Chairman's reflections

Strong corporate governance, and our commitment to Africa and the communities in which we operate, ensured that we remained focused on our Goal to be the financial services group of choice in Africa, despite the many factors that made this harder.

Wendy Lucas-Bull
Chairman

While we continued focusing on sustainable growth in 2016, a number of significant developments influenced our strategic considerations and performance. The most significant of these was Barclays PLC's decision to reduce its shareholding in Barclays Africa due to regulatory capital requirements. Despite this and other regulatory, macroeconomic and geopolitical factors, our focus on strong corporate governance, our customers, clients, employees and appropriate responses to regulatory change enabled us to make progress on our Goal to be the financial services group of choice in Africa.

Global and local environments continued to influence business

While the full impacts are yet to unfold, significant global developments – such as the United Kingdom's decision to leave the European Union (Brexit), the United States' presidential elections, and other political and legislative developments in some of our markets – have caused us to pause and reconsider the economic and policy assumptions which had informed our plans at the beginning of the year. In most instances, we have had to adapt our approach to accommodate this dynamic environment and, in some instances, we have had to alter our approach.

South Africa is our largest single market, it only narrowly avoided a sovereign credit rating downgrade, and its economic growth remained weak – affecting our business performance. There is consensus that economic restructuring is essential in South Africa to accelerate growth in the medium term, but progress is being affected by continuing political and policy challenges.

We are reassured now that the Financial Intelligence Centre Amendment Bill has been adopted in Parliament and awaits the President's assent. Effective compliance with local and international banking regulations is critical for a competitive and sound banking system which enjoys good international standing. South Africa's financial system, and its ability to interact effectively with the global financial system (particularly our banking system's access to foreign currency to support foreign exchange clearing, lines of credit to facilitate transactions with local businesses, and global payments), is key for the country and the region's economic growth.

We remain committed to contributing to the efforts of government, business and labour unions that seek to achieve much needed economic reforms in South Africa. The progress is a demonstration of the power of collaboration. The business sector has made firm commitments in terms of small enterprise funding and development, and on-the-job training. Agreement on a national minimum hourly wage rate is progressing, which has proven difficult before.

We continue monitoring and responding to the impact of regulatory changes across all our markets. For example, in South Africa there were changes to the National Credit Act, while in Kenya regulators introduced minimum deposit and maximum lending rates. Such changes introduce unique challenges, and we will continue adapting our businesses to these.

Barclays Africa strives to be responsive to socio-economic challenges affecting the communities in which we operate. We recognise the challenges all our markets have in common, including education, enterprise development and financial inclusion. Shared Growth, as an integral part of our strategy implementation, ensures an appropriate response as part of our everyday business to deliver measurable socio-economic and commercial outcomes.

Barclays PLC's sell-down of its shareholding in Barclays Africa

On 1 March 2016, Barclays PLC announced its intention to sell down its interest in Barclays Africa to a level which would permit deconsolidation from both regulatory and accounting perspectives. The first tranche of 12.2% was successfully sold through an accelerated book build on 5 May 2016 – reducing its shareholding to 50.1%. Barclays PLC continues to explore strategic and capital market opportunities to further reduce its shareholding to achieve regulatory deconsolidation.

As our banks are systemically important in all our markets, regulators are actively engaged in separating Barclays Africa from Barclays PLC, to ensure there are no systemic implications, and to secure an orderly separation, with operational stability and continuity across the Group.

As announced on 23 February 2017, Barclays PLC has submitted an application to the South African Reserve Bank to approve the reduction of its shareholding in Barclays Africa to below 50%. The application included the terms of the separation payments and transitional services arrangements. This includes the contracts securing Barclays PLC's operational support for the next three years, while we implement new technologies and build additional capacity. Maria provides more detail on the agreements 5.

In response to the sell-down, we established a dedicated Board sub-committee, specifically to consider and provide guidance on the implications thereof.

Our One Africa strategy remains relevant

Our Board devoted significant time to assessing our strategy against the backdrop of the Barclays separation, the continuing turbulent macro and sociopolitical environments, and a shifting competitive and technological landscape.

The Board and management concluded that our One Africa strategy remains relevant and targets the key areas for growth, while maintaining sound controls with a strong focus on risk management with sufficient stretch built in to deliver appropriate value for our stakeholders.

Firstly, as a customer and client-focused organisation, we aim to ensure that customers' and clients' experience remains our primary focus; secondly, we are investing in growth opportunities and providing access to the African and global capital markets; thirdly, we are simplifying our business processes to improve efficiency; and lastly, we continue making significant investments in technology and automation.

The near-term focus is on delivering on our current strategy while managing the separation from Barclays.

Strong oversight for effective governance and control

Our Board governance objectives for 2016 58 were focused on:

- the execution of our strategy with a focus on our growth objectives and market commitments;
- our IT strategy, with a focus on resilience and investment spend;
- our adaptability in dealing with emerging global issues and management of our risk and capital frameworks;
- running the business in an ethical and transparent way; and
- our people and culture.

We have made progress on our strategy execution despite the macro-environmental and regulatory impacts on our performance. Our performance demonstrates the benefit of being a well-diversified group, both by activity and geography.

Our IT strategy is focused on resilience. We have successfully moved to a new data centre and continue to migrate services. We have had a marked improvement in service, stability and recovery in South Africa and, increasingly, in our other markets. Our innovation programme continues to drive new solutions for our customers and clients. We pay close attention to reporting on investment spend and the related returns.

We have put significant focus on the control and risk environment – both at Board and committee level – with detailed reviews of our payments and collections environments; fraud management; cyber and financial crime detection and prevention; supplier management; and regulatory reporting.

Our risk and capital management frameworks are updated when required, in the context of changing regulatory, risk and business environments. Major projects being monitored include IFRS 9 accounting standards and the Basel Committee on Banking Supervision's regulation number 239 (BCBS 239) risk reporting.

We have conducted rigorous stress testing in multiple scenarios, and our capital and liquidity ratios remained at satisfactory levels each time.

Our leadership continues to build an organisational culture based on ethical values, transparency and accountability. We have a zero-tolerance approach to non-compliance, including matters arising from inappropriate conduct and other control failures. The relevant board committees focus on the actions taken by management in response to such failures.

We monitor ongoing progress on succession planning and leadership development – including cross-border placement opportunities. While we have improved our employment equity, diversity and inclusion, more needs to be done.

A strong and diverse board is key to value creation

The knowledge, skills, experience, diversity and independence of our Board is critical to sustainable value creation.

We have a diverse Board with strong commercial and technical skill sets to appropriately constitute our committees; deliberate, advise and decide on relevant matters; and to deliver on our responsibilities to our shareholders.

We have reviewed the composition and size of our Board to manage the technical demands of the various committees, to bolster specific skills-sets, to improve gender and race representation and to improve succession coverage. We made four new appointments – Paul O'Flaherty (February 2016), Daisy Naidoo (May 2016), Jason Quinn (September 2016) and René van Wyk (February 2017), and we intend to make additional appointments in 2017. Barclays PLC is reconsidering its Board nominees and changes will be subject to a Board and regulatory approval process.

A key function of the Board has been to consider the impact of the Barclays PLC sell-down and the resultant separation process. Our *Ad hoc* Board sub-committee, 68 serves as an advisory committee to management, convening 19 times in the course of nine months. I wish to thank the members for their guidance, flexibility and commitment in this regard.

In March 2016, we advised that our lead independent director, Trevor Munday, was to step down as director in the second half of 2016. As a result of the increased demand on our Board due to the separation process, Trevor has delayed his departure and remains the Lead Independent Director of the Board. I would like to extend my thanks to Trevor for his continued leadership and contribution.

In conclusion

Once again, the year under review has been challenging, and I am proud of Maria and her leadership team's achievements.

I extend my thanks to my fellow Board members for their diligence and dedication to the Group; and to the chairs of our Group Board committees for their ongoing support and challenge. My appreciation also goes to the chairmen and boards of our subsidiaries.

I also wish to thank all of our stakeholders including our customers and clients, colleagues, regulators, investors, and communities for their steadfast support and commitment.

Africa is a continent of opportunity. We are a strong African franchise. We have a robust One Africa strategy, and our near-term focus is delivering on this while we navigate the separation process from Barclays PLC. We will do this with the appropriate prioritisation and well-considered decisions.

CEO's reflections

Barclays Africa is at an inflection point. We have achieved so much, and are determined to maintain our hard-won momentum towards becoming a proudly stand-alone pan-African bank.

Maria Ramos
Chief Executive Officer

In 2013, we formed Barclays Africa by acquiring the majority of Barclays PLC's African operations. It was at this point when we set our vision to create a proudly pan-African financial services group. This was the biggest ever acquisition by an African bank, and was a crucial strategy play, giving us a significant footprint and creating a platform for us to deliver on our vision. Four years on, I believe we are delivering on our ambitions.

At the heart of our One Africa strategy were four key commitments:

- Achieve a return on equity range of 18 – 20%
- Reduce our cost-to-income ratio to the low 50s
- Become top three in revenue in our five key markets
- Grow the percentage of revenue generated by our Rest of Africa businesses to between 20 and 25%

Our plan to achieve these commitments comprised four key foundations, built through a process of turnaround and transformation:

- The turnaround of our Retail and Business Banking (RBB) franchise in South Africa
- The development of our Corporate Banking business
- The growth of a fully integrated Wealth, Investment Management and Insurance (WIMI) business
- Investment in our technical platforms and operating infrastructure

Progressing our One Africa strategy

Our first priority was the turnaround of our RBB franchise in South Africa. The country is our biggest market, and RBB is our largest profit centre. From a deteriorating position a few years ago, we have transformed RBB's performance; we have stemmed customer losses, added new customers and generated strong returns. The turnaround remains a priority.

Secondly, we invested significantly in Corporate Banking across the continent to close the gap with other leading banks in our markets. Today our Corporate Bank is achieving double-digit revenue growth and contributes over half of Corporate and Investment Bank's (CIB) earnings. Rest of Africa accounts for 44% of CIB's headline earnings.

Thirdly, we seized the opportunity in WIMI, especially through the expansion of our insurance business. We comprehensively restructured WIMI, made acquisitions and sold non-core operations. Today, WIMI is a fully integrated business, achieving a 24% return on equity.

Finally, we set out to transform our technology infrastructure. Over and above our annual spend, we have incrementally invested R3bn over the last three years to improve our IT, and the services we offer across the continent. We are investing in innovation and creating new ways for customers and clients to access our services. We have created ChatBanking, the world's first secure, private and fully integrated banking service linked to social media platforms.

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

We now have a balance sheet of over R1.1trn with strong levels of capital and liquidity. Our return on equity has increased since 2013, and our cost-to-income ratio has improved. 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 doing what we set out to do – we are building momentum towards achieving our Goal to be the financial service group of choice in Africa.

Separation terms with Barclays PLC have been agreed on

On 23 February 2017, we advised our stakeholders that we agreed on the terms of separation with Barclays PLC. This agreement will see Barclays PLC contributing GBP765m (R12.8bn[1]), primarily to fund the investments required for the separation process.

This is a good outcome, and enables us to complete the separation, provide certainty to our stakeholders, and invest in technology and re-branding over time. We have set up dedicated teams to manage the separation.

We are progressing the required regulatory approvals and will continue working closely with our Board and our regulators to ensure 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. While the scheme's specifics are under consideration, Barclays PLC will contribute an amount equal to 1.5% of Barclays Africa's market capitalisation (R2.1bn[2]) towards establishing the scheme.

Alongside this broad-based black economic empowerment scheme, we 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.

We delivered resilient results

Our 2016 performance has been resilient, as we sustained the positive direction outlined in our three-year strategy:

- 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 2% revenue growth from our South African market. Rest of Africa's contribution to total Group revenue grew to 23% year-on-year.
- Our cost-to-income ratio improved from 56% in 2015 to 55.2% in 2016.

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

We are strongly focused on executing our strategy

While we are managing risks related to the operating environment and the separation process, we are strongly focused on the opportunities and strategy execution in each of our businesses.

In RBB, 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 delivered significant growth opportunities. We believe there are further opportunities to expand our Corporate and Markets businesses, and we have the depth and expertise to do so.

Finally, in WIMI, we continue benefiting from 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 long-standing presence and knowledge across our markets which results in deep insight into customer and client needs and local conditions. This means we combine pan-African and local understandings into a competitive advantage.

Effective leaders and a culture of shared values and shared growth

Our continued momentum depends upon a number of factors.

Firstly, effective leadership is a prerequisite for any business. At Barclays Africa, we have recognised the need to grow and expand our leadership. We are investing in our people across the business, but I have also restructured the top team to align with the restructure of our business.

David Hodnett runs South Africa Banking, Peter Matlare heads our Rest of Africa Banking operations, and Nomkhita Nqweni leads our WIMI business.

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

Peter was an independent non-executive director from 2011 until his appointment as Deputy Chief Executive Officer on 1 August 2016. He remains on our Board as an executive director.

Jason Quinn was appointed as our Financial Director from 1 September 2016.

Arrie Rautenbach – in addition to his risk responsibilities – assumed responsibility for our strategy function and the Barclays PLC separation process.

Zameera Ally was appointed as Head of Internal Audit and serves as an *ex officio* member of the Executive Committee.

With a strengthened Executive Committee, we have the right people in the right positions to provide strategic focus and take our business forward.

Secondly, our culture and Values are a fundamental part of our DNA. They need to be nurtured and shaped. When we encounter behaviour which is not in accordance with our Values we take appropriate action.

We take the issue reported by the South African Competition Commission regarding breaches in Competition Law relating to foreign exchange trading of the South African rand extremely seriously, and we have cooperated fully with the commission. Along with Barclays PLC, we were the first to bring the conduct to the attention of the Commission under its leniency programme and will continue to cooperate with them in relation to this matter.

We will continue to cooperate with the Office of the Public Protector with respect to the provisional report relating to the Bankorp matter, dating back to 1985. Our response addresses several legal and factual inaccuracies contained in the provisional report. Our position remains that all obligations relating to the South African Reserve Bank's assistance were discharged in full by October 1995 in line with the requirements set out as part of the assistance programme to Bankorp.

I want to assure our stakeholders that we remain committed to ensuring we conduct ourselves in accordance with both the law and our Values; that we act in the right way and treat our customers and clients fairly. Conducting ourselves in the best interests of our customers and clients is a critical element of our Values.

One of our core Values is Stewardship – leaving things better than we found them. We are systemically significant in all the counties where we operate and so have a responsibility to show leadership. At Barclays Africa, we understand that the broader transformation of society cannot take place unless large institutions like ours play a major part. We know we need to do more in this respect.

For us, transformation goes beyond compliance with the local and international legislation and regulation. Our task is to create a truly transformed organisation where we empower our people to fulfil their purpose. Our commitment is to ensure that our organisation's culture aligns with our Shared Growth philosophy which in turn informs our strategic decisions.

The areas we have chosen for Shared Growth are fundamental to development of society as a whole and we are committed to using our resources, people and expertise in order to make a positive difference to society. We need to continue to work in partnership with governments, corporate partners and civil society to create more opportunities for inclusive growth and development.

We are investing in education and entrepreneurship across the continent. We also have an ongoing commitment to financial inclusion, providing wider access to communities. We have chosen these areas, as they are powerful enablers of inclusive growth and development.

In conclusion

I believe our 2016 performance is evidence of the resilience and momentum that are hallmarks of our business.

Our resilience in withstanding economic headwinds, remaining focused on our strategy and effectively managing the Barclays PLC separation process will stand us in good stead in unlocking the full potential of our business and seizing opportunities.

We rely on support and commitment of all our stakeholders – from governments and regulators to the individual communities in which we operate. Above all, none of our achievements this year would have been possible without our customers and clients. We thank you for entrusting us with your financial prosperity. We strive to help you fulfil your ambitions in the right way, and I wish to thank you for your ongoing support.

I also thank my leadership team for their commitment and drive and, on behalf of my leadership team, I extend our gratitude to our Board as well as to our 41 241 employees without whom we could not deliver on our Goal.

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 Goal of becoming the financial services provider of choice in Africa is within our reach.