Credit Brief on Singapore SMEs
Q3 2016

Jointly by Credit Research Initiative Team and Validus Capital Pte. Ltd.

This brief is a jointly published quarterly article, between Validus and Credit Research Initiative at National University of Singapore (NUS-CRI), providing insights on industry-level Credit Risk of Singapore SMEs and provides a summary of how loans generated through the Validus' platform incorporates the learnings from the industry-level Credit Analysis. The Credit Risk of the industries is measured via the Probability of Default (PD) model developed by the NUS-CRI team (www.rmicri.org).This analysis is conducted across 10 industries (Bloomberg classification) and the loans funded through Validus. (www.validus.sg)

Data note: Analysis in this report is based on the sample of public SMEs. Due to the small sample size in Singapore and similar credit characteristics of public SMEs across Singapore, Australia, Hong Kong and Korea, all CRI sector PDs are calculated as an average of PDs for the public SMEs in the four economies. This methodology is in agreement with Validus Capital Pte. Ltd. and is expected to reflect the Credit Risk profile of Singapore SMEs.

A. Key Highlights on Credit Risk

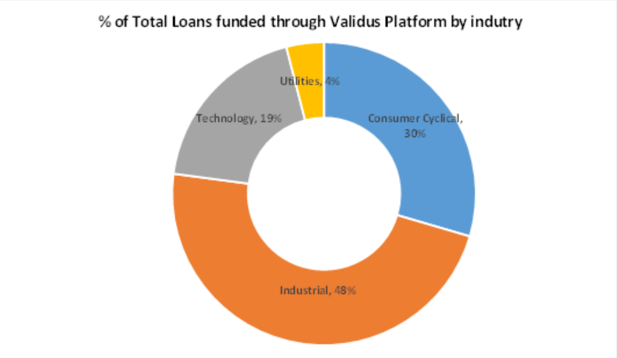
The NUS-CRI 1-year PD for Singapore SMEs decreased from 22bps to 18bps in Q3 2016 despite concerns over the impact of numerous macroeconomic impacts on Singapore economy. Although Ministry of Trade in Industry expects Singapore's GDP to remain sluggish this year and the SBF-DP SME Index[1]had marginally slid from 51.9 to 50.2, the NUS-CRI 1-year PD shows that credit risk had marginally improved for Singapore SMEs in Q3.

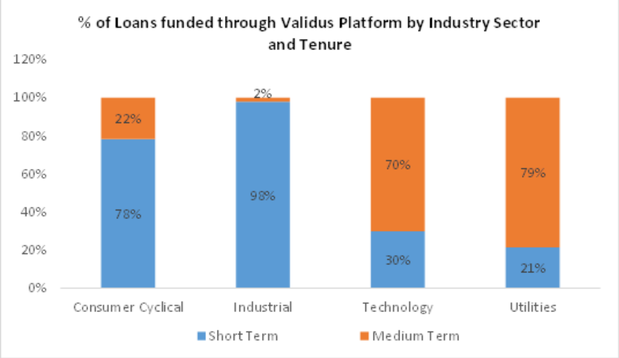
- CRI 1-year PDs for Singapore SMEs slightly improved in both Q2 and Q3.
- Energy, utilities and industrial sectors saw the highest credit risk in Q3, while basic materials, consumer non-cyclical and technology delivered the best credit performance among all industries.
- Utilities sector deteriorated from one of the best three credit performers in Q2 to one of the worst three in Q3.
- Small Firms performed much better than All Sizes in the utilities industry, while reversely for most of the other industries.
- The overall multiple of medium term PD (1-year) to short term PD (1-month) is 7.9x as compared to 6.8x from the previous quarter. This is an indicator denoting the extent of the behaviour of medium term PD compared to the short term PD which is further used as a benchmark for industry-level PD multiple. Any industry level PD multiple that is higher than the overall multiple indicates that medium term loans for those industry sectors are more risky than short term loans and vice versa.

B. Loans originated through Validus Platform

- Loans funded[2] through Validus include firms in Consumer Cyclical, Industrial, Technology and Utilities.
- Loans to companies within the industrial sector (mainly comprises of construction service related companies) are almost all short term and in line with the Credit Risk insights.
- For companies in Technology and Utilities, the loan tenure is medium term in nature.
- Profile of loans originated through Validus platform.

[1]SBF-DP SME Index is a six-month forward looking business sentiment index by Singapore Business Federation and DP Information Group
[2] This report contains all loans funded through Validus

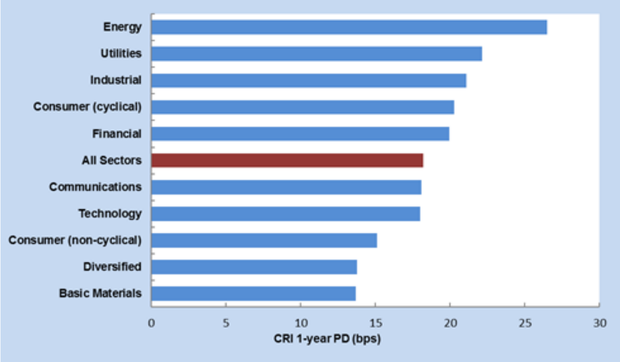




C. Credit Risk for Singapore Industries

The CRI 1-year PD assesses the credit risk in the future one year. The comparison of PD trends and PD multipliers across industries gives a clear picture of the relative credit performance of each sector. The relative credit performance by firm size within each industry is also provided. By definition[3], firms with annual turnover equal to or below USD 2mn are considered Micro Firms, between USD 2-10mn are considered Small Firms, while larger than USD 10mn and equal to or below USD 100mn are considered Medium Firms.

C.1 CRI 1-year PD by industry

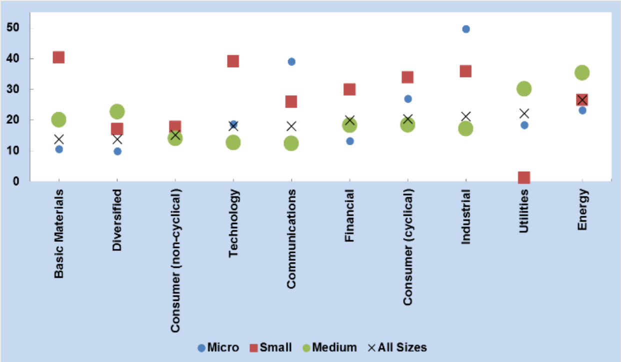


Source: CRI, all figures are updated as of September 30, 2016

Among all Singapore SMEs, the CRI 1-year PD for the energy sector performed worst, followed by the utilities and the industrial sector. In contrast, the basic materials, consumer non-cyclical and technology sectors delivered robust performances.

- The relative credit performance for the utilities sector had varied much from one of the best three performers in Q2 to one of the worst three in Q3.

C.2 CRI 1-year PD for firm sizes by industry



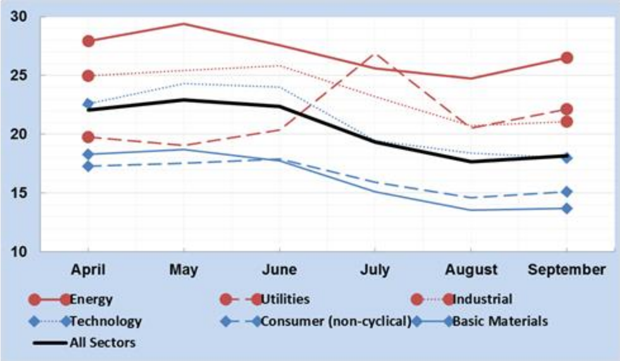
Source: CRI, all figures are updated as of September 30, 2016

SMEs with different firm sizes delivered variable CRI 1-year PD performances within each industry. Those industries with the highest PD variance of sizes are basic materials, technology, communications, industrial and utilities.

- Compared with the other four sectors, in which Small Firms show much higher credit risk than All Sizes, the Small Firms performed much better than All Sizes in the utilities industry.
- Although the utilities industry is ranked the second riskiest of all industries, its Small Firms are the safest among all industries.
- While the basic materials sector has the lowest credit risk among all industries, its Small Firms are the most risky.

[3] Defined by Validus Capital Pte. Ltd.

C.3 CRI 1-year PD trend by industry

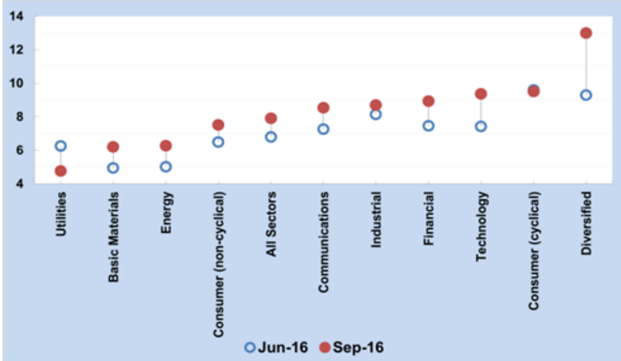


Source: CRI, all figures are updated as of September 30, 2016

The credit performances for all Singapore SMEs had slightly improved in Q3.

- In the three most risky sectors, while the energy and industrial gradually had improved during Q2 and Q3, the utilities industry had worsened in the same period with a peak in July.
- As for the three least risky sectors, the technology, basic materials and consumer all formed a consistent downward trend of CRI 1-year PD, demonstrating persistent improvement in credit performance.

C.4 CRI PD multiple by industry



Source: CRI, all figures are updated as of September 30, 2016

The multiples of medium term PD (1-year) to short term PD (1-month) for all industries are shown above.

- Although the CRI 1-year PDs for most industries decreased during Q3, the PD multipliers increased or remained constant in all sectors except the utilities industry, manifesting that the credit risk improved faster in the short term than in the medium term.
- Unlike the other sectors, the gap between the short term and the medium term CRI PD for the utilities industry had narrowed, as its credit risk worsened more in the short term than in the medium term.

D. Conclusion

Singapore economy has been facing the headwinds from sluggish global investment demand, low oil prices and weak international trades, leaving SME business sentiments index (SBF-DP SME Index) hovering around all-time low in Q3. Nevertheless, the NUS-CRI 1-year PD for Singapore SMEs has shown improvement in credit performances for two consecutive quarters. Another catalyst for SMEs comes from the government's support. The 2016 Singapore Budget report suggests the government will provide SMEs with higher tax rebate from 30% to 50% of tax payable and launch the SME Working Capital Loan Scheme to help SMEs meet financial needs. All things considered, it is suggested to take a cautiously optimistic view on the credit profiles of Singapore SMEs.