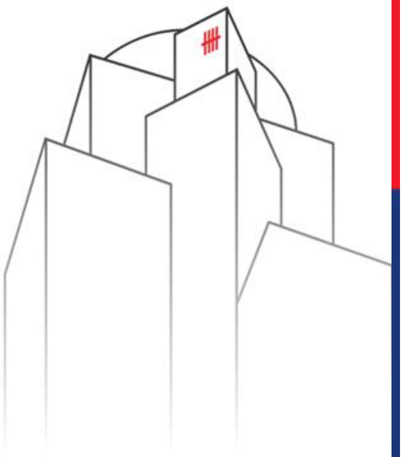


UBS OneASEAN Virtual Conference 2020

Banking: Engineering Recovery in ASEAN

September 2020

Chan Kok Seong
Chief Risk Officer

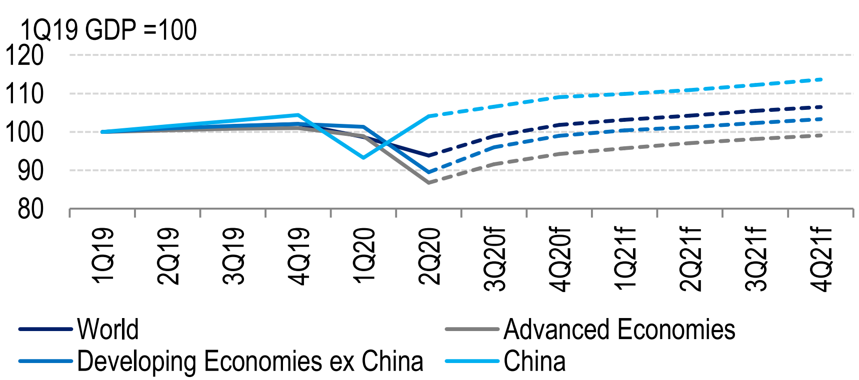
Past the trough but recovery path uncertain

The worst is likely over as most economic activities have resumed following the record contraction in 2Q20 mainly due to synchronised lockdowns.

However, the pace of recovery to pre-COVID 19 levels is highly uncertain and dependent on the pandemic's trajectory as well as responses by governments.

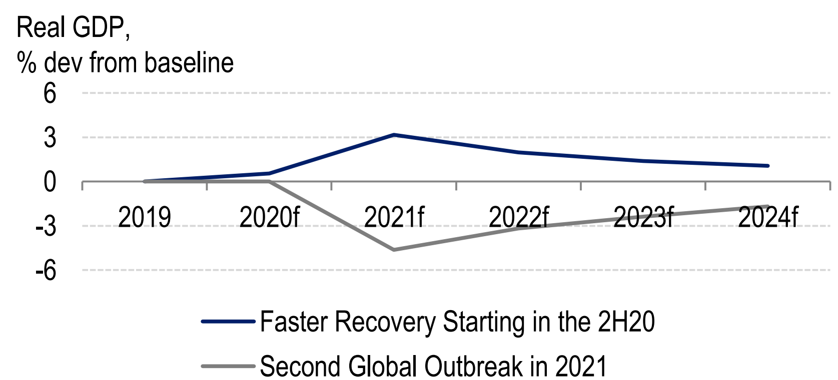
- New waves of infection likely to be managed via localised lockdowns and therefore less economically damaging than blanket nationwide lockdowns seen in 2Q20.
- Due to production capacity constraints, vaccine may not be widely available after discovery, with some countries potentially getting supplies later than others.
- While a recovery to pre-COVID 19 levels will eventually arrive, the pace is likely to be uneven across countries and industries; tourism-related sectors in particular could take longer.

Worst is likely over for the global economy



Source: IMF

Economic path highly uncertain: IMF's alternate scenarios



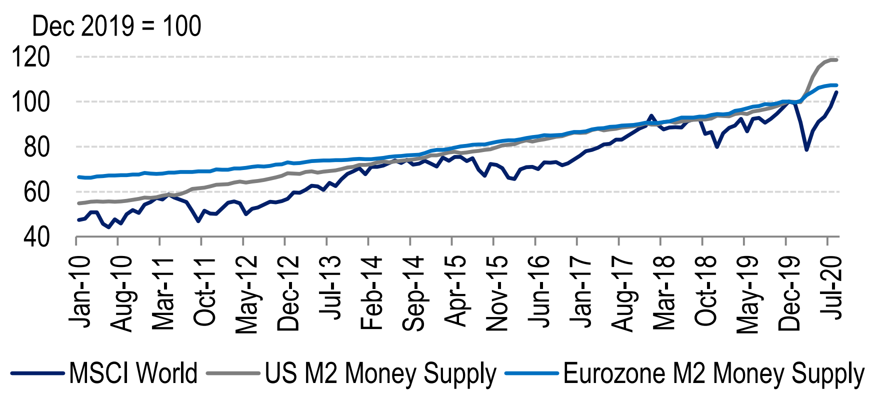
Source: IMF

Policy makers' intervention fuelling asset inflation…

Decisive actions by governments and central banks have helped stabilise the economy and prevented a liquidity crunch and contagion, with low interest rates and ample liquidity spurring asset inflation.

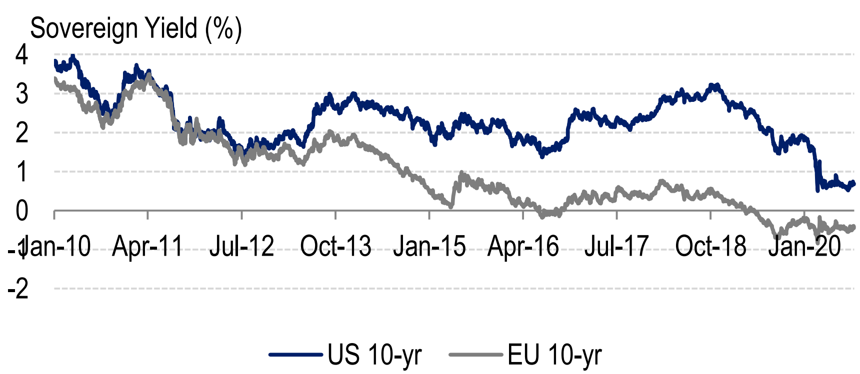
- Central banks likely to continue keeping rates low until there are more decisive signs of an economic recovery, which is contingent on a vaccine being widely available.
- Additional boost from recent revision in Fed's policy goals where the US economy is allowed to run 'hotter for longer' before the Fed considers raising policy rates, a landmark shift to a prolonged low rates era.
  - Officials will now hold off from tightening based on their "assessments of the shortfalls of employment from its maximum level" even as inflation overshoots vs. the previous stance where either a tight labour market or inflation heading above 2% could trigger tightening.
- The shift accentuates central banks' influence in financial markets, which could drive further divergence between asset prices and the real economy.

Asset prices have run up in line with ample liquidity…



Source: Eikon

…and ever-lower yields



Source: Eikon

…in turn supporting collateral values, which put banks in a better position to facilitate recovery

Well-supported asset prices have prevented a systemic collapse in collateral values vs. the experience during the 1997-1998 Asian Financial Crisis.

- With comfortable collateral buffers, banks straddling between real and financial economy are thus in a much better position in this crisis to facilitate economic recovery. Otherwise, banks may be averse to credit extension / restructuring given risk to balance sheets.
- Balance sheets and capital levels are also far stronger post regulatory reforms.

Banks are now part of the solution, working hand in hand with governments across the region to facilitate recovery in the real economy and preserve productive capacity.

UOB has assisted >1m businesses and individuals with various loan relief schemes, supported SMEs with Enterprise Singapore's loans and facilitated their digital transformation.

Businesses

- Moratorium for existing secured loans
- Fresh liquidity through working capital and temporary bridging loans
- Pre-approved loan financing programme

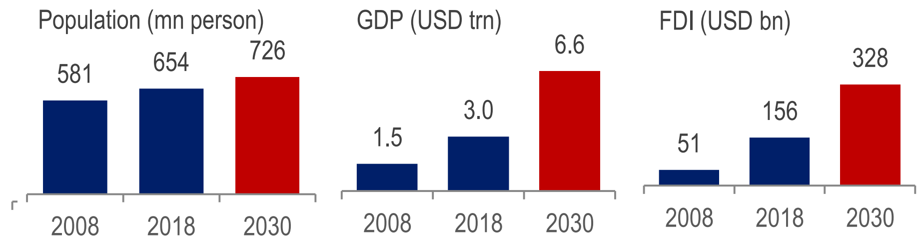
Individuals

- Moratorium for mortgage borrowers
- Lower interest rates on unsecured credit
- Daily banking hour dedicated for the elderly and vulnerable

Long-term fundamentals of ASEAN remains intact

UOB takes a long-term view that ASEAN's strong economic fundamentals are still intact and positive.

- Fifth largest economic bloc after US, China, EU and Japan.
- Third largest population globally, with growing middle class and rapid urbanisation.
- Third largest recipient of foreign direct investments (FDI) globally.



Source: Macrobond, UOB Global Economics and Markets Research

ASEAN is expected to benefit from supply chain relocation accelerated by COVID-19 and trade war. The multiplier effects would create a virtuous cycle for the region's prospects.

Relocation

Diversion of supply chain now viewed as essential vs. concentration in one country (trade off profit vs. risk management).

On-shoring / import substitution for security reasons.

Multiplier

This will generate demand for supporting industries (e.g. equipment parts, packaging, logistics and other services) as the manufacturing ecosystem develops.

Household income rises, accelerating middle class growth and hence consumption.

Virtuous cycle

Positive feedback loop of higher vibrancy, higher income and more business activities.

Opportunities abound for UOB in Southeast Asia

Overall, UOB is well-placed to benefit from the recovery in ASEAN and capture the region's longer term potential.

Growth in the digital banking space across the region.

57% under 35 years old[1]

66% owns a smartphone[1]

74% unbanked and underbanked[2]

Ample opportunities to tap on **growth in deposits and wealth management business**.

As various industries in ASEAN markets mature and become more specialised, **sector-specific solutioning** could be used for **targeted / disciplined loan business and related non-interest income activities**.

1. WeAreSocial, 2019
2. The future of Southeast Asia's digital financial services by Bain & Co, Google and Temasek. In 2019: 400m adult population in ASEAN: 26% (104m) banked, 24% underbanked (96m), 50% unbanked (200m).

Thank You

UOB RIGHT BY YOU 大華銀行