Financial Director's review

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and Financial Director

After a satisfactory performance in 2015, our balance sheet is well positioned for a deteriorating macro backdrop, given our highest level of portfolio provisions since 2007, our lowest levels of non-performing loans since 2005, and strong capital ratios and liquidity.

Overview of 2015

We delivered another satisfactory performance in 2015, meeting our guidance for a third consecutive year, despite the deteriorating macro backdrop and increasing regulatory pressures. Diluted headline earnings per share again grew 10%, driven by improving revenue momentum and 8% higher pre-provision profits.

Responsibly growing our top line remains a priority and our revenue grew 6% to R67.2bn, as our net interest income rose 8% due to wider margins and better than expected loan growth. Importantly, our non-interest income growth improved to 5%, given solid momentum in several target areas. Costs remain well managed, increasing 5% as we continue to optimise in the right areas while investing in growth initiatives. Although non-performing loans declined to 3.9% of the total loan book, our credit loss ratio increased slightly to 1.05%, as we built up our portfolio provisions further.

RBB's headline earnings grew 14% to R9.7bn, while WIMI's rose 11% to R1.5bn, both due to improved revenue growth and strong cost management. CIB's headline earnings increased 6% to R3.9bn, despite significantly higher credit impairments. Our Rest of Africa operations continue to enhance our Group earnings and revenue trajectory, growing 17% and 14% respectively, largely due to RBB Rest of Africa's improved performance.

Our return on equity increased to 17.0%, its highest level since 2008, reflecting an improved 1.37% return on assets and slightly lower leverage. Strong internal capital generation offset 13% risk-weighted asset growth to maintain our Common Equity Tier 1 ratio at 11.9%, enabling us to declare an 8% higher dividend per share.

Factors influencing our performance

Deteriorating macro backdrop

South Africa's economic growth disappointed again last year, impacted by electricity shortages, drought, lower commodity prices and reduced consumer spending. GDP increased 1.3%, well below the 2.9% we forecast in our budgets.

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The commodity cycle downturn, drought, electricity shortages and weaker fiscal balances in several countries also slowed economic growth across our Rest of Africa portfolio materially. There were substantial interest rate increases across five of our markets, although Botswana and Tanzania reduced theirs. Nonetheless, we have limited exposure to oil exporting countries and GDP growth across our portfolio remained well above South Africa's. The rand depreciated against most currencies in our portfolio, particularly in December, which increased our Rest of Africa balance sheet by 20%.

Regulatory changes

Regulatory changes continue to impact our operations, earnings and balance sheet. The introduction of a new interchange regime in South Africa from 17 March 2015 reduced our card revenue by R300m, while new National Credit Act affordability rules slowed new sales and impacted our strategy of limit increases in Card. We also dealt with numerous regulatory changes across the Rest of Africa, ranging from moratoriums on fee increases, reducing lending margins, higher reserve requirements and increased capital adequacy hurdles.

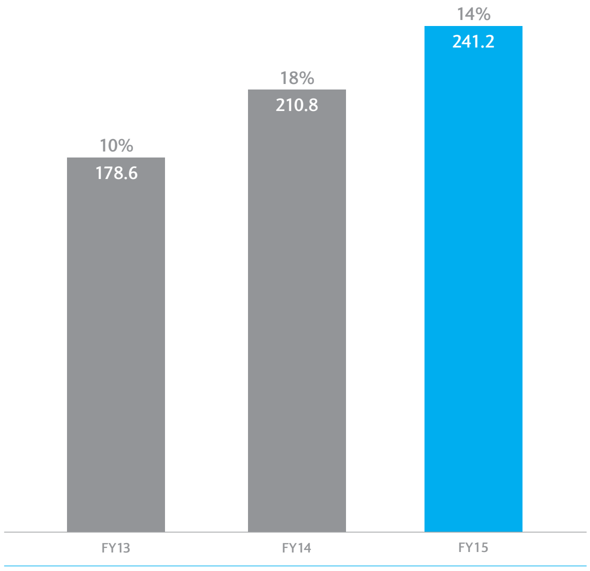
During the year, the South African National Credit Regulator introduced lower lending caps effective from May 2016, which will impact our margins, particularly in personal loans and credit cards. Given our already low fees, the recently proposed rules on lower pricing caps on credit life products is expected to have a limited impact on us.

Regulatory changes have also impacted our balance sheet, including new liquidity hurdles that I will discuss below. Other future developments include establishing the Bank Recovery and Resolution Framework, getting clarity on total loss-absorbing capital requirements and capital for interest rate risk in banking books, a fundamental review of capital held for trading, the potential introduction of deposit insurance and a number of evolutionary changes outside South Africa.

Improving revenue growth in target areas

Despite these challenges, we continue to gain revenue momentum in several target businesses. Continued progress in Retail Banking South Africa, which constitutes 47% of our revenue, saw its non-interest revenue grow 5% to R12.3bn, from just 2% in 2014. Absa Card, the largest acquirer in Africa, grew volumes 14%, while our debit card turnover increased 13%. Importantly, our retail transactional revenue rose 5%, as 2% customer growth, increasing client activity and sub-inflation price increases outweighed continued customer migration to digital channels and lower-cost bundled products.

South African card acquiring volumes (Rbn)



Business Banking South Africa's moderate 3% core revenue growth to R9.0bn masks solid growth in target areas, as continued client migration to digital channels and 10% increase in electronic banking fee income offset a 21% and 3% drop in cheque payments and cash-related income respectively. Term loans also increased 15%, after we created a dedicated sales force in 2014 to grow these in targeted segments. However, customer numbers declined 2%, and reversing this trend is a priority.

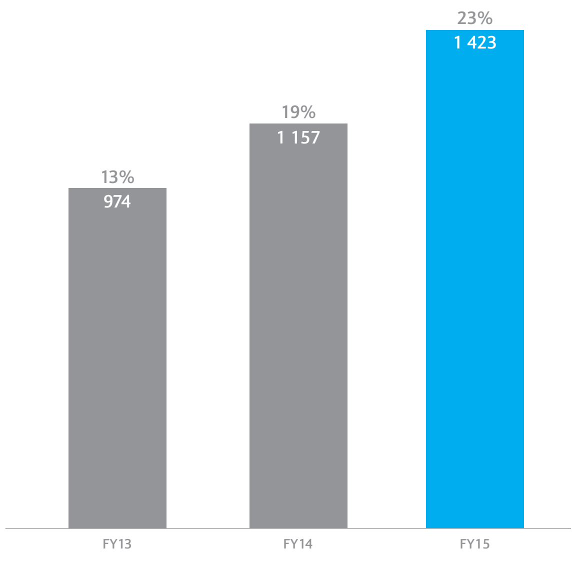
Commercial property finance payouts increased 28%, so the net book declined 2% despite higher run-off. CIB's commercial property finance book more than doubled off a low base, predominantly to large listed clients.

Following substantial investment, RBB Rest of Africa rebounded from a disappointing 2014, as the positive underlying metrics I highlighted last year translated into stronger topline growth. Constant currency revenue rose 11%, including 20% higher non-interest income on strong transaction volumes, particularly in card acquiring and foreign exchange.

Corporate South Africa maintained its double-digit revenue growth rate, rising 12% to R4.0bn, due to strong growth in trade finance and cheque account deposits. Our Corporate revenue in the Rest of Africa increased 10% to R3.3bn, reflecting strong balance sheet growth. We expect both to grow their transactional revenue as we roll out Barclays.Net in South Africa this year and in other countries from 2017.

Our Markets revenue in the Rest of Africa continued its strong growth, with revenue up 23% to R1.4bn, 35% of CIB's total trading revenue. Markets Rest of Africa is largely foreign exchange trading that benefited from currency volatility and increased client flows. With our foreign exchange platform and risk systems in place, we expect continued growth here, as more countries contribute and our corporate flows increase.

Markets Rest of Africa net revenue (Rm)



WIMI Rest of Africa remains a strong growth story with 22% higher revenue, in part due to the depreciation of the rand. Acquiring 63% of First Assurance, a Kenyan short-term insurer, will help its revenue growth. In South Africa, WIMI's revenue growth improved to 6%, including 12% higher net premiums from Life Insurance. WIMI's assets under management grew by R15bn, or 6%, due to a substantial R19bn positive swing in our net inflows, particularly of institutional funds.

Rest of Africa strategy delivering

While the commodity downturn and reduced GDP growth weakened general sentiment towards the continent, our operations in the Rest of Africa performed well and enhanced Group growth. Revenue increased 14% and headline earnings 17%, well ahead of the 5% and 8% respectively in South Africa. Consequently, the contribution from Rest of Africa increased to 21% of our revenue and 16% of headline earnings, and our acquisition of Barclays Africa Limited in 2013 remains earnings-enhancing.

The momentum was broad-based, with all three segments producing double-digit revenue growth and banking earnings increasing 22%. Although WIMI's earnings were flat, this stemmed from non-tax deductible pre-incorporation costs in Kenya, as its pre-tax profits grew 18%.

We continue to benefit from the contractual Barclays PLC funding of £30m a year for IT spend, which still has two years to run. With cost growth contained to 9%, Rest of Africa achieved 5% positive Jaws, resulting in 23% higher pre-provision profits. Reflecting the commodity cycle and deteriorating macro backdrop, credit impairments grew 67%, as RBB's credit loss ratio normalised to 2.07%, while CIB's charge increased significantly for mining and commodity exposures off a low base.

We continue to see attractive growth prospects for our portfolio outside South Africa. Within RBB, low retail credit penetration and access to banking provide a structural longer-term growth story, and we remain underweight in Business Banking, particularly SMEs, agriculture and the public sector, which are all areas of strength in South Africa. While Rest of Africa's contribution increased to 37% of CIB's earnings, there is scope to grow this, initially in Markets and through targeted lending, followed by corporate transactional revenue when systems are in place. As noted, WIMI should maintain its strong growth and it continues to look at opportunities in Ghana.

Income statement analysis

The shape of our income statement was consistent with our guidance, with a wider net interest margin and revenue growth exceeding cost growth and our credit loss ratio similar to 2014's.

	2013 Rm	2014 Rm	**2015 Rm**	YoY change %
Net interest income	32 351	35 601	**38 407**	8
Non-interest revenue	27 055	27 524	**28 791**	5
Total revenue	59 406	63 125	**67 198**	6
Operating expenses	(33 420)	(35 848)	**(37 661)**	(5)
Pre-provision profit	25 986	27 277	**29 537**	8
Credit losses	(6 987)	(6 290)	**(6 920)**	(10)
Other impairments and indirect tax	(1 033)	(1 412)	**(1 443)**	(2)
Associates and joint ventures	130	142	**129**	(9)
Profit before taxation	18 096	19 717	**21 303**	8
Taxation	(5 222)	(5 573)	**(5 899)**	(6)
Profit after taxation	12 874	14 144	**15 404**	9
Non-controlling interest	893	928	**1 073**	16
Attributable earnings	11 981	13 216	**14 331**	8
Headline earnings	11 843	13 032	**14 287**	10

Net interest income continues to underpin revenue growth

Net interest income grew 8% to R38 407m, benefiting from 16 basis points of margin expansion to 4.81% and 4% higher average interest-bearing assets. It has consistently improved since 2012, rising by 53 basis points, despite a declining contribution from our hedge programme.

There were several moving parts within our net interest margin, although a wider lending margin was the main reason for the increase.

Loan mix and pricing improved our margin by 8 basis points, largely due to better pricing within Home Loans, Personal Loans and our Investment Bank. These outweighed competitive pressure in vehicle finance pricing. Within deposits, compression in Business Banking offset improved retail spreads, while the endowment impact of higher rates added 2 basis points.

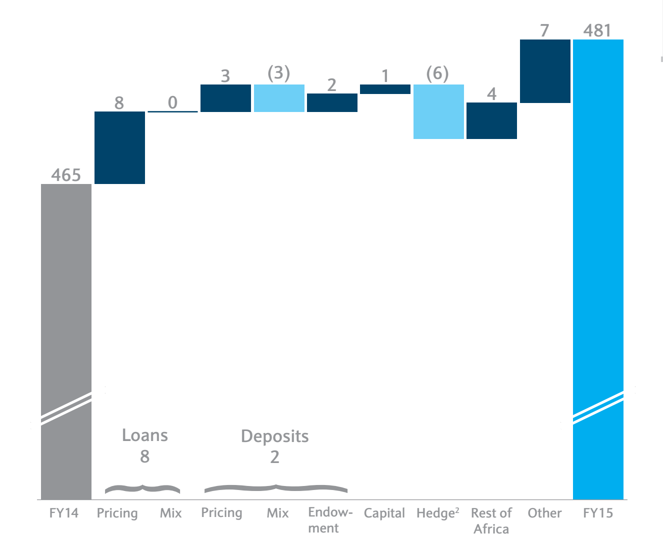
Rest of Africa's margin rose 10 basis points to 8.23%, and given its increased weighting after 28% loan growth, it had a positive Group impact, as its margin remains considerably higher than South Africa's. Our South African margin improved 13 basis points to 4.26%, in part due to improved pricing. Structural hedging contributed 14 basis points of our net interest margin, with R1.1bn released to our income statement, or 6 basis points less than in 2014. Our cash flow hedging reserve decreased to a debit of R2.1bn after tax from a R400m credit. Changing our funding model for foreign currency loans added 8 basis points to our margin, with an equal reduction in non-interest income, while higher liquid assets reduced it by 3 basis points.

Our non-interest income growth improved to 5%, including 6% growth year-on-year in the second half. Net fee and commission income, which accounted for 70% of the total, increased 8% for the year and 5% in the second half. Growth came in annuity areas, including 7% higher cheque account fees, while electronic banking grew 12% and credit cards 37%. Despite strong volume growth, merchant income fell 7%, due to lower prescribed interchange rates.

Although CIB's net trading dropped 18%, this was largely due to reduced hedging from changing the way we fund foreign currency loans. Total Markets revenue fell 3%, which is a fairer reflection of our trading performance. While Rest of Africa continued its strong growth, South Africa's Markets revenue dropped 13%, with fixed income and foreign exchange down notably, while Prime Services and Equities grew 21%.

Our Group revenue remains well diversified, although non-interest income declined slightly to 43% of the total. At 45%, South Africa's level of non-interest income remains well above Rest of Africa's 35%, which we expect to increase as WIMI and CIB grow across the continent.

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



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

Costs remain well contained as we save to invest

Our operating expenses increased 5% to improve our cost-to-income ratio to 56%. Our structural cost programmes continue to produce efficiency gains that allow us to invest in strategic initiatives. Our property-related costs fell 1%, as we continue to optimise this portfolio, given above-inflation growth in rates and utility costs. We see further savings opportunities in our operations area, IT and our Rest of Africa branch network. South Africa's 4% cost growth was well below inflation, while Rest of Africa's costs rose 9%, reflecting continued investment spend.

Our staff costs increased by 8% and accounted for 56% of total expenses. Salaries grew 8% due to higher wage increases for entry level employees and additional headcount in specialist areas such as IT.

We restricted non-staff cost growth to 1%, despite 18% higher professional fees, which largely relates to strategic projects and increased Financial Intelligence Centre Act (FICA) remediation costs. Amortisation fell 6% due to impairments recognised in 2014 and our intangibles remain low at R2.8bn. Our overall IT spend also increased 7% and accounted for 18% of the total. Marketing costs grew 8%, reflecting increased product advertising, and volume growth increased cash transportation costs 7%.

Credit loss ratio ticks up

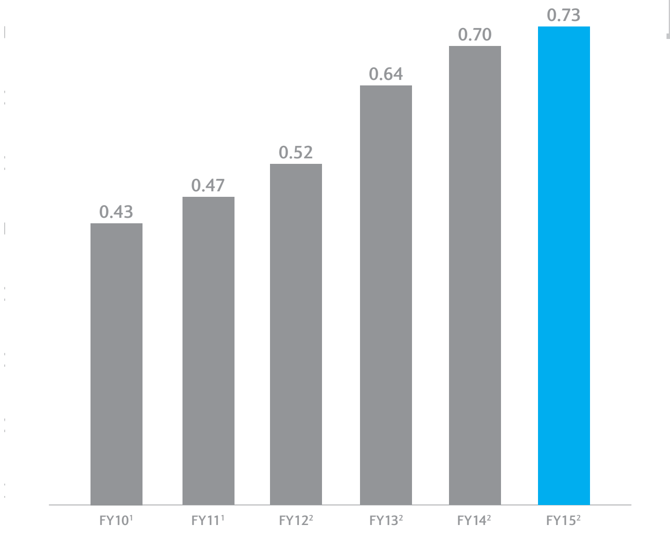
The credit cycle has started to turn, and our credit impairments grew 10% to R6 920m, increasing our credit loss ratio 3 basis points to 1.05%, its first rise since 2012. We calculate our credit loss ratio differently from our peers. On a like-for-like basis, including loans to banks and excluding collection costs of R295m, our charge was 0.9%.

We continued to build our balance sheet portfolio provisions, which grew 15% to R5bn, or 73 basis points of performing loans from 70 basis points. This increase included R418m of additional macroeconomic overlays, which have trebled since 2013 to R1.1bn. Higher portfolio provisions were particularly noticeable in CIB, given its growing watchlists.

South Africa's credit loss ratio improved 3 basis points to 0.97%, reflecting our focus on originating quality loans and substantially improving our collections in recent years. Rest of Africa increased 53 basis points to 1.70%, reflecting a more normalised RBB charge and significantly higher CIB provisions.

Although our non-performing loans grew 2% to R27.9bn, they decreased from 4.2% to 3.9% of gross customer loans, the lowest level since 2005. Substantially higher CIB non-performing loans offset the continued decline in Home Loans and Commercial Property Finance. Our stock of repossessed vehicles has dropped 44% since 2011 to 1 191, while our 126 properties in possession are 94% below 2011's peak.

Portfolio provisions to performing loans (%)



[1] Absa Group.
[2] Barclays Africa Group.

Effective tax rate remains relatively high

Our taxation expense increased 6% to R5 899m, less than the 8% growth in pre-tax profit, resulting in an effective tax rate of 27.7% from 28.3%. The decline was largely due to reducing expenses that were not deductible for tax purposes. Our tax levels remain relatively high, in part due to a rate of 31.6% in our Rest of Africa operations.

Balance sheet analysis

Our total assets increased 15% to R1 145bn. Solid 12% or R86bn growth in customer deposits and debt securities were our principal source of new funding. Equity added another R8bn and borrowed funds R2bn. We used these funds to increase customer loans by R67bn. Trading portfolio assets and liabilities grew 52% and 82% respectively, in part due to the weaker rand. Rand depreciation, particularly in the second half, increased our balance sheet by 3% and added R3.8bn to our foreign currency translation reserve in the second half, increasing our total equity by 5%.

	2013 Rm	2014 Rm	**2015 Rm**	YoY change %
Assets				
Loans and advances to customers	606 223	636 326	**703 359**	11
Total assets	962 863	991 414	**1 144 604**	15
Equity and liabilities				
Capital and reserves attributable to ordinary equity holders of the Group	77 317	82 690	**89 292**	8
Non-controlling interest – ordinary shares	3 240	3 611	**4 711**	30
Non-controlling interest – preference shares	4 644	4 644	**4 644**	–
Total equity	85 201	90 945	**98 647**	8
Liabilities				
Deposits due to customers	588 897	624 886	**688 419**	10
Total liabilities	877 662	900 469	**1 045 957**	16
Total equity and liabilities	962 863	991 414	**1 144 604**	15
Loans-to-deposits and debt securities ratio (%)	88.3	87.1	**86.1**	–

Improved loan momentum in target areas

Net loans and advances to customers rose 11% to R703bn. Our constant currency growth was closer to 9% and excluding the substantial increase in reverse repurchase agreements, about 7%.

Our gross property-related book grew 2%, its first increase in several years, to account for 38% of Group loans from 41%.

Home Loans were flat, despite 13% higher registrations, while Business Banking's book increased 2% as payouts rose 28% and CIB's commercial property loans grew significantly to low-risk customers.

The rest of our loans increased 17%, largely due to CIB growing 29% after a strong fourth quarter. CIB's reverse repurchase agreements more than trebled to R20bn, leaving its underlying growth at 21%.

Most of CIB's loan growth was to leading South African corporates and large international groups involved in renewable energy. Much of the growth came in the fourth quarter, which will provide momentum into 2016. Although CIB's Rest of Africa loans grew 31%, rand depreciation accounts for two thirds of this growth.

Our CIB portfolio remains well diversified across industries and our exposure to the mining sector remains low at 1% of loans. Our agricultural book of R31bn is about 4% of loans. Approximately R22bn is in Business Bank and R9.6bn in CIB, which is to large well diversified cooperatives. Despite South Africa experiencing our worst drought since records began, we do not currently expect this area to increase our Group charge significantly in 2016, given resilient farm values, farmers with reasonable harvests benefiting from higher prices and our prudent credit granting over the past four years.

RBB Rest of Africa's loans increased 26% or 14% in constant currency, with strong growth in credit cards as we entered additional countries, mortgages on opening mortgage centres and personal loans through improved risk segmentation. Commercial loans grew 22% off a low base.

In South Africa, Vehicle and Asset Finance grew 6% despite industry new vehicle sales falling 4%, although retail slowed notably in the second half. Our Ford Financial Services joint venture grew new business 30%, as Ford gained market share. Card grew 2%, with Edcon falling 10% to offset solid growth from Woolworths Financial Services and Absa Card. Personal Loans grew 8%, with improved sales to existing low-risk customers. Our retail lending remains prudent and we lost market share in most categories.

Solid deposit growth

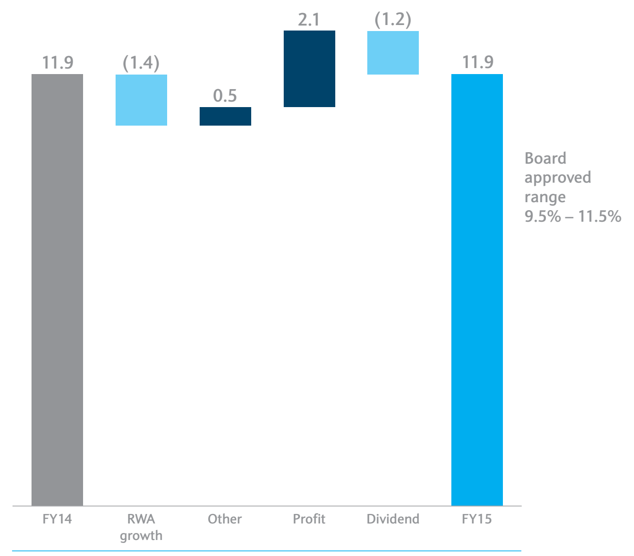
RBB South Africa maintained its strong deposit growth, with Retail Banking growing 10%, including 7% higher cheque account deposits, fixed deposits rising 14% and investment products up 17%. Business Banking grew 9%, with investment products rising 16%, to remain a large net provider of funds to the Group. RBB Rest of Africa's deposits grew 20%, largely due to rand depreciation. CIB's deposits rose 6%, with call deposits up 16% and cheque account deposits 10%. Our Group loan-to-deposit ratio fell to 86% from 87%. Debt securities in issue grew 21% to R128bn to account for 15% of our funding.

Capital and liquidity remain strong

Our Group risk-weighted assets grew 13% to R703bn, largely in line with our asset growth. We remain capital generative, with earnings adding 2.1% to our Common Equity Tier 1 ratio. Paying R8.2bn of ordinary dividends reduced our ratio by 1.2%, while R3.0bn growth in our foreign currency reserve added another 0.5%. The resulting 11.9% Common Equity Tier 1 ratio was above the top end of our Board target range, which we increased by 50 basis points to 11.5% during the year. Our Group leverage ratio, including unappropriated profits, was 6.7%, well above the minimum requirement of 4.0%. Although we are still evaluating its likely quantum, introducing IFRS 9 in 2018 is likely to reduce our Common Equity Tier 1. For 2016, our Board has increased its total capital adequacy ratio target range by 50 basis points to between 13.0% and 15.0%. This is likely to increase further in the next few years. Given the growth in our business and the uncertain economic environment, we will maintain capital ratios at the top end of our Board targets and our dividend cover is likely to increase in the coming years.

Our liquidity also remains healthy, with 13% growth in liquid assets and other sources of liquidity to R199bn. Our liquidity coverage ratio averaged 70% in the fourth quarter, well above the current regulatory requirements of 60%. In 2016, we will start using the committed liquidity facility that the South African Reserve Bank is providing to enable banks to meet these liquidity coverage ratio requirements as they increase. While net stable funding ratios only become effective on 1 January 2018, recently proposed changes to the recognition of wholesale funding would see us complying already.

Barclays Africa Group Common Equity Tier 1 ratio (%)



Segmental performance

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

Headline earnings	2013 Rm	2014[1] Rm	**2015 Rm**	YoY change %	Contribution[2] %
Retail and Business Banking	7 618	8 525	**9 698**	14	64.2
Retail Banking South Africa	5 160	5 733	**6 628**	16	43.9
Business Banking South Africa	1 492	2 069	**2 175**	5	14.4
RBB Rest of Africa	966	723	**895**	24	5.9
Corporate and Investment Bank	3 348	3 734	**3 940**	6	26.1
CIB South Africa	2 509	2 519	**2 475**	(2)	16.4
CIB Rest of Africa	839	1 215	**1 465**	20	9.7
Wealth, Investment Management and Insurance	1 420	1 324	**1 464**	11	9.7
Group centre[3]	(543)	(551)	**(815)**	(48)	
Total	11 843	13 032	**14 287**	10	

1 Restated.
2 Excluding Group centre.
3 Our Head Office headline loss grew 48%, largely due to dilapidations in 2014 that were excluded from headline earnings.

RBB

RBB's earnings grew 14% to R9.7bn, or 64% of our earnings excluding the Group centre. Improved 7% non-interest income growth and containing cost growth to 4% produced 10% higher pre-provision profits. Credit impairments rose 1%, although its credit loss ratio improved slightly to 1.29%. RBB's return on regulatory capital improved to 21.7% from 20.1%.

Retail Banking South Africa

Headline earnings grew 16% to R6 628m, driven by 10% higher pre-provision profits and 2% lower credit impairments. Transactional and Deposits earnings grew 9% to R2 672m, given increased customer numbers and 14% higher net interest income on 11% deposit growth. Despite moderate 3% revenue growth, Home Loans' earnings rose 15% to R1 813m, as a result of 9% lower costs while credit impairments fell 20%. Card earnings increased 25% to R1 678m, as 6% revenue growth exceeded 1% lower costs and its credit loss ratio improved slightly to 6.07%. Our Edcon portfolio made R123m, from its 2014 loss of R9m, due to far lower credit impairments. Vehicle and Asset Finance earnings declined 3% to R999m, given negative operating Jaws and 6% higher credit impairments. Personal Loans earnings grew 211% to R361m, reflecting improved 10% revenue growth, while costs and credit impairments fell 10% and 6% respectively. Losses in the 'Other' segment grew 13% to R895m, due to increased spending on strategic initiatives and a higher cost of funding. Retail Banking South Africa accounted for 44% of total earnings, excluding the Group centre.

Business Banking South Africa

Headline earnings increased 5% to R2 175m, reflecting 4% growth in its core franchise and a 17% smaller loss in the non-core equity portfolio. Pre-provision profits grew 3% with moderate 3% revenue growth slightly below 4% higher costs, while its credit loss ratio remained flat at 0.87%. Business Banking has a high proportion of annuity revenue as fees account for 93% of its non-interest income and it produces a strong 26% return on regulatory capital. Business Banking South Africa generated 14% of overall earnings excluding the Group centre.

RBB Rest of Africa

Headline earnings grew 24% to R895m or 17% in constant currency. Improved 12% revenue growth exceeded 7% higher costs to grow pre-provision profits 28% and reduce its cost-to-income ratio to 69%. Credit impairments increased 21%, slightly more than growth in average advances. RBB Rest of Africa contributed 6% of total earnings excluding the Group centre.

CIB

Headline earnings rose 6% off a relatively high base to R3 940m, due to 6% higher pre-provision profits and lower taxation. Revenues grew 8%, with Rest of Africa increasing 15% and South Africa 4%. Markets' revenue declined 3%, with South Africa down 13% while Rest of Africa grew 23%. Costs rose 9%, reflecting continued investment in systems and technology. Credit impairments increased 220%, due to higher portfolio provisions and non-performing loans. Corporate earnings grew 16% to R1 965m, as 5% positive operating Jaws outweighed higher credit impairments. Corporate revenue grew 11% on strong balance sheet growth. Investment Bank's earnings fell 3%, given negative operating Jaws and increased credit impairments. CIB's return on regulatory capital declined to 17.1% from 19.5%, due to higher credit charges. It contributed 26% of total earnings excluding the Group centre.

WIMI

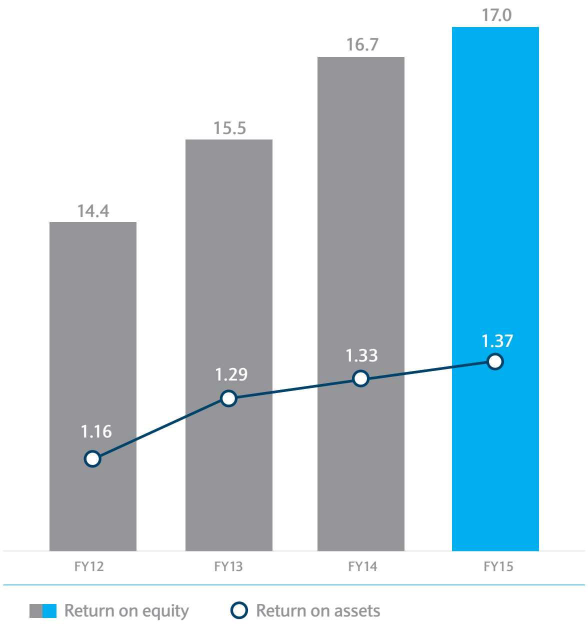
Headline earnings grew 11% to R1 464m, its strongest growth in several years, while net operating income increased 16% to R1 924m. Life Insurance earnings rose 14% to R794m, due to 12% higher net premium income and 2% lower costs. Its return on embedded value declined to 22.7%. Although Life Insurance's embedded value of new business increased 14% in the second half, it decreased 4% year-on-year due to lower volumes in advice products and aligning credit life products and pricing across the continent. Wealth and Investment Management's earnings grew 5% to R438m given 11% revenue growth as assets under management increased 6% to R274bn. Short-term Insurance earnings grew 40% to R237m as its underwriting margin and loss ratio improved. Fiduciary Services earnings increased 17% to R137m, while Distribution returned to profitability. WIMI South Africa's continuing business lines earnings grew 13% to R1 400m, while Rest of Africa was flat at R49m. WIMI's return on equity improved to 24.9% from 23.2%. It generated 10% of earnings excluding the Group centre.

Improving returns

Our return on equity increased further to 17.0% from 16.7%, as our return on assets rose to 1.37% from 1.33%, largely due to our improved pre-provision profit growth. Our leverage fell slightly to 12.4 times from 12.6 times. Our return on assets is similar to 2008's high of 1.38%, when our return on equity was 23.4% given considerably greater leverage. South Africa's return on equity improved slightly to 17.9%, so it has already achieved our Group target.

While Rest of Africa's return on equity improved to 13.7%, it remains a drag and well below its cost of equity. We see substantial scope to improve this in the medium term by reducing RBB's high cost-to-income ratio, further decreasing our effective tax rate and turning around our Tanzanian operations as we did in Mozambique in 2015.

Return on equity and return on assets (%)



Looking ahead

Our strategy remains intact and we continue to see opportunities for growth.

Entering a tough and volatile economic period, our arrears in RBB are rising and there is increasing tail risk in our Wholesale portfolio. However, we have grown our lending prudently and are gaining traction in annuity businesses. Our balance sheet is also well positioned for a deteriorating macro backdrop, given our highest level of portfolio provision since 2007, our lowest non-performing loans since 2005, and strong capital ratios and liquidity. We believe that our Group targets are still correct medium-term, although we are unlikely to achieve our return on equity and cost-to-income targets in 2016.

We forecast 0.9% GDP growth in South Africa in 2016, with downside risks from drought and electricity shortages and estimate interest rates will increase another 75 basis points this year. We expect 5.1% GDP growth in our other presence countries in Africa.

We expect low single digit loan growth, with CIB growing faster than RBB and Rest of Africa more than South Africa. Deposit growth should exceed our loan growth. Our net interest margin should decline slightly as liquidity costs, a higher proportion of CIB lending, a reduced contribution from our hedge programme and the introduction of National Credit Act caps in May are likely to offset the endowment benefit of higher rates. However, continued focus on revenue growth and cost management should produce positive Jaws, further reducing our cost-to-income ratio. Our credit loss ratio will increase as arrears are rising and we believe our non-performing loans have bottomed. Our effective tax rate will probably decline slightly and our return on equity is likely to be similar to 2015's. Lastly, Rest of Africa's earnings growth should continue to exceed South Africa's.

Effective risk management and control are essential for sustainable and profitable growth.

Risk summary

Overview of 2015

Overall performance continued to be sound with all risk and capital measures remaining within the Board-approved risk appetite. Key highlights included:

- Macroeconomic conditions deteriorated significantly towards the end of the year and we extended our framework of macroeconomic triggers and management actions in response.
- Loans and advances to customers increased 11%, driven by growth in Wholesale, Card and the portfolios outside South Africa. Excluding growth in repos and exchange rate movement, growth was 6.3%.
- Our credit loss ratio increased to 105 basis points (2014: 102 basis points) and impairment charges increased to R6.9bn (2014: R6.3bn). Increases in the Wholesale and Card portfolios, and additional macroeconomic provisions (R418m) were offset by lower charges in the mortgages and Edcon portfolios.
- Overall coverage on performing loans increased to 73 basis points (2014: 70 basis points).
- Market risk exposures remained within overall risk appetite, despite volatile market conditions.
- Total operational risk and fraud losses were lower than 2014, with fraud losses accounting for 71% of the total.
- We remained capitalised above the minimum regulatory limit and our Board-approved Common Equity Tier 1 target range. Our liquidity position remained healthy and supported the year-end dividend.
- We continued developing and embedding our approach to the management of conduct risk.
- Absa Financial Services submitted its first Own Risk and Solvency Assessment to the South African Financial Services Board.

Priorities for 2015	Progress made in 2015
Ensure performance remains within risk appetite and continue to refine the risk appetite approach for insurance and country risk.	We remained well within the approved risk appetite, with a 90% utilisation. A new risk appetite framework is being implemented, with the first phase completed during 2015, including refinements to insurance and country risk. The second phase will be completed during 2016.
Continue with the embedding of the enterprise risk management framework and the three lines of defence operating model into businesses and countries.	The three lines of defence have been implemented in both the organisational structures and operating models across the Group. We have the right risk culture and tone from the top, and governance structures at a senior management level, with the 2016 priority to further embed this throughout the organisation.
Continue to improve risk measurement models and enhance risk-adjusted returns, while reducing volatility in performance.	Focus was placed on the redevelopment of the Retail Basel regulatory models, stress testing and economic capital models. The focus for 2016 will be on refining wholesale regulatory models and IFRS 9, which addresses accounting for financial instruments.
Continue to invest in systems in fraud prevention and detection (including digital and application fraud), commence migration to our new data centre and further streamline customer onboarding, not only for regulatory compliance purposes, but also to improve customer service.	Bespoke technology has been designed for digital fraud, and we have enhanced analytics for application fraud. Our data centre migration has started and our customer onboarding processes have been redesigned with better customer turnaround times and higher regulatory compliance rates.
Embed conduct risk frameworks and enhance conduct risk management controls, tools and reporting.	Good progress was made in the embedding of the conduct risk framework. Conduct risk is understood and used in the day-to-day decision-making, resulting in achieving the right customer and client outcomes. Conduct risk assessments continue to drive forward-looking risk management, with a focus in 2016 on further enhancements using predictive management information.
Continue to build upon the Recovery Plan and develop an approach to Resolution Planning.	We enhanced our Recovery Plan in line with the South African Reserve Bank's requirements and continue to work with the regulators and industry bodies in the formulation of Resolution Planning.

Looking ahead

- Review and alter risk appetite to take account of global and local macroeconomic deterioration.
- Increase the focus on model risk and governance across the Group.
- Continue to strengthen operational risk controls and infrastructure, specifically in the areas of information, technology, financial crime, and cybercrime, and hone our already established early warning triggers and mechanisms.
- Enhance conduct risk management controls, tools and reporting.
- Increase focus on data initiatives, including those arising from regulations such as BCBS 239 and IFRS 9.
- Continue to enhance our scenario development and stress testing processes in an increasingly uncertain and deteriorating macroeconomic environment.

Credit risk

The risk of financial loss should our customers, clients or market counterparties fail to fulfil their contractual obligations.

Credit risk: Wholesale[1]

	2012	2013	2014[2]	2015	YoY trend
Growth in loans and advances (%)	6.8	14.7	3.5	**22.9**	▲
Risk-weighted assets as a percentage of gross credit extended (%)[3,4]	27.2	34.2	31.8	**29.2**	▼
Non-performing loans as a percentage of gross loans and advances (%)	3.7	2.8	3.0	**2.7**	▼
Non-performing loans coverage ratio (%)	41.9	42.4	35.0	**36.8**	▲
Credit loss ratio (%)	1.0	0.6	0.4	**0.6**	▲

- **Loans and advances:** Growth was robust at 22.9%, with increases in banking, technology, media and telecommunications, agriculture and mining portfolios. Excluding growth in repos and exchange rate movement, growth was 12%. Geographic diversification across Africa continued.
- **Risk-weighted assets as a percentage of gross credit extended:** Decreased due to an increase in derivative instruments arising from an increase in gross credit extended.
- **Non-performing loans[5]:** Increased due to new defaults at higher coverage in Rest of Africa and Business Banking, although non-performing loans as a percentage of total loans decreased. The non-performing loans coverage ratio increased to 36.8% (2014: 35%).
- **Impairments:** The Wholesale credit impairment charge increased to R1 434m (2014: R843m) due to new impairments in Rest of Africa and macroeconomic provisions of R228m.

Looking ahead

- Closely monitor risk trends arising from macroeconomic uncertainty.
- Undertake regular portfolio reviews.
- Ensure continuing alignment of business strategy with risk appetite.
- Implement agreed management actions in response to changing economic conditions.
- Implement enhanced models and data management.

Credit risk: Retail

	2012	2013	2014[6]	2015	YoY trend
Growth in loans and advances (%)	3.4	3.1	5.5	**3.2**	▼
Risk-weighted assets as a percentage of gross credit extended (%)[7,8]	33.7	34.5	32.6	**33.4**	▲
Non-performing loans as a percentage of gross loans and advances (%)	7.0	5.6	4.9	**4.7**	▼
Non-performing loans coverage ratio (%)	36.7	41.0	45.9	**45.6**	▼
Credit loss ratio (%)	1.9	1.5	1.41	**1.35**	▼

1 Wholesale incorporates CIB, Business Banking and WIMI for South Africa and Rest of Africa.
2 Numbers (excluding credit loss ratio) restated to include Rest of Africa and WIMI.
3 Gross credit extended includes off balance sheet exposures as well as exposures to banks and sovereigns.
4 Only includes portfolios subject to the internal ratings-based approaches.
5 Refer to Note 63.2 of our Group annual financial statements for the IFRS 7 analysis for impairments. Refer to Note 4 of our 2015 financial results booklet for an analysis of our non-performing loans.
6 Numbers (excluding credit loss ratio) restated to include Rest of Africa.
7 Gross credit extended includes off balance sheet exposures as well as exposures to banks and sovereigns.
8 Only includes portfolios subject to the internal ratings-based approaches.

- **Loans and advances:** The net decrease of 0.5% in Home Loans was offset by 2% growth in Card, 3% growth in Vehicle and Asset Finance and 19.5% growth in Rest of Africa.
- **Risk-weighted assets as a percentage of gross credit extended:** Increased to 33.4% (2014: 32.6%) due to implementation of new regulatory models.
- **Non-performing loans:** Continued to decrease due to a R1.6bn decline in the Home Loans legal book. The non-performing loans coverage ratio decreased to 45.6% (2014: 45.9%) due to write-offs in mortgages and Vehicle and Asset Finance. This was offset by an increase in the debt counselling legal book in Card.
- **Impairments:** The impairment charge remained flat despite additional macroeconomic provisions of R150m. The credit loss ratio reduced to 1.35% (2014: 1.41%) reflecting improvements in the quality of the Home Loans and Edcon portfolios. The loss ratio decreased in Home Loans, Vehicle and Asset Finance, Edcon and Consumer Banking but increased in Card, in line with the expected default profile of new growth bookings.

Looking ahead

- Closely monitor risk trends arising a from macroeconomic uncertainty.
- Further enhance collection programmes to ensure appropriate management of customers in financial difficulty.
- Continue to focus on improvements to data sources and models/analytics to improve the Group's risk profile, risk measurement, and risk-adjusted returns.
- Continue to improve internal risk measurement models and processes as part of the internal capital adequacy assessment process.

Market risk

The risk that our earnings, capital or business objectives will be adversely impacted by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads.

- **Traded market risk:** The risk that we would be impacted by changes in the level or volatility of positions in trading books, primarily in investment banking.
- **Non-traded market risk:** The risk of our earnings or capital being reduced due to the market risk exposure from banking book positions which may arise net of hedging activities.
- **Insurance risk:** The risk that future experiences relating to claims, expenses, policyholder behaviour and investment returns differ from the assumptions made when setting premiums or valuing policyholder liabilities.
- **Pension risk:** The risk that arises when an adverse movement between pension assets and liabilities results in a pension deficit.

	2012	2013	2014	**2015**	YoY trend
Average traded market risk – daily value at risk (Rm)[1]	21.3	24.7	22.3	**27.0**	▲
Traded market risk regulatory capital (Rm)	1 331	1 630	2 178	**2 501**	▲
Banking book annual earnings at risk for a 2% interest rate shock percentage of Group net interest income (%)	<7	<7	<5	**<6**	▲
Insurance short-term loss ratio (%) South Africa only	69.9	72.2	70.9	**69.4**	▽
Life insurance new business margin (%) South Africa only	8.6	7.6	6.6	**5.5**	▽

- **Traded market risk:** We managed trading exposures within overall risk appetite and the trading business remained resilient despite macroeconomic conditions. The increase in average daily value at risk and regulatory capital was a result of increased volatility in the markets, especially in the second half of the year.
- **Non-traded market risk:** We remained positively exposed to increases in interest rates after the impact of hedging. Interest rate risk management in the Rest of Africa remains challenging due to the relative unavailability of appropriate derivative instruments to hedge.
- **Insurance risk:** Absa Financial Services submitted its first Own Risk and Solvency Assessment report to the South African Financial Services Board, highlighting risk management process improvements.
- **Pension risk:** Pension plans and benefits are provided in all our presence countries with the Absa Pension Fund remaining the largest fund. The overall funding level of the schemes improved in the current year. Following the Absa Pension Fund investment strategy review, a liability-driven investment strategy was implemented to mitigate inflation and interest rate risks and to ensure there are sufficient assets in the pension fund to meet current and future liabilities of the pension fund.

[1] Daily value at risk for Rest of Africa is based on a historical simulation model that uses sensitivity-based inputs rather than full revaluation as is done for South Africa.

Looking ahead

- Respond to regulatory and capital change, specifically preparing for the adoption of the Fundamental Review of the Trading Book.
- Continue to reduce margin volatility through the structural hedge programme in South Africa.
- Continue to focus on improvements in data quality.
- Develop a pension risk appetite for all the Group's pension schemes.

Funding risk[1]

The risk that the Group is unable to achieve its business plans as a result of capital and liquidity risk.

- **Capital risk:** The risk that we are unable to maintain adequate levels of capital. This could lead to an inability to support business activity, a failure to meet regulatory requirements, and/or changes to credit ratings, which could also result in increased costs or reduced capacity to raise funds.
- **Liquidity risk:** The risk that we are unable to meet our obligations as they fall due.

Funding risk: Capital risk

	2012	2013	2014	**2015**	YoY trend
Cost of equity (%)[2]	13.5	13.0	13.5	**13.75**	▲
Total risk-weighted assets (Rm)	438 216	560 865	619 705	**702 663**	▲
Common Equity Tier 1 ratio (%)[3]	13.0	12.1	11.9	**11.9**	=
Return on risk-weighted assets (%)	2.09	2.16	2.22	**2.18**	▼
Return on average economic capital (%)	20.8	20.6	20.4	**19.0**	▼
Return on equity (%)	14.1	15.5	16.7	**17.0**	▲

- **Cost of equity:** Increased to 13.75% (2014: 13.50%) from January 2015 due to a higher risk-free rate.
- **Risk-weighted assets:** Increased 13.4% to R702.7bn (2014: R619.7bn) as a result of increased regulatory requirements and the negative impact of the economic environment on certain credit portfolios. This was partially offset by risk-weighted asset precision initiatives.
- **Capital:** Remained above the minimum regulatory limit and the Board-approved Common Equity Tier 1 ratio target range.

Looking ahead

- Ensure all entities remain adequately capitalised relative to minimum regulatory requirements and Board-approved target capital ranges.
- Further improve the approach to capital management:
  - continue to focus on risk-weighted assets precision initiatives;
  - enhance the economic capital framework;
  - embed performance metrics such as positive net generation of equity and return on equity;
  - maintain an optimal capital supply mix; and
  - allocate capital appropriately.
- Continue engaging with the South African Reserve Bank to finalise the total loss-absorbing capacity requirements as part of the Resolution Framework for South African operations.

[1] Structural risk was previously a key risk under funding risk, but is now being included as a component of interest rate risk in the banking book within non-traded market risk.
[2] The average cost of equity is based on the capital asset pricing model.
[3] Board target range 9.5 – 11.5%

Funding risk: Liquidity risk

	2012	2013	2014	**2015**	YoY trend
Sources of liquidity (Rm)	144 604	153 871	175 836	**199 024**	▲
High quality liquid assets (Rm)	76 216	81 974	88 537	**105 332**	▲
Other liquid assets (Rm)[1]	24 986	31 697	31 841	**31 640**	▼
Other sources of liquidity (Rm)	43 402	40 200	55 458	**62 052**	▲
Long-term funding ratio (%)	23.5	24.3	21.9	**21.0**	▼
Loan-to-deposit ratio (%)	87.1	88.3	87.1	**86.1**	▼
Liquidity coverage ratio (%)[2]	n/a	n/a	n/a	**69.9**	First year of measurement

- **Liquidity risk position:** This remained healthy and within key limits and metrics. Since 1 January 2015, we continuously maintained a liquidity coverage ratio in excess of the required 60%.
- **Loan-to-deposit ratio:** This decreased 1% to 86.1% (2014: 87.1%) primarily due to higher debt securities in issue.
- **The net stable funding ratio:** This comes into effect on 1 January 2018.

Looking ahead

- Manage the funding and high quality liquid asset position within our Board-approved liquidity risk appetite framework and regulatory liquidity requirements.
- Continue to grow and diversify the funding base to support asset growth and other strategic initiatives.
- Continue to work with regulatory authorities and other stakeholders on the net stable funding ratio, recovery and resolution, and deposit guarantee scheme.

Operational risk

Operational risk arises when there is potential for direct and/or indirect losses resulting from human factors, inadequate or failed internal processes, systems or external events.

	2012	2013	2014	**2015**	YoY trend
Total losses as a percentage of gross income (%)	1.2	1.1	1.1	**0.8**	▼
Total losses (Rm)	660	659	735	**541**	▼
Operational risk-weighted assets (Rm)	62 385	79 235	92 942	**98 668**	▲

- **Total operational risk losses:** These were within the Group's appetite and were lower than 2014. Fraud losses are lower than 2014 and decreasing ahead of industry trends. Fraud losses continued to be the main contributor to operational risk losses, amounting to 71% of total losses.
- **Operational risk risk-weighted assets:** Increased due to a rise in the standardised approach capital, which was driven by increased operating income.
- **Technology risk:** Significant investments have been made in upgrading infrastructure and disaster recovery capabilities, resulting in improved system stability.
- **Fraud risk:** Card fraud losses remain the major contributor to overall fraud losses, but these have improved and stabilised across all Card portfolios. Lending fraud has increased and is being monitored closely.
- **Information risk:** Further progress has been made in enhancing protection of secret and confidential data by improving logical access controls.
- **Financial crime:** Satisfactory progress has been made on remediating customer identification and verification issues, customer on-boarding processes, improved customer document retrieval capability as well as improved suspicious transaction monitoring outside South Africa. Automated processes and controls are applied where possible.

[1] Rest of Africa.
[2] The Group liquidity coverage ratio represents the simple average of the relevant three month-end data points prior to year end. Surplus high quality liquid asset holdings in excess of the minimum requirement of 60% have been excluded from the aggregated high quality liquid asset number in the case of all Rest of Africa banking entities.

Looking ahead

- Continue to invest in technology to improve and maintain technology resilience.
- Continue to focus on managing cyber risk.
- Compliance with financial crime regulations will be strengthened through further investment in technology and transforming the customer on-boarding processes.
- Continue improving our fraud prevention, and early detection, capabilities with a focus on digital banking, branch network and operations in the Rest of Africa.
- Challenges to energy and water supply are being closely monitored and plans developed.

Conduct risk

Conduct risk is the risk that detriment is caused to customers, clients, counterparties or the Group because of inappropriate judgement in the execution of business activities.

The key themes for the year were the resilience of technology and continued levels of regulatory change.

We managed a number of conduct and reputation risks:

- A number of accounts deemed non-compliant with Know Your Customer regulations were blocked, which negatively impacted customer experience.
- We closed several branches in line with a strategic drive to implement a multi-channel solution. Stakeholders' responses were monitored and used to inform the engagement strategy.
- The reputation risk associated with both internal and external fraud.

In addition, we implemented the required changes to respond to the amendments of the National Credit Act that came into effect in September.

Significant events and issues were considered in the remuneration decisions of individuals and on bonus pools.

Looking ahead

- Increase focus on improving overall regulatory controls, particularly those related to Know Your Customer, anti-money laundering, and the National Credit Act.
- Embed risk assessments and forward-looking conduct risk reporting across the organisation.
- Enhance controls and key performance indicators to track and manage conduct risk.
- Maintain a robust awareness and understanding of drivers of political, regulatory and policy changes across the continent and manage changes to minimise customer impact.
- Assess the impact of 'Twin Peaks' regulations, specifically the Retail Distribution Review proposals.

View our full risk report at barclayafrica.com