

# Managing the Downcycle

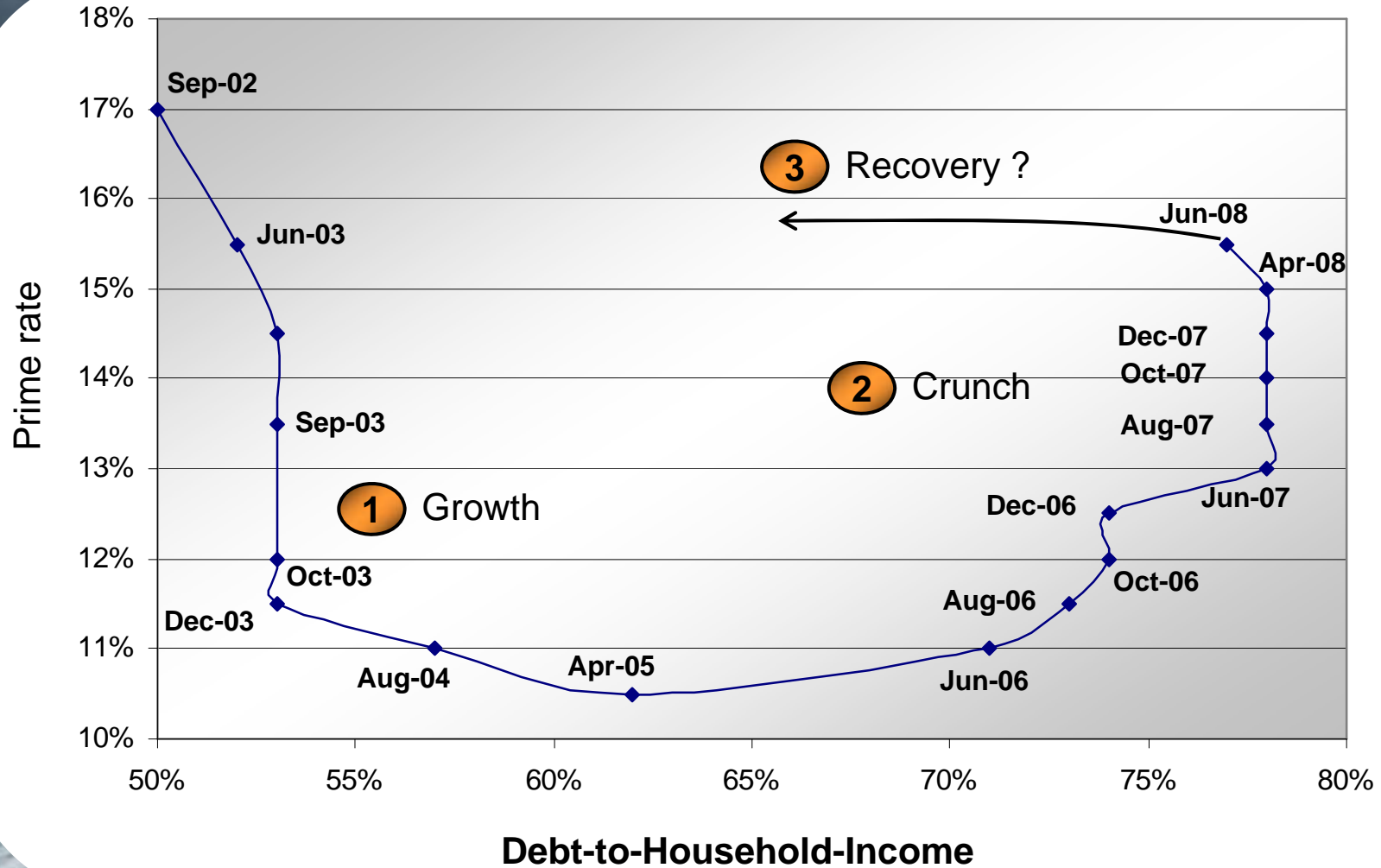
- **Recent history**
- **Simple down cycle model**
- **Predictability is vital**
- **The shock**
- **Why the current cycle is different**
- **Management actions**
- **Where are we going**

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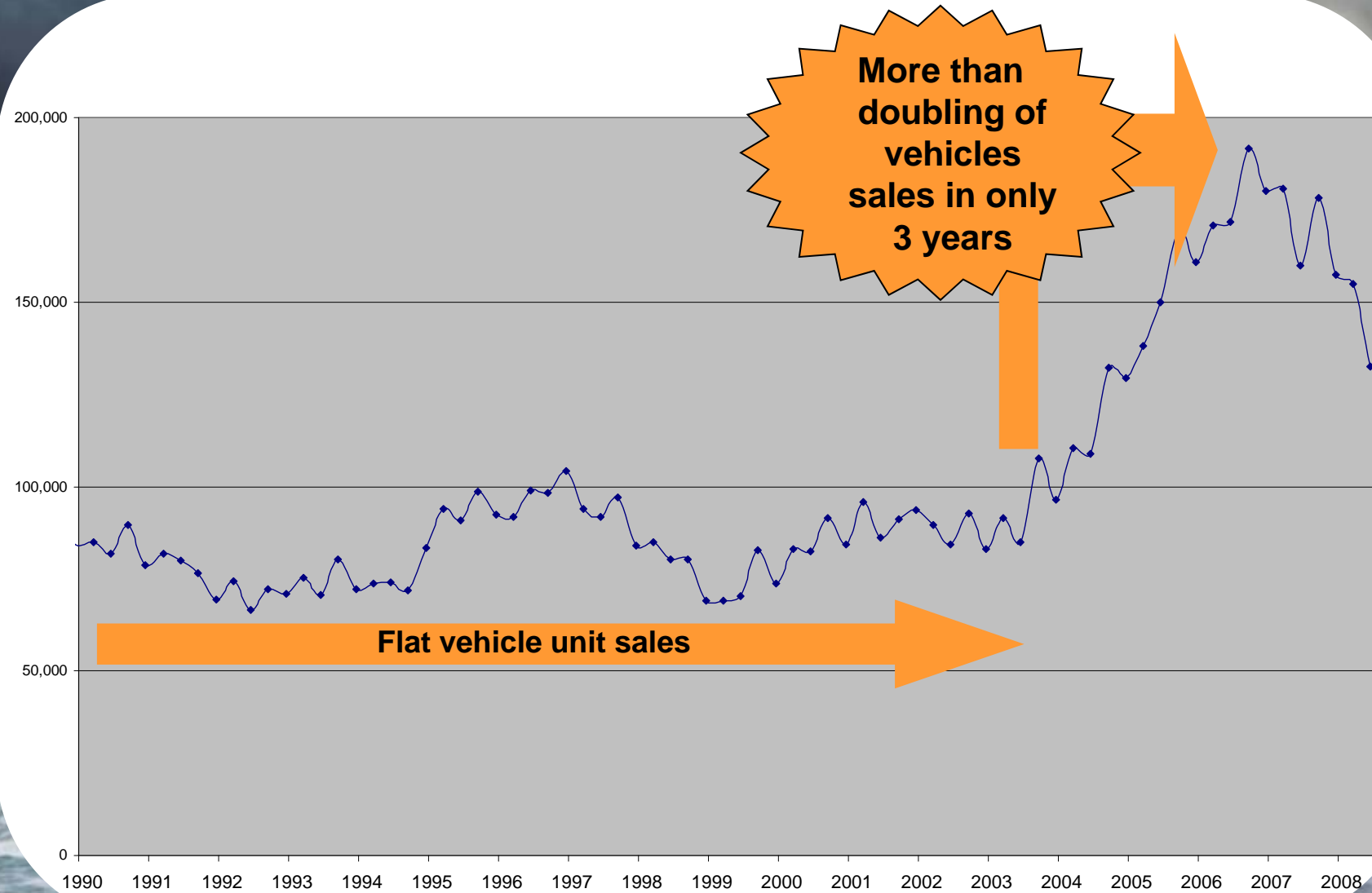
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# THIS IS WHAT HAPPENED IN THE LAST 6 YEARS...



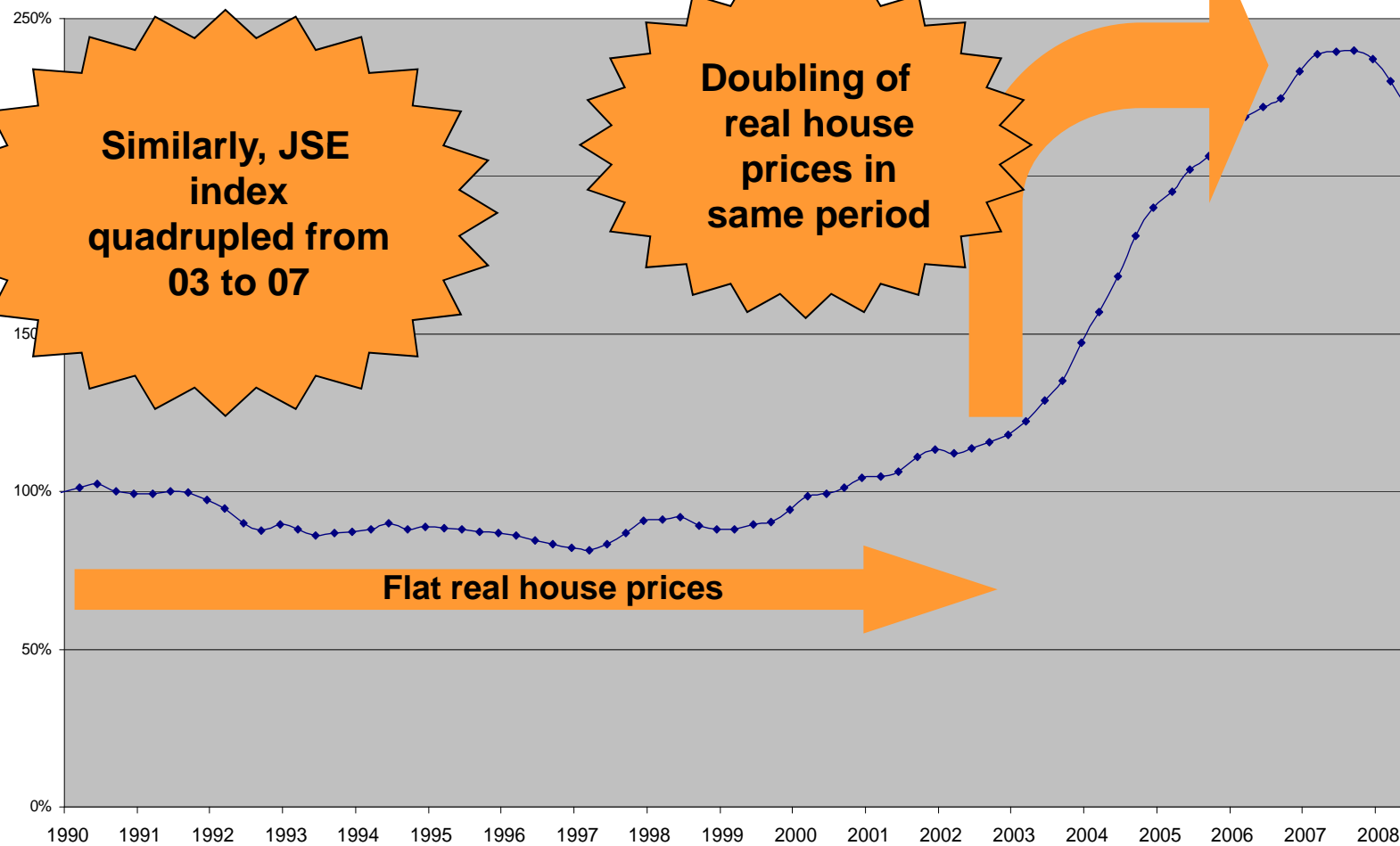
# THE GROWTH PHASE WAS EXCEPTIONALLY GOOD – THE LARGEST IN SA HISTORY SINCE WWII

Passenger and Commercial Vehicles sales Units per quarter



# GROWTH WAS ALSO REFLECTED IN ASSET PRICES, CREATING A 'WEALTH EFFECT'

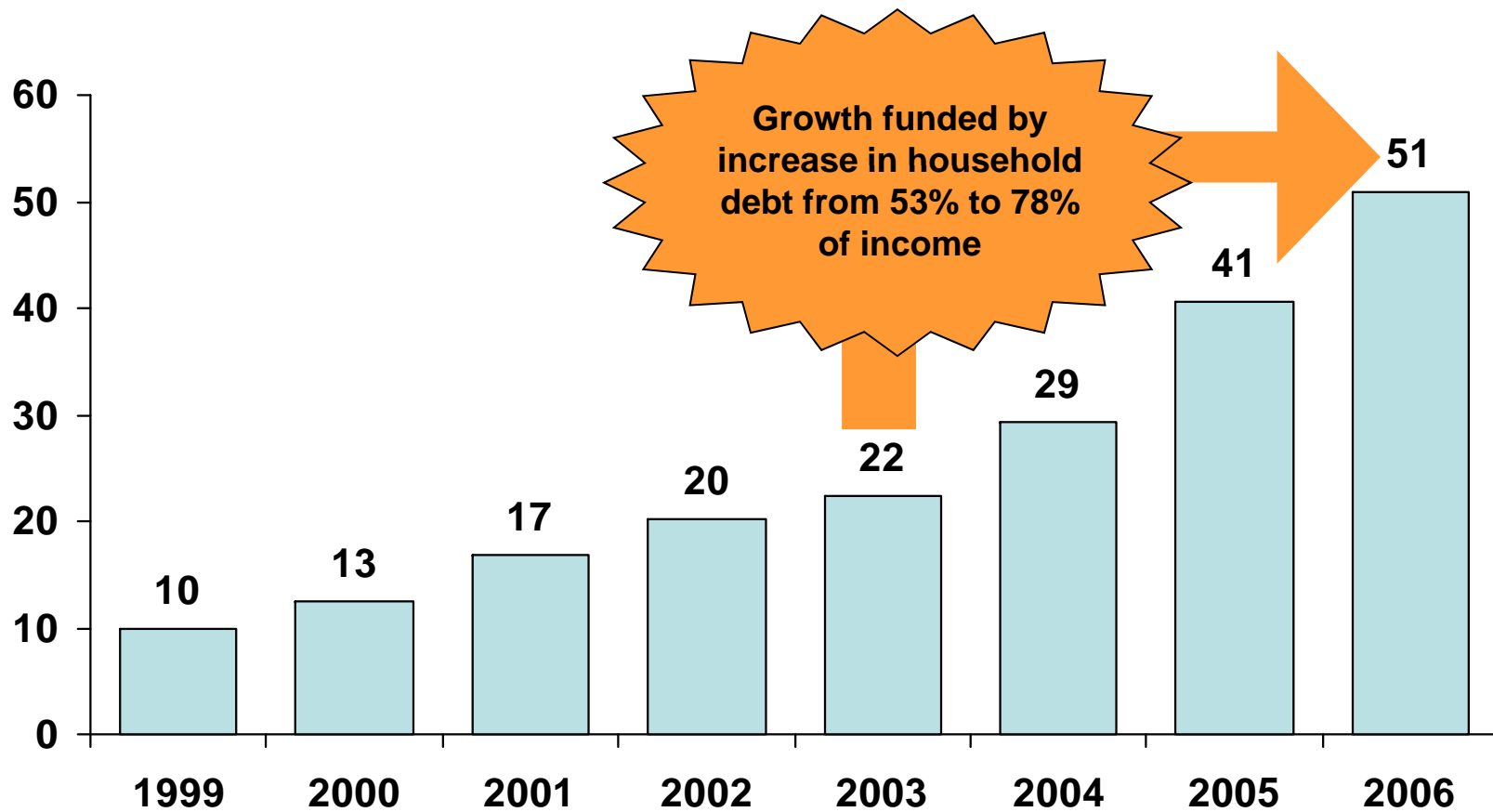
Normalised house price Real house price, 1990 = 100%





# WESBANK BENEFITTED FROM THE HUGE GROWTH ...

Annual WesBank New Business production Rb



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# PREDICTABILITY IS VITAL ...

**“The US and world economies may have entered a new era of low interest rates“**

**Rich Miller  
(BusinessWeek Washington) 2005**

**“ We believe a super cycle is underway, driven by materials’ intensive economic growth in China”**

**Alan Heap,  
(citigroup) 2005**

**“Never before have so many people improved their living standard by such a margin”**

**(Unknown)**

**“This is a commodity super cycle, and it will be the biggest commodity super cycle in history to date.”**

**James Finch 2006**

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# THE SHOCK

**“Oil will breach \$100 a barrel” (Arjun Murti - 2007)  
“Oil prices are likely to rise to between \$150 to \$200 in the next six to 24 months” (Arjun Murti – 2008)**

**Goldman Sachs**

**“CPIX expected to peak at 12% in the third quarter of 2008 and only ease back within the target band by the third quarter of 2010”**

**SARB 2008**

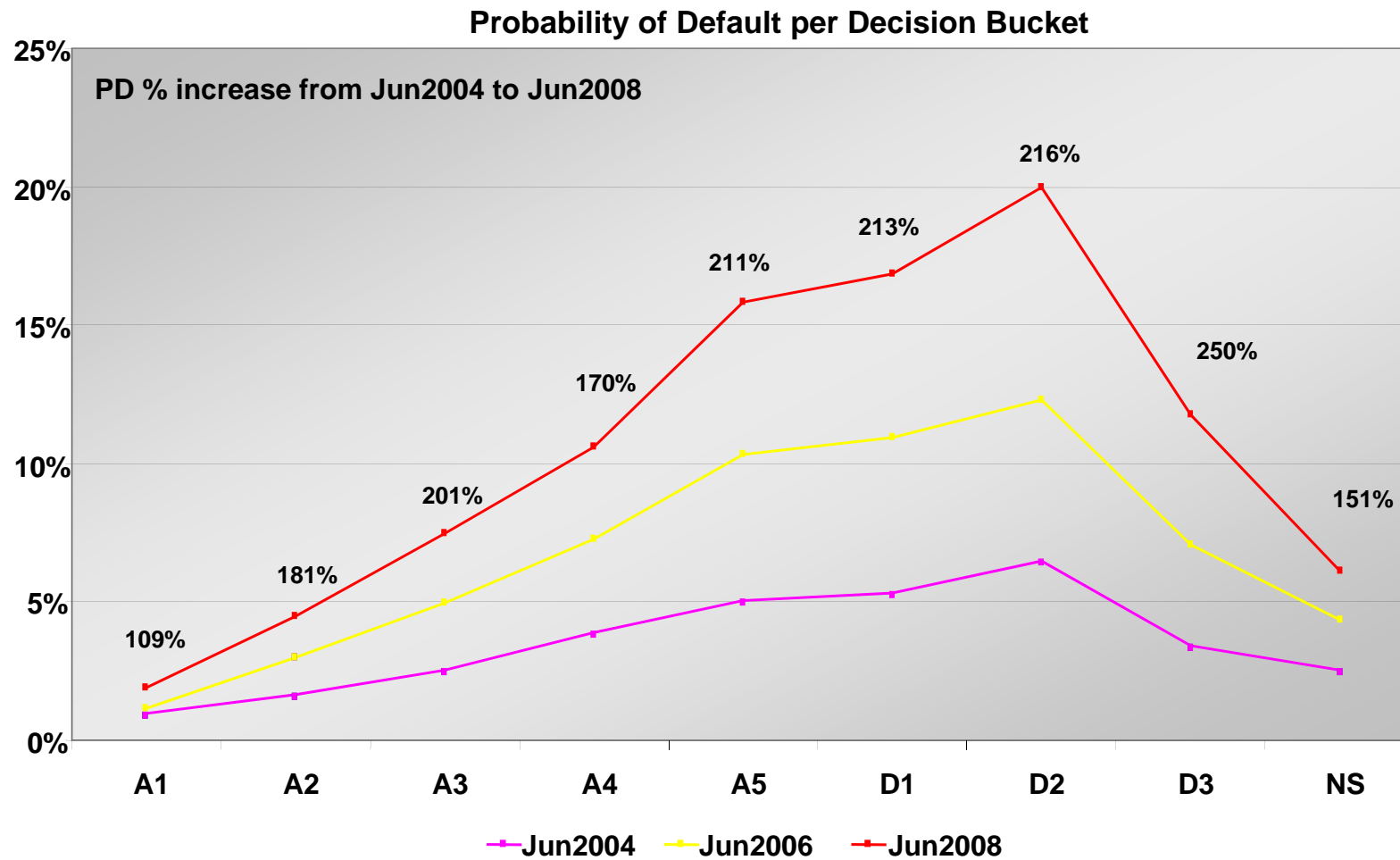
**FEG Consulting  
2008**

**Trevor Manuel 2007**

**“Financial crises in developed countries’ markets, global imbalances, high food and oil prices internationally and slowing growth in the United States and other developed countries ‘cloud the sky’”**

**“The global food crisis is now common knowledge. Since the start of 2006, the average world price for rice has risen by 217%, wheat by 136%, maize by 125% and soybeans by 107%”**

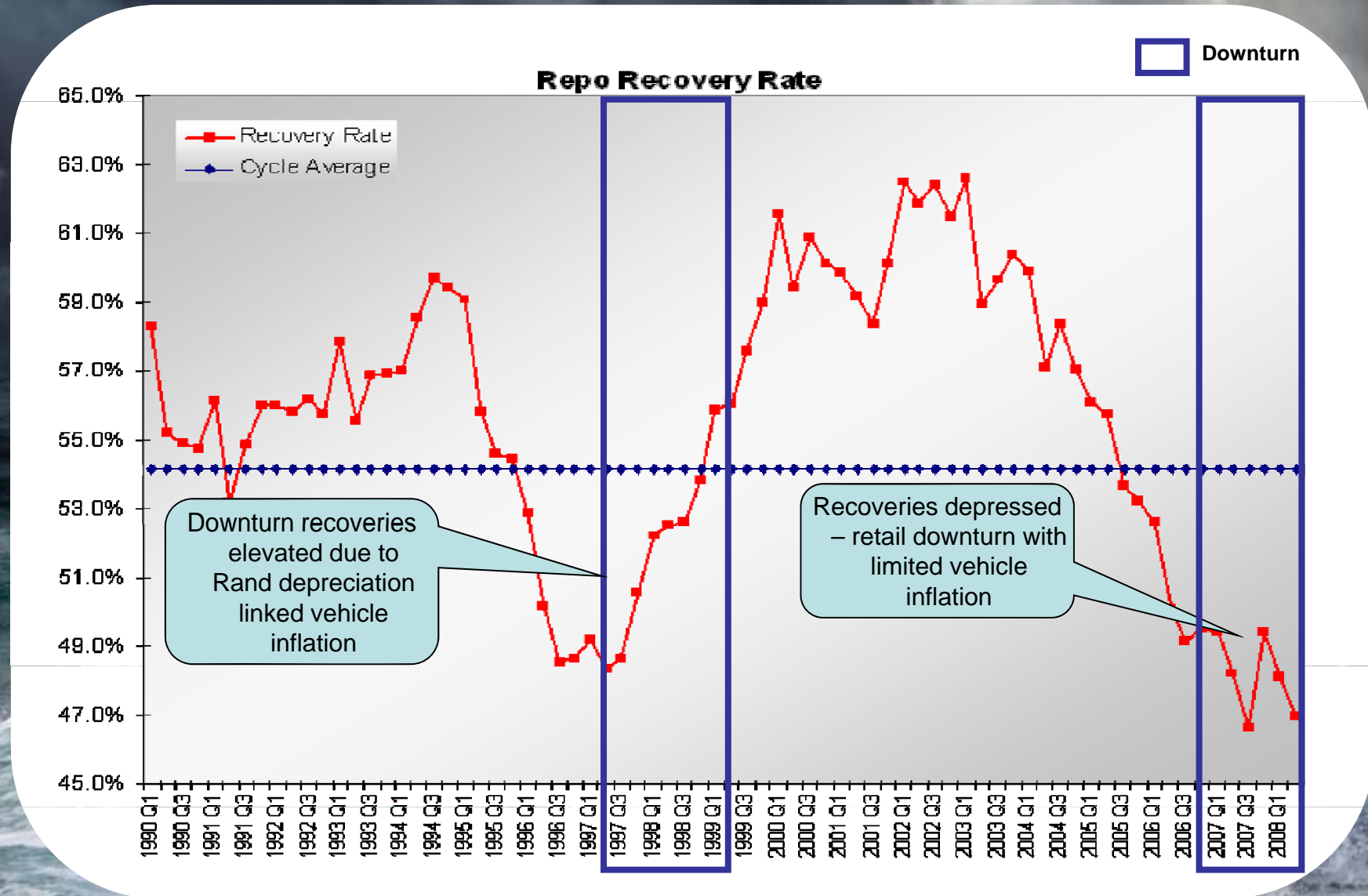
# RESULTING IN MASSIVE INCREASE IN DEFAULT RATES UP TO THE PEAK OF THE CRUNCH ...



\* Note, LGD provides further differentiation between best and worst risk grades, expected loss in worst bucket ~20x best bucket opposed to ~10x difference in PD

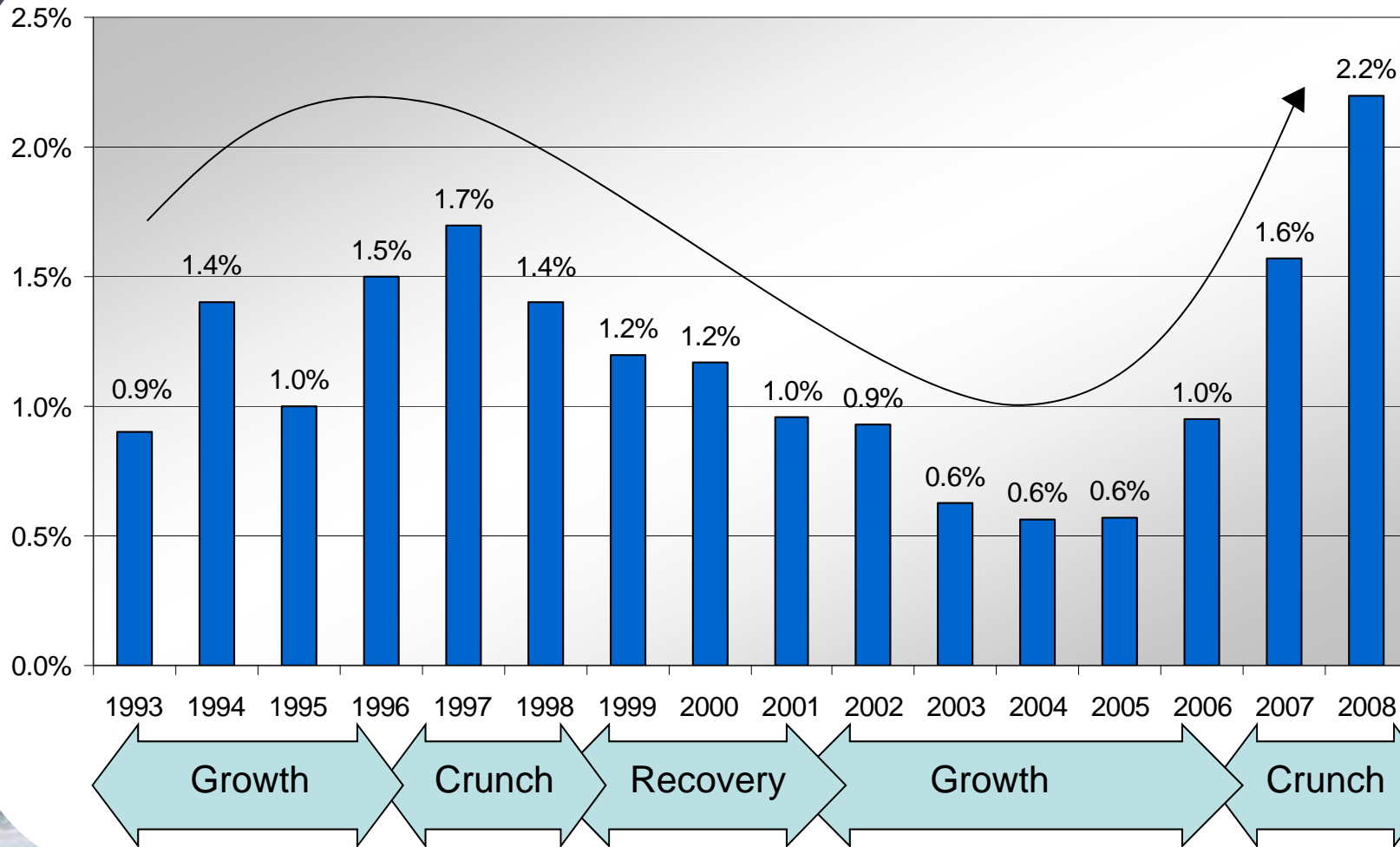
# ... AND POORER ASSET RECOVERIES AS DEMAND WANED

Repo asset value to accounting balance



# THE END RESULT IS A CYCLICAL RETAIL BAD DEBT CHARGE

Bad debt p.a., WesBank Motor





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# THE CURRENT CYCLE IS DIFFERENT AND WORSE THAN 98 ...

## 1998

- Preceding period of flat or no growth
- Preceding period of volatile interest rates
- Moderate debt-to-income levels of 60%
- Relatively flat oil and food prices
- Little demographic change in customer base
- No major regulatory change

## 2008

- Largest post WWII growth period
- Preceding period of extremely low interest rates (for SA)
- Record debt-to-income levels near to 80%
- Record oil and food prices
- Emergence of significant new middle class consumer demographics
- Major new consumer legislation enacted (NCA)

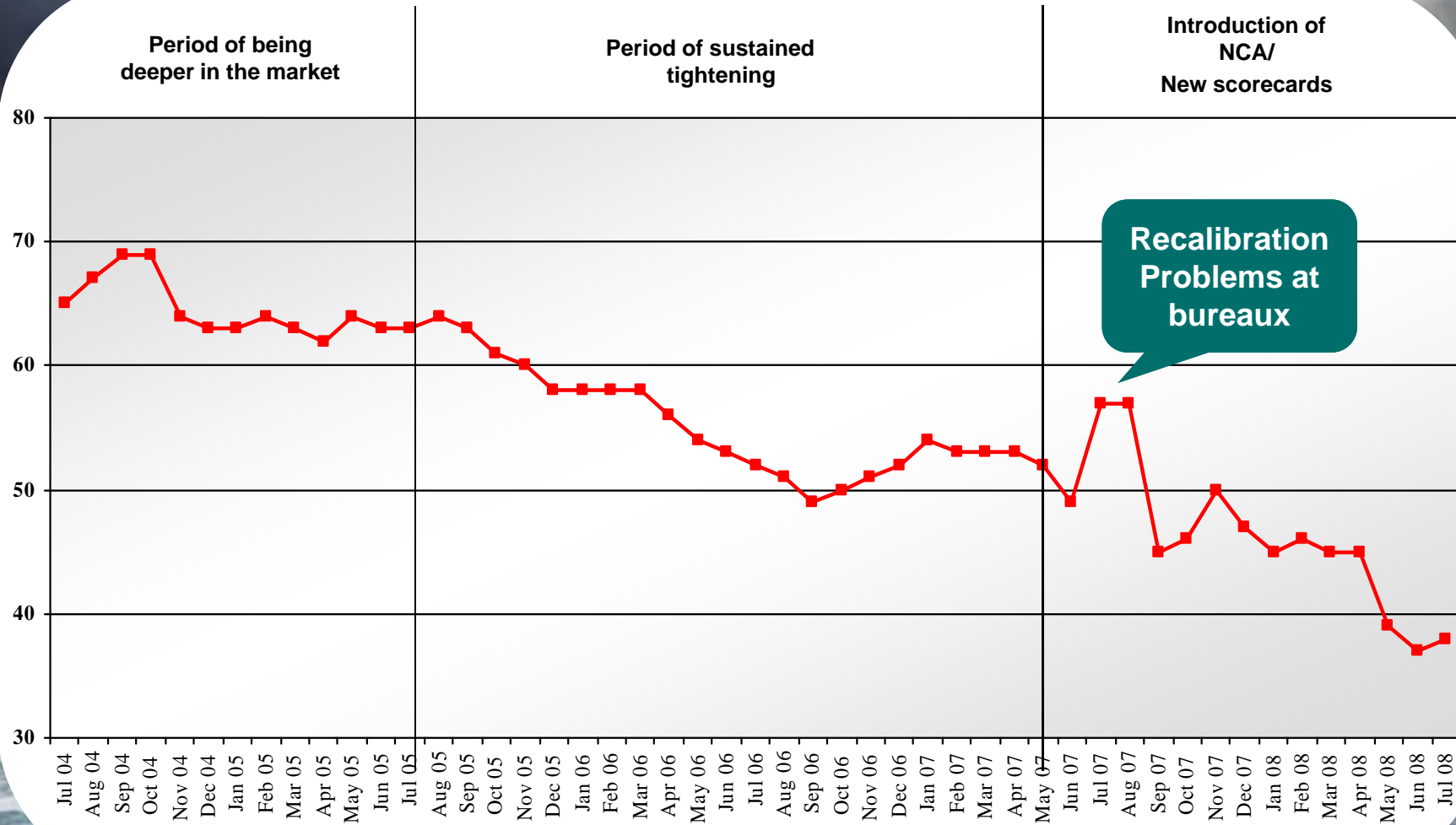
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# MANAGEMENT ACTIONS FOR THE CURRENT CYCLE STARTED AS FAR BACK AS THE END OF 2005!

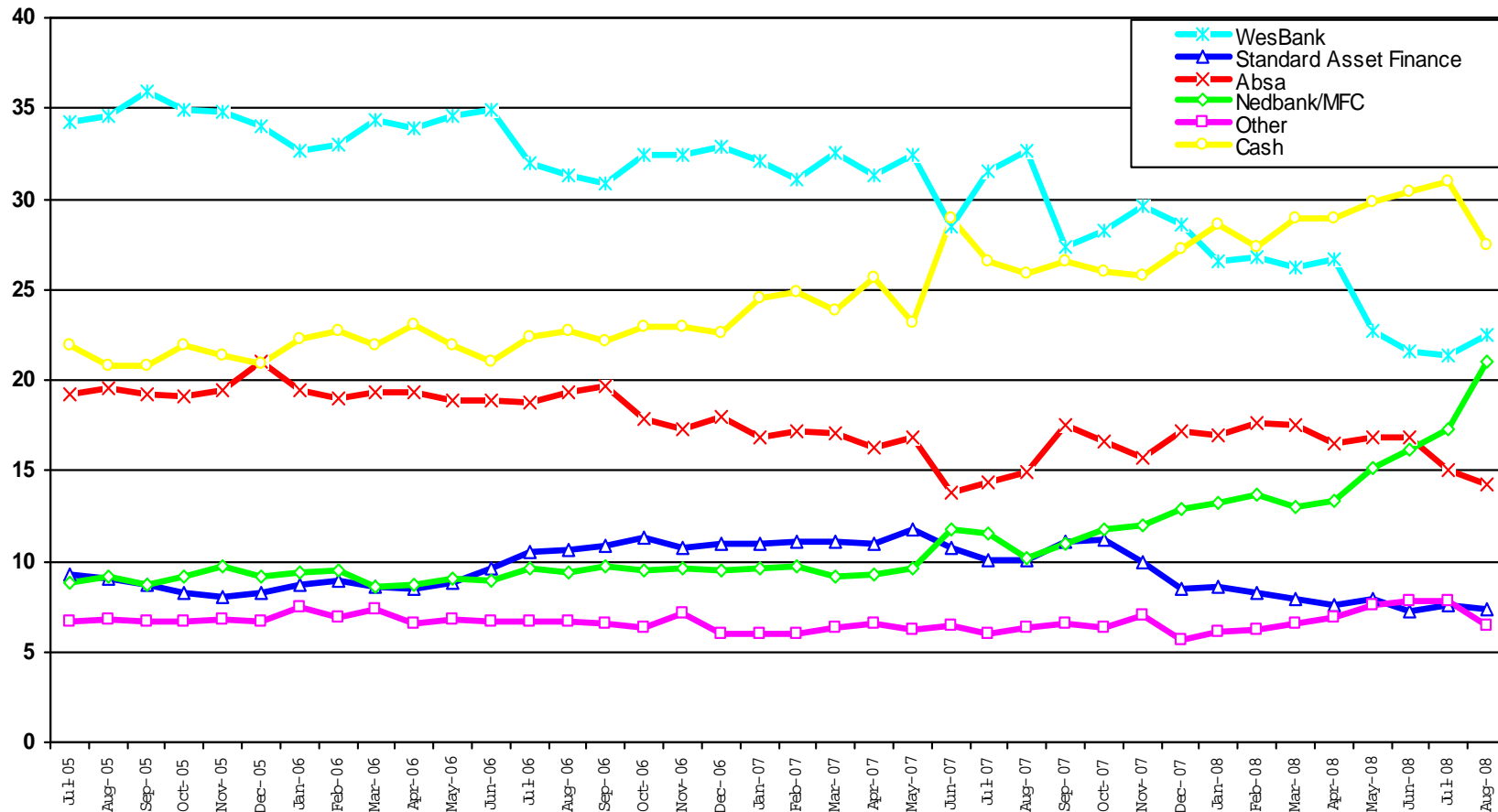
## Credit tightening

WesBank started slowly tightening Credit policy and scorecards from the end of 2005, which in retrospect showed great foresight – unfortunately the depth of the crunch was not foreseen otherwise deeper tightening during Q4 06 to Q3 07, especially of high risk businesses should have been performed

# THE FIRST MANAGEMENT ACTION WAS TO PROACTIVELY TIGHTEN ALREADY IN 2005 – WELL BEFORE THE END OF THE GROWTH CYCLE ...



# THIS WAS DONE REGARDLESS OF THE IMPACT ON MARKET SHARE ...



\* May/June decline also partly attributed to re-pricing, which raised margin, but resulted in loss of especially very low priced business

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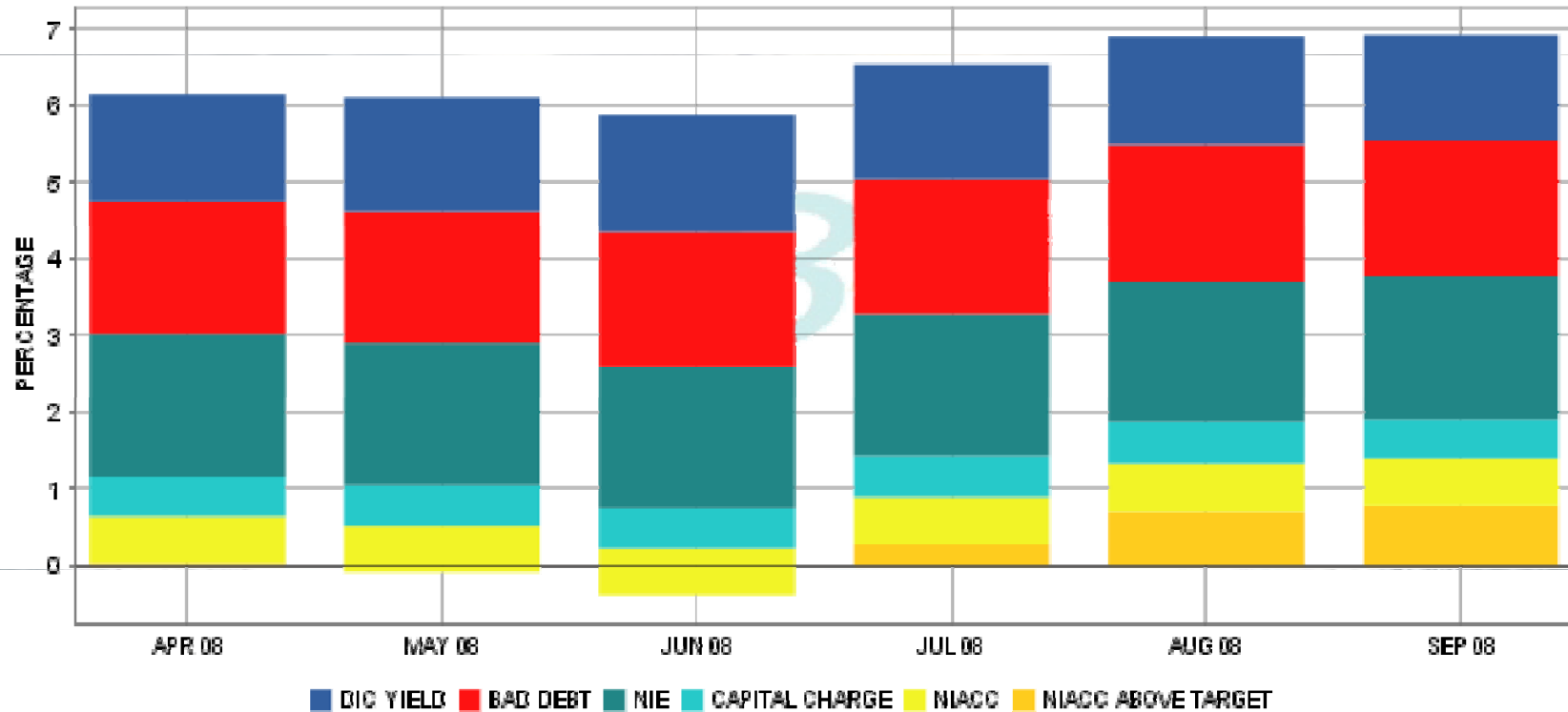
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## Re-pricing

Re-pricing, especially of high-risk business, is a critical part of restoring profitability and has been successfully achieved across Motor, Loans and Corporate

# WESBANK MOTOR MARGIN AND PROJECTED PROFITABILITY SHOWS THE POSITIVE IMPACT OF SIGNIFICANT RE-PRICING

Combined Interest and Non-Interest Yield for Motor Division in Month of Origination % Projected





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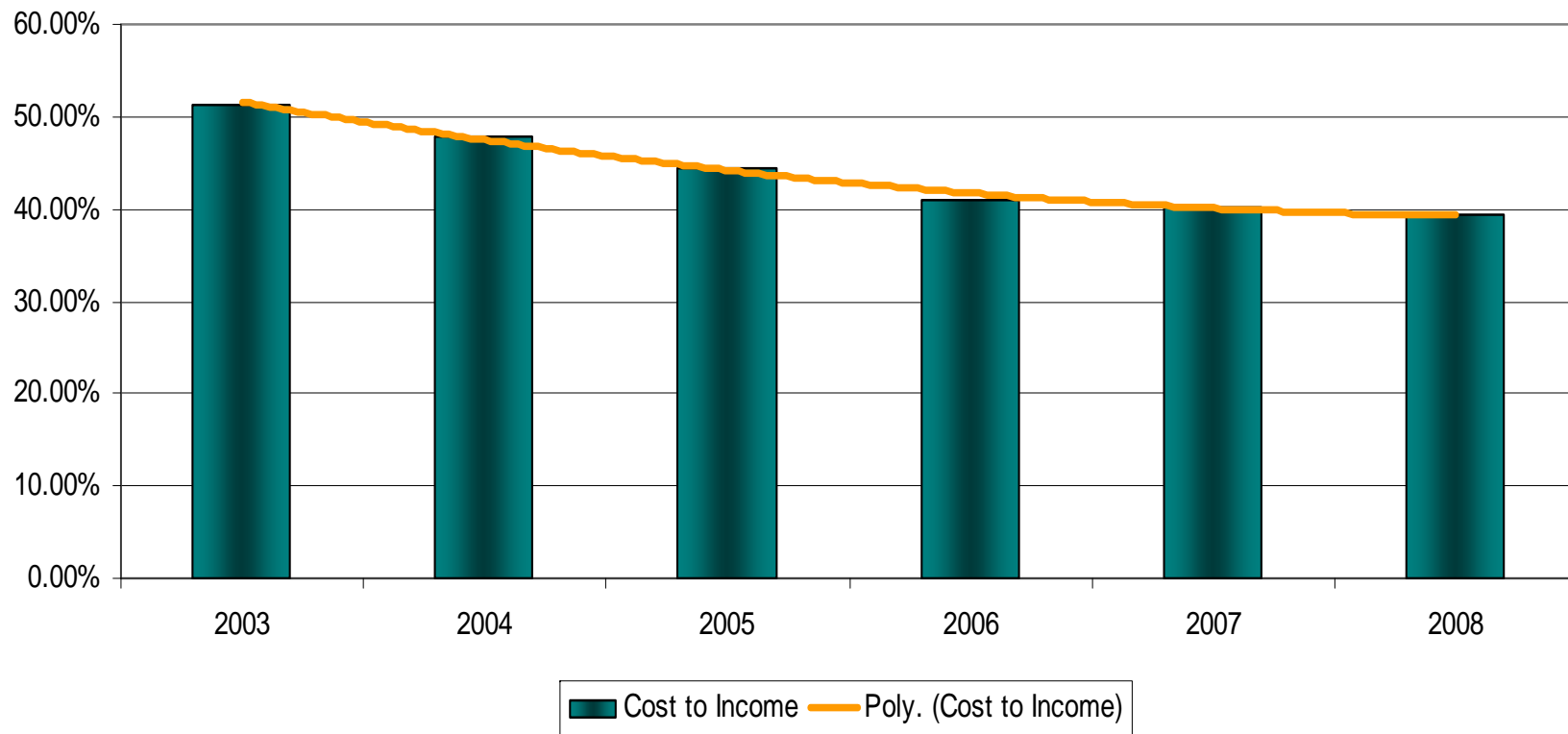
## Cost-focus

Reducing volume and margin requires significant attention on cost containment, which has been achieved with minimal increase in spend from the 07 to 08 financial years

# WesBank Cost to Income

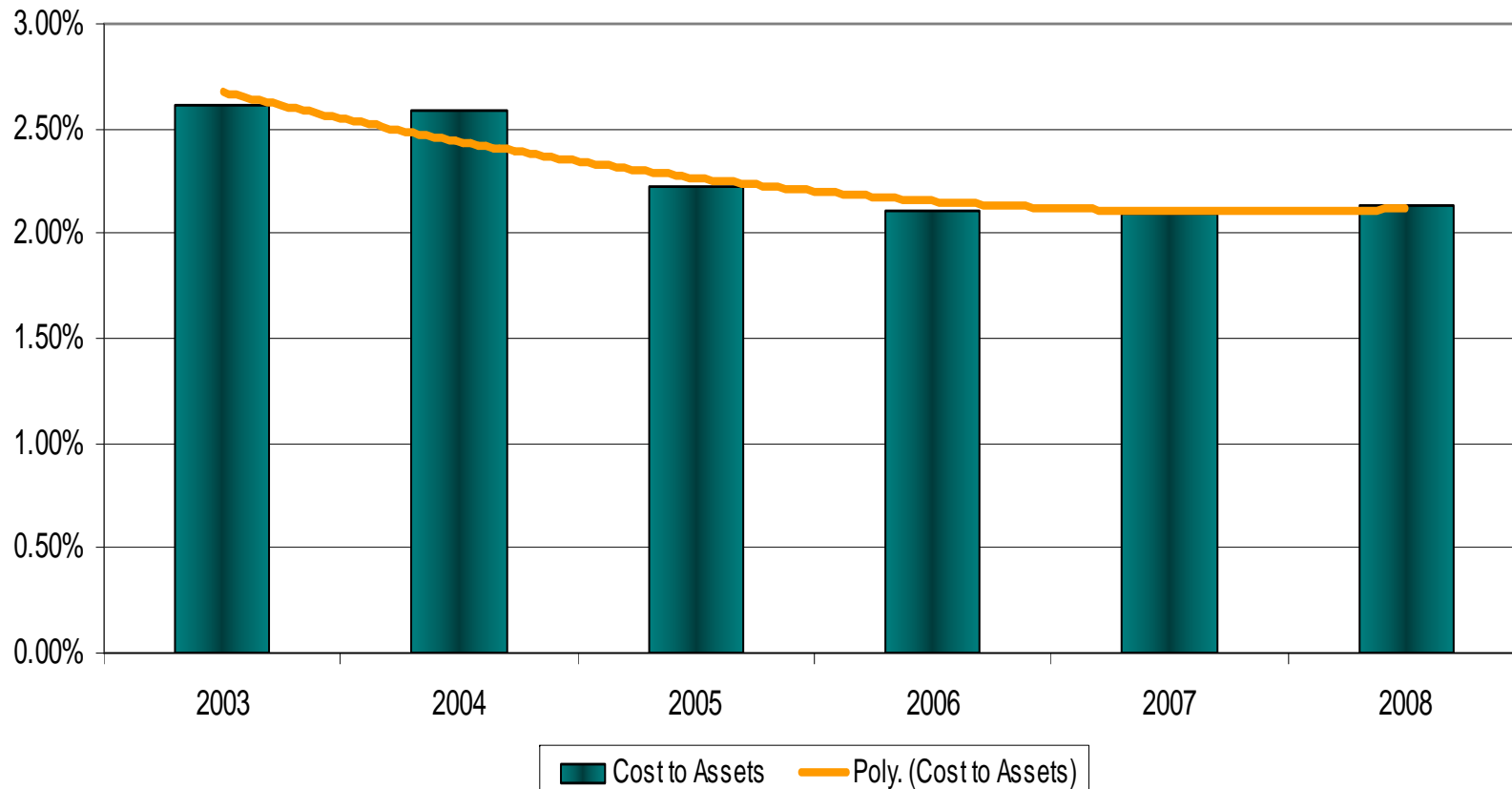
## South African Inst/Fin Business

Cost to Income



# WesBank Cost to Assets South African Inst/Fin Business

Cost to Assets



# VARIOUS CREDIT PRODUCTS AS THEY HAVE COME UNDER PRESSURE IN THIS CYCLE...

MID MARKET LOANS	CREDIT CARDS	LUX ITEMS	USED CARS	NEW CARS	HOME- LOANS	CORP LOANS
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# MANAGING THE DOWN CYCLE

- **Sail with an experienced crew**
- **Pull management team together and talk and act with one voice**
- **Face realities**
  - Repricing
  - Advances book
- **Don't panic**
  - **Management must at least appear to be in control**
- **Budget vs reality**
- **Take early decisions on cost-cutting**

# MANAGING THE DOWN CYCLE

- **Create a positive vision**
  - **Over communicate**
  - **Motivate your people**
  - **Put your arms around your best people**
- **External / internal focus**
  - **Roadshow**
  - **Over communicate**
  - **You can't manage what is not on your books**

**Create the right platform for the future**

- **Test the water early on the way up**
- **Don't build fat on the upswing**

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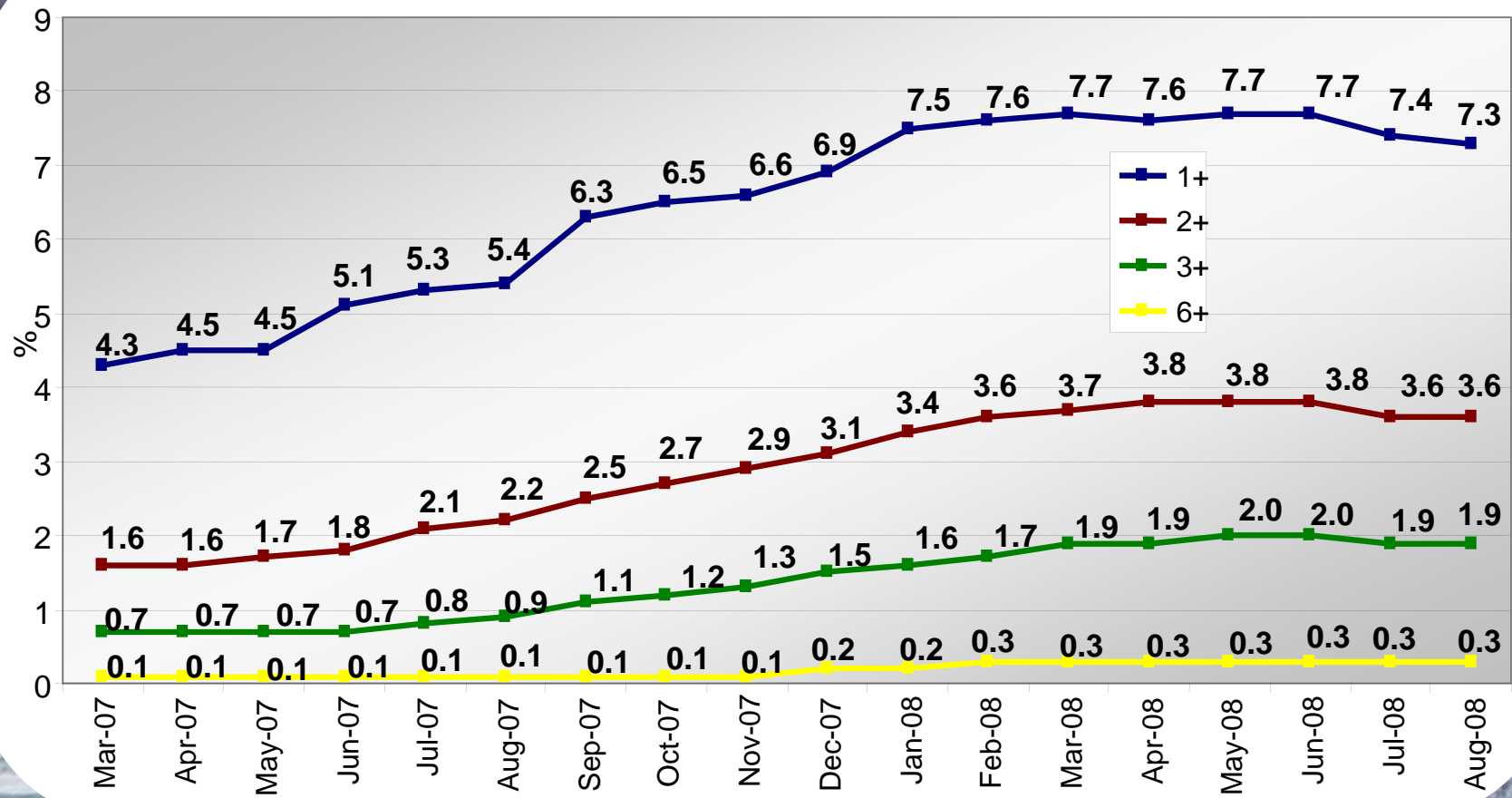


**Be patient for Growth,  
BUT impatient for Profit**



# ARREAR TRENDS SHOWING IMPROVEMENT ACROSS ALL ARREAR BUCKETS – MOTOR ARREARS DECLINING NOW FOR 6 MONTHS

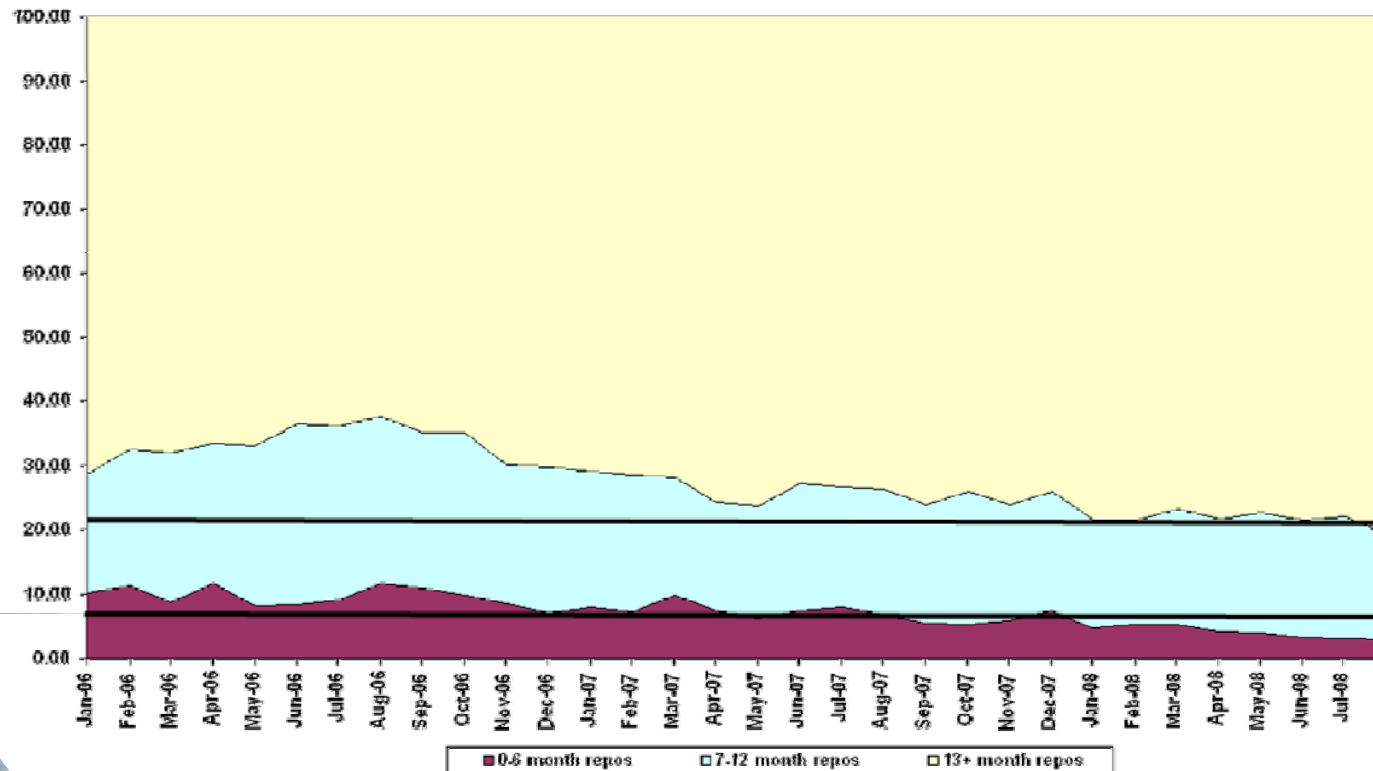
Total Bank Arrears (Month End)



# LESS REPOSSESSIONS FROM MORE RECENT BUSINESS

## MORE RECENT BUSINESS DECREASING AS PERCENTAGE OF REPOS

Repossessions WesBank Motor (Excl TFS)  
% repos performed in the month

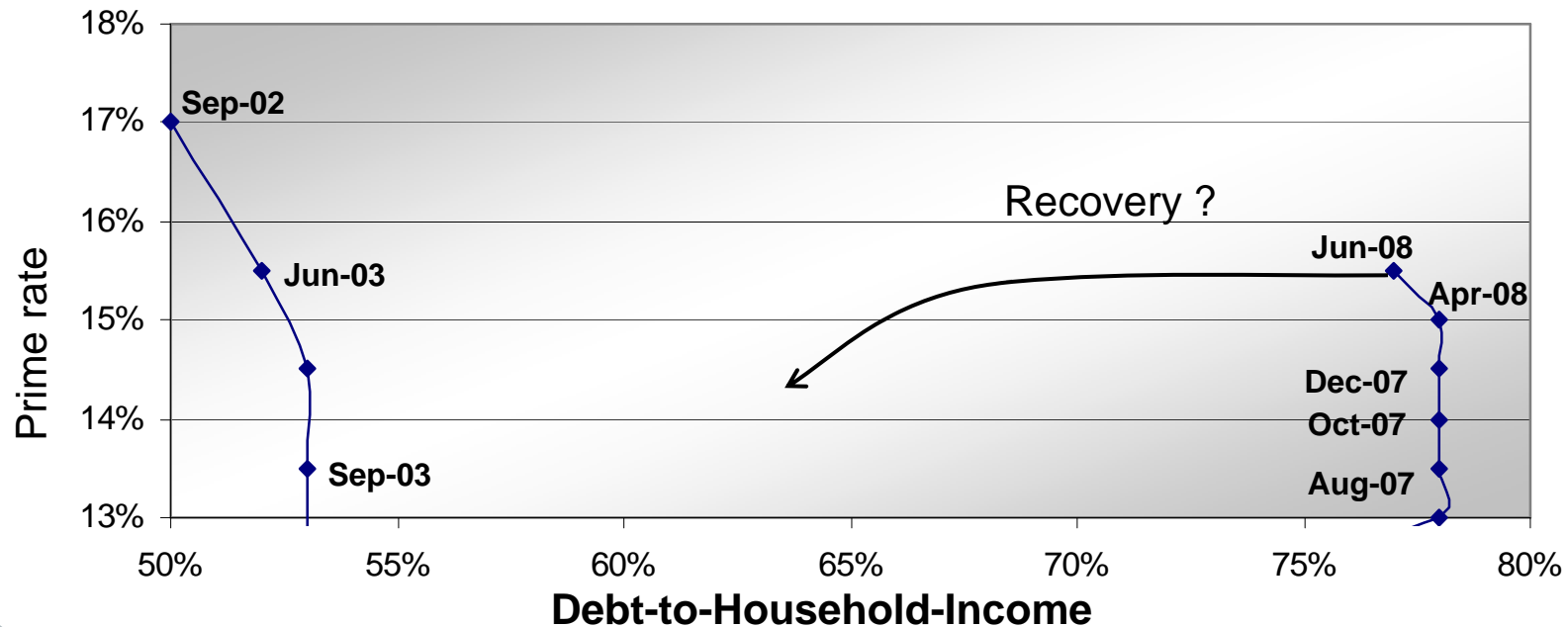


% of repos coming out of more recent business is lower than historical averages of 7.25% for 0-6 months and 20.4% for 0-12 months

Decreasing trend from 2006 levels

## WHAT NEXT ...

- Rate decreases of 2-3% expected during 2009 will assist with normalising volumes from currently very depressed state
- However, the recovery cycle will take time as consumers de-lever to 60-70% debt-to-household income range (unlikely to ever reach 50% again) – don't expect to see 2006 volumes anytime soon
- Selective and gradual improvement in Market Share as competitor credit appetite wanes
- Strong growth cycle therefore likely still a number of years away





Thank  
You

 WesBank  
We know how