4.46% in 2013. This was largely due to a better deposit spread and an increasing contribution from the Rest of Africa, where our 8.46% margin is almost double South Africa's 4.29%.

As usual, there were several moving parts to our net interest margin. Unlike last year, our lending margins narrowed, due to regulatory changes, higher interest suspended and pricing pressure in Vehicle and Asset Finance, plus the mix impact of strong CIB loan growth at a lower margin than Retail. These outweighed improved Home Loans and Personal Loans margins.

Our deposit margin continued to widen, despite higher wholesale liquidity premiums. Our structural hedge released R268m, 11 basis points less than the R1.1bn in 2015, offsetting the 10 basis points endowment uplift on capital and deposits.

Rest of Africa's net interest margin improved by 23 basis points, which added 10 basis points to our Group margin. However, the impact of lower rates, rand strength and regulatory changes were evident in the second half. Lastly, the 'other' component of the change in net interest margin reflects the benefit of 75 basis points of prime rate increases in the first half and a substantial reduction in loans to banks offsetting higher borrowed funds and increased liquidity assets.

Change in net interest margin (basis points)[1]



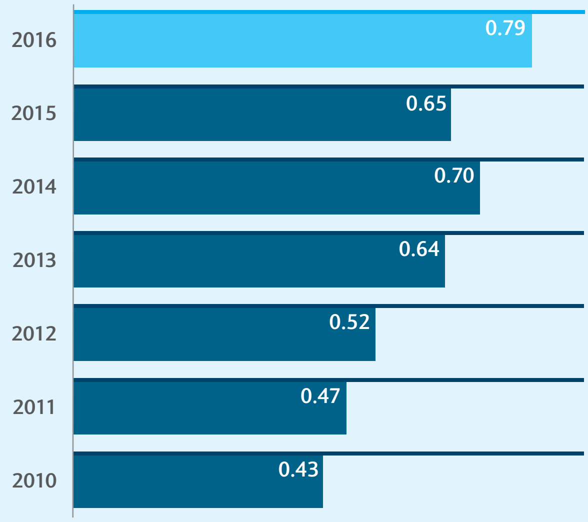
[1] Percentage of average interest-bearing assets.
[2] Interest rate risk management.

Our revenue remains well-diversified, with non-interest income at 42% of the total, after growing 6% to R30.4bn. Net fee and commission income, which is 68% of this, increased 3% to R20.7bn. Cheque account fees grew 4% and electronic banking 3%, while Card's non-interest income grew 11%. CIB's non-interest income rose 13%, largely due to 30% higher trading revenue.

4 Continue saving to invest for growth

Our operating expenses grew 6% to R40bn, 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 headcount declining by 1%. Our structural cost programmes continue to produce efficiency gains that enable us to invest in strategic initiatives. Real estate footprint consolidation contained the increase in property costs and operating leases to 5%, while a reduction in sponsorships decreased marketing by 9%. Professional fees fell 8%, given less reliance on external service providers for IT development. We continue to invest in technology, with our total IT spend up 17%, to account for 19% of our costs. Amortisation of intangibles grew 35%, but remains relatively low.

Portfolio provision to performing loans (%)



5 Rising credit impairments

As we noted last year, the credit cycle has turned, and our credit impairments grew 26% to R8.8bn, increasing our credit loss ratio from 92 basis points to 108 basis points, which is in line with our through-the-cycle expectation of 110 basis points. When compared on a like-for-like basis to peers, excluding R300m of collection costs, our credit loss ratio was 104 basis points.

The main reasons for the increase in our credit loss ratio was a single name corporate exposure in CIB, which we booked in the first half and a further build in our macroeconomic overlays. Excluding these, our credit loss ratio increased slightly. We continue to increase our portfolio provisions, which grew 19% to R6bn or 79 basis points of our total performing loans, from 65 basis points. The increase included an additional R300m of macroeconomic overlays to R1.4bn, which have now more than doubled since 2014.

Our credit loss ratio in South Africa increased to 100 basis points from 86 basis points, given the single-name exposure in CIB and credit costs normalising across most of our retail portfolios, besides Card. The Rest of Africa charge rose to 160 basis points from 131 basis points due to higher RBB impairments, while CIB's declined given the non-recurrence of a large exposure in the base. RBB Rest of Africa's credit loss ratio rose noticeably to 296 basis points, principally in scheme personal loans in Kenya and Botswana, and its portfolio provisions to performing loans almost doubled to 214 basis points.

Our non-performing loans grew 11% to R31.1bn, or 3.9% of our total gross loans, from 3.5%. Most of the increase came in CIB during the first half of the year. Our specific impairment coverage of non-performing loans rose to 44.2%, increasing in most categories.

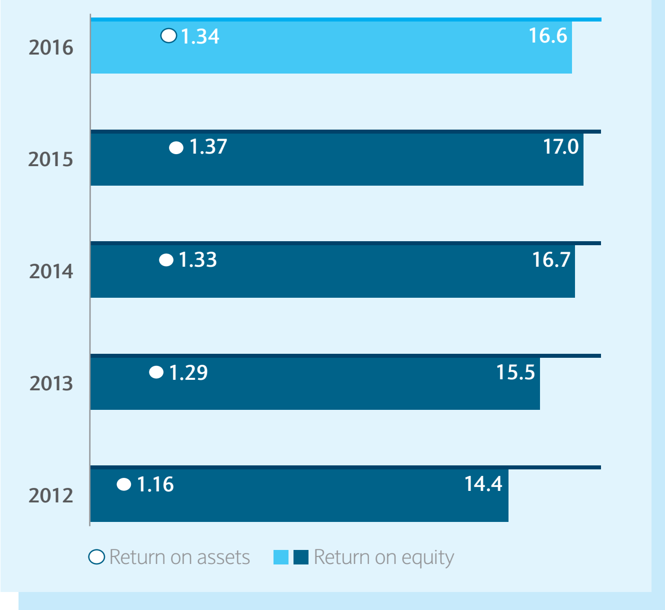
6 Effective tax rate remains relatively high

Our taxation expense declined 1% to R5.8bn, slightly below the 2% growth in pre-tax profit, resulting in a 26.9% effective tax rate. The decline was due to the recognition of deferred tax assets in our Life Insurance business, following changes to the Tax Act. Our Group tax rate remains relatively high, in part due to an effective rate of 33.9% in the Rest of Africa.

7 Resilient returns

Given 5% higher headline earnings, our return on equity only declined slightly to 16.6% from 17.0%. This is a satisfactory outcome considering the operating environment and the substantial single name credit impairment in the first half. Excluding the latter, our return on equity would have increased year-on-year. Our return on assets decreased slightly to 1.34%, which is still similar to 2008's high of 1.38%, when our return on equity was 23.4% in an environment of far higher leverage. South Africa's return on equity was 17.1%, while our Rest of Africa banking return was 15.8% and WIMI's was 23.9%.

Return on assets and return on equity (%)



Balance sheet analysis

		Results booklet[1]	2013 Rm	2014 Rm	2015 Rm	**2016 Rm**	YoY change %
1	**Total assets**		962 863	991 414	1 144 604	**1 101 023**	(4)
2	Of which: Loans and advances to customers	35	606 223	636 326	703 359	**720 309**	2
1	**Total equity**	39	85 201	90 945	98 647	**102 280**	4
3	Capital and reserves attributable to ordinary equity holders of the Group		77 317	82 690	89 292	**93 057**	4
	Non-controlling interest – ordinary and preference shares		7 884	8 255	9 355	**9 223**	(1)
	Total liabilities		877 662	900 469	1 045 957	**998 743**	(5)
2	Of which: Deposits due to customers	37	588 897	624 886	688 419	**674 865**	(2)
	Total equity and liabilities		962 863	991 414	1 144 604	**1 101 023**	(4)
	Loans-to-deposits and debt securities ratio (%)		88.3	87.1	86.1	**88.4**	

[1] 2016 financial results booklet available for download at barclaysafrica2016ar.co.za.

1 Our total assets decreased 4% to R1.1trn, largely due to substantial declines in our loans and advances to banks and trading portfolio assets of 42% and 30%, respectively. Excluding these, our assets grew 4%, with customer loans increasing 2%. Rand appreciation versus our Rest of Africa currencies also reduced our assets by 2%. On the funding side, debt securities grew 9%, while customer deposits decreased 2% and trading portfolio liabilities fell 48%. Equity grew 4% to R93bn, despite a decline in our foreign currency translation reserve, while borrowed funds increased 19% to R16bn.

2 Slower balance sheet growth

Net loans and advances to customers grew 2% to R720bn. The increase was over 4% in constant currency. The largest book, South African mortgages, declined 2%, reflecting muted industry growth and a lower share of new business. Excluding this book, our loans grew 4%.

In South Africa, Vehicle and Asset Finance grew 4%, despite an 8% drop in the vehicle finance market and 11% lower new car sales. We continue to benefit from partnerships here and the shift to used cars, where our market share is higher. Personal Loans grew 7%, with strong digital sales and a continued shift towards higher-quality customers. Card declined 4%, due to new income verification requirements and a reduction in our Edcon portfolio. 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.

RBB Rest of Africa's loans fell 11%, despite rising 2% in constant currency. This low underlying growth reflected the difficult macro backdrop – with substantial rate increases, high inflation and liquidity constraints in some markets – and us tightening lending criteria in personal loans. However, we had solid constant currency growth in mortgages of 8% and commercial loans of 12%.

CIB's loans rose 7%, as growth slowed noticeably in the second half, although its average balances increased 23%, with term loans up 15%, while reverse repurchase agreements dropped 21% off a high base. Its SA loans grew 13% to R192bn, with high-quality new business across healthcare, technology, media, telecommunications and various industrial sectors. Growth was strong in target areas such as debt finance and trade loans. In the Rest of Africa, CIB's book grew 1% in constant currency, which equated to a 14% decline in rand, while its average book grew 19%.

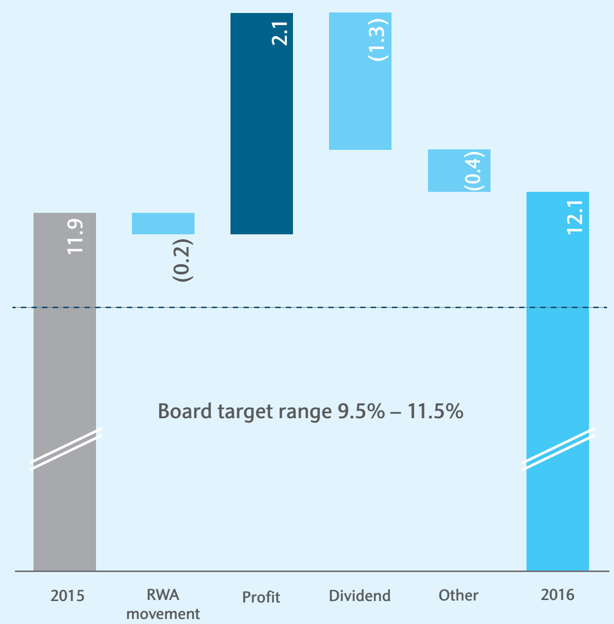
Our total customer deposits declined 2% to R675bn, although it increased 1% in constant currency. Retail deposits rose 7% in South Africa, with solid growth in investment products. Business Banking declined 1%, due to a sector-wide reduction in local and provincial government deposits, where we have a strong presence. As with loans, RBB Rest of Africa's deposits grew 2% in constant currency, but fell 12% due to currency translation. Its low underlying growth reflects tight liquidity in some markets and a reduction in time deposits. CIB's total deposits declined 7%, with the Rest of Africa down 20% (or 7% in constant currency) due to the strong rand and lower inflows. Its South African deposits decreased 2%, after losing a large, low margin client.

3 Capital and liquidity remain strong

Our Group risk-weighted assets grew marginally to R704bn, in part due to increased counterparty risk-weighted assets. We remain capital generative, with earnings adding 2.1% to our Common Equity Tier 1 ratio. Paying R 8.5bn of ordinary dividends reduced our ratio by 1.3%, while the R4.1bn decline in our foreign currency reserve was offset by the risk-weighted asset reduction of a stronger rand. Hence our Common Equity Tier 1 ratio increased to 12.1%, which is well above the 11.5% top end of our Board target range. Our Group leverage ratio including unappropriated profits improved to 7.1%, also well above the Board target of 4.5%. While we are still evaluating its likely impact, introducing IFRS 9 is likely to reduce our Common Equity Tier 1 next year. Our Group total capital ratio increased to 14.8%, at the top end of our board target range. Note that Absa Bank's Common Equity Tier 1 improved to 11.6% from 10.5%.

Our liquidity profile also remains healthy, with liquid assets and other sources of liquidity growing 20% to R239bn. Absa Bank's three-month average liquidity coverage ratio for the fourth quarter of 2016 was 98%, comfortably above the minimum hurdle of 70%. While net stable funding ratios only become effective on 1 January 2018, we are confident of complying with the 100% minimum.

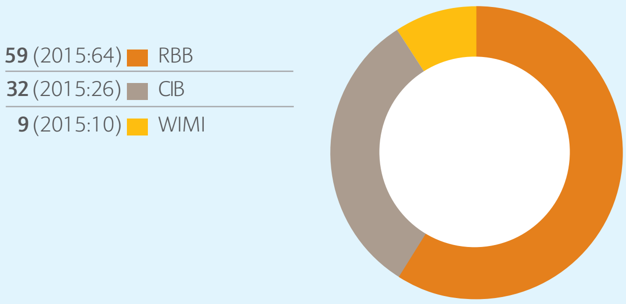
Common Equity Tier 1 ratio (%)



Segmental performance

Our earnings remain well diversified by both division and individual product lines.

Headline earnings contribution per segment (%)



Retail and Business Banking

Headline earnings ▼ 3%

RBB's earnings declined 3% to R9.3bn, or 59% of our earnings, excluding the Group centre. Pre-provision profits increased 5%, although 6% revenue growth lagged 7% cost growth, as RBB invested in technology. Balance sheet growth was limited, with loans and deposits both flat. Credit impairments grew 21%, increasing its credit loss ratio to 1.46%. RBB's return on regulatory capital decreased slightly to 21.3%.

Retail Banking South Africa

Headline earnings declined 4% to R6.4bn, largely due to 14% higher credit impairments, since pre-provision profits grew 1%. Transactional and Deposits earnings increased 1% to R2.7bn, given 12% higher net interest income on 7% deposit growth. Despite improved margins, Home Loans' earnings decreased 8% to R1 602m due to 15% higher costs and a 34% increase in credit impairments (off a low base). Card earnings increased 3% to R1.7bn, given 11% non-interest income growth and flat credit impairments. Vehicle and Asset Finance earnings declined 25% to R800m, as margin pressure saw its revenue reduce and credit impairments rose 23%. Personal Loans earnings grew 10% to R384m, reflecting 16% higher net interest income. Losses in the 'Other' segment decreased 1% to R741m, given lower costs. Retail Banking South Africa accounted for 41% of total earnings, excluding the Group centre.

Business Banking South Africa

Headline earnings grew 1% to R2.1bn, given 5% higher pre-provision profits. Loan growth improved to 9%, increasing its revenue growth to 6%, in line with the rise in costs, resulting in a flat 61% cost-to-income ratio. Deposits declined 1%, largely due to the industry-wide reduction in public sector funds. Credit impairments grew 7% although its credit loss ratio was largely unchanged at 0.86%. Business Banking South Africa generated 14% of overall earnings, excluding the Group centre.

Retail and Business Banking Rest of Africa

Headline earnings declined 3% or 15% in constant currency to R769m, despite 23% higher pre-provision profits. Revenue grew 15%, or 9% in constant currency, with net interest income rising 19% as its net interest margin improved to 9.06%. Costs grew 11% or 7% in constant currency, so its cost-to-income ratio decreased to 67.0%. However, credit impairments grew 73% due to higher personal loan and portfolio provisions, with coverage for performing loans almost doubling. Loans and deposits fell 11% and 12% respectively, despite both growing 2% in constant currency. RBB Rest of Africa contributed 5% of total earnings, excluding the Group centre.

In this section we present segments on the historical model. From 2017, we will report against our new segments.

Corporate and Investment Bank

Headline earnings ▲ 27%

Headline earnings rose 27% to above R5bn for the first time, as pre-provision profits increased 34%. CIB earnings grew 18% in South Africa and 43% in the Rest of Africa, or 35% in constant currency. CIB in the Rest of Africa accounts for 44% of CIB's earnings from 29% in 2013. Revenue grew 17%, with Rest of Africa increasing 24% and South Africa 13%. Markets revenue rose 25% to R5.1bn, with Rest of Africa up 26% and South Africa 25%, as fixed income and credit grew 51% and foreign exchange and commodities 21%. Credit impairments rose 77% due to a single name in the first half and increased portfolio provisions. Costs increased 2%, despite continuing to invest in technology. Corporate earnings grew 44% to R2.7bn, as 18% revenue growth exceeded 6% higher costs and credit impairments declined 8%. Investment Bank earnings rose 13% to R2.4bn, as the 16% revenue growth and 2% lower costs, as credit impairments increased 228%. CIB's loan growth slowed to 7%, in part due to the strong rand, although average balances were 23% higher. CIB's return on regulatory capital improved to 19.9%, with strong returns in the Rest of Africa. It contributed 32% of total earnings, excluding the Group centre.

Wealth, Investment Management and Insurance

Headline earnings ▼ 4%

Headline 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 10% net premium income growth and 43% higher income from shareholder funds. Short-term Insurance in South Africa grew 17%, with a 4.3% underwriting margin and well contained costs, while reinsurance limited the rise in claims. Wealth and Investments' earnings grew 5%, with assets under management increasing 5% to R288bn on R13bn of net inflows. Rest of Africa lost R112m from a profit of R49m, given higher reserving, increased claims and substantially higher new business costs due to integrating First Assurance in Kenya and investing in our expansion strategy. WIMI's return on equity remains attractive at 23.9% and it generated 9% of total earnings, excluding the Group centre.

Looking ahead

Separation from Barclays PLC

Since 1 March last year, we have worked with Barclays PLC and our regulator in preparing for the separation. During this time we have taken into account a number of key considerations:

- The impact on our technology architecture, resilience, and competitiveness
- Our approach to rebranding
- Our leadership structures, remuneration arrangements to retain key skills and additional hires to support the separation
- Transitional services arrangements
- Alternative shareholding structures
- Risks arising from the sell-down
- The financial implications of the separation payments from Barclays PLC

I am pleased that we have agreed the terms of the transitional services arrangements and separation payments with Barclays PLC subject to regulatory approval. The proposed terms include contributions totaling £765m (R12.8bn[1]), primarily to fund the investment required for our separation. These are expected to leave us broadly capital and cash flow neutral after the required investments are made. There are three main components. Firstly, a £55m (R0.9bn[1]) payment to cover separation related expenses, of which £27.5m was received in December. Secondly, a £195m (R3.3bn[1]) payment to terminate the existing Master Services Agreement, and lastly, a £515m (R8.6bn[1]) contribution to fund investment in our operations, technology, rebranding and other separation projects. We will pay Barclays PLC to provide certain technology and operational services during the transitional period of up to three years. We believe these leave us well positioned to successfully separate and ensure our ongoing sustainability thereafter.

The separation process will impact our results for a number of years, most notably by increasing our costs, but also our capital base and endowment revenue thereon in the near-term. Consequently, we will report normalised numbers that better reflect our underlying performance once the process starts. In addition, Barclays has agreed to contribute an amount equivalent to 1.5% of our market capitalisation towards the establishment of larger broad-based economic empowerment scheme. The current value of their contribution is R2.1bn[2]. We will provide more detail on this and our separation in due course, once regulator approvals have been obtained.

Performance outlook

In South Africa, we expect a modest economic recovery and forecast GDP growth of 1.0% for 2017. Inflation should return to within the South African Reserve Bank's target band in the second quarter, resulting in flat interest rates for some time. We expect 4.5% average GDP growth in our presence countries in the rest of Africa.

Against this backdrop, and barring any 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 in constant currency. Our net interest margin is expected to decline slightly this year. Slower revenue growth, in part due to regulatory changes, 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 our retail early delinquencies in South Africa also bodes well. Our Common Equity Tier 1 ratio is likely to remain above Board targets, and we continue to expect that our dividend cover is likely to increase slightly medium term, while our normalised return on equity should be broadly similar to 2016's. 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% return on equity and low 50s cost-to-income ratio.

[1] Based on the exchange rate at 31 December 2016.
[2] Based on the Barclays Africa Group closing share price on 31 December 2016.