

DUN & BRADSTREET

GLOBAL BANKRUPTCY REPORT 2016

Asia Pacific Partnerships





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INTRODUCTION

The Quarterly Short-term Economic Survey of Principal Enterprise in Japan (Tankan), released by the Bank of Japan at the end of 2015, reported that the diffusion indexes reflecting business confidence in the Japanese economy had stabilized thanks to the support of domestic demand, but that business confidence for the future is down at both large and small to medium enterprises - a sign of concerns over developing countries that may be easily affected by fluctuations in the Chinese and global economies. Continued, cautious monitoring of trends in the Japanese economy will be necessary.

Since 1952, at TSR we have been compiling the Nationwide Bankruptcy Trends, released on a monthly basis as an effective index for gaining a grasp of the real economy in the midst of such unstable economic conditions. These Nationwide Bankruptcy Trends are currently being used in a variety of fields by the government, government administration offices, the mass media, research institutions and other organizations as the only index in Japan that preserves statistical consistency in chronological order.

As the overseas presence of Japanese companies and the volume of their overseas transactions increases, more and more customers have been expressing a need for the analysis of bankruptcy trends to cover not only Japan, but also foreign countries as an index of real economic conditions. It was to satisfy this need that we started compiling the Global Bankruptcy Report.

The present report, which is the fruit of the organizational capabilities of D&B's WWN, allows the reader to gain an immediate grasp of bankruptcy in 28 countries, including Japan, and contains explanations of bankruptcy in Japan by TSR's Information Department as well as comprehensive evaluations by UK analysts.

I sincerely hope that the Report will be of use to customers not only in Japan, but all over the world.

Masanori Yuge

TOKYO SHOKO RESEARCH, LTD.
Senior Manager, Marketing Department

OVERALL COMMENTARY

Global Bankruptcy Trends

Oana Aristide | Dun & Bradstreet Editor

Global growth has been so slow and erratic in the years since the 2008-2009 recession, that the word recovery appears to be a misnomer when compared to historical episodes. Dun and Bradstreet forecasts 2016 world GDP expansion to continue at a similarly sluggish pace (2.4% growth in 2016, versus 2.4% in 2015); despite this, in terms of corporate bankruptcies, globally we are seeing a declining trend. Low and falling interest rates, record low inflation in general – signifying stable input costs for companies – and low energy prices in particular, have made it possible for corporate insolvencies to fall against the background of mostly still disappointing growth.

Consequently, looking at the 28 countries included in our report, and at data from end-2014 to the first month of 2016, bankruptcy rates have declined in year on year terms significantly for 16 of the countries in our sample, and have stagnated for six. Four countries have experienced clearly increasing bankruptcy rates. While the countries displaying a decreasing bankruptcy trend still far outnumber the ones where company failures are on the rise, we see less of a clear-cut improving trend relative to our 2015 report. Moreover, in countries where the numbers are showing a decline, the differences

are often small. This being said, in several of the world's largest economies bankruptcies are clearly decreasing, the US and Japan being the most salient examples. In the US, unspectacular but consistent domestic demand and low interest rates have supported companies, while in Japan the weak yen, low borrowing costs and banks' willingness to reschedule loans have led to record low failure rates.

Largely due to their exposure to China and commodities, countries in the Asia Pacific region are overrepresented in the poorer performing category, with company failures in Australia, Hong Kong, Vietnam and Taiwan on the rise or flat-lining. Nor are we certain that China can be excluded from this group, given that data paucity render conclusions drawn from the latter half of 2015 unreliable. Other data, such as late or delinquent payments and the China Purchasing Managers Index point to a clear deterioration, at least where the industrial sector is concerned. It is important to keep in mind that in China there are important divisions between the ailing industrial sector and the mostly prospering services (which represent more than 50% of GDP), and between regions. Six northern and north-eastern provinces which are heavily dependent on coal and steel are in the middle of a serious recession that will last into 2017.

OVERALL COMMENTARY

Alongside the investment slowdown, manufacturing malaise and international trade downturn, China is grappling with higher financial risk. Banking profits have fallen sharply and non-performing loans have increased (the fastest increases are in the manufacturing, mining, wholesale and retail sectors). The Chinese economy has also to contend with exiting capital, including capital flight. The withdrawal of liquidity this brings about will tighten Chinese credit conditions further, with knock-on effects for countries trading heavily with China – Australia, South Korea, Taiwan, Indonesia, Thailand and Vietnam. Trade data clearly show the pressure (exports in US dollar terms have been contracting across almost the entire Asia Pacific region). Consequently, pan-Asian credit quality can be expected to deteriorate in 2016, and we note East and Southeast Asian FX bond issuance was already down by 18% y/y in Q3 2015.

The most positive credit development in the last year is the improved outlook for Southern European Union countries, as the risk of a Grexit receded, and with it the dangers of contagion among the more vulnerable Eurozone members. Indeed, company failures in Spain are trending downwards and in Italy they appear to also have started falling after several years of increases.

Looking ahead, we expect US and Chinese growth to decelerate slightly in 2016 (to 2.1% and 6.0% respectively), and for Brazil's and Russia's economies to keep contracting in 2016. The European Union as a whole is still ailing, and moreover threatened by the prospect of a major economy (the UK) leaving the union. The existing growth hot spots, such as EU member states in Eastern Europe, are too small to have a noticeable impact on global growth. Meanwhile, central banks across the world will continue to be tempted to weaken their currencies, but this is not a valid or meaningful collective policy response. Moreover, the global nature of supply chains decreases the advantage of weaker currencies (given intermediate imports), with only component manufacturers (for instance South Korean and Japanese corporations) benefiting fully.

The key risk for 2016 is that emerging market and upstream sector investment, credit quality, profits and economic growth contract, weaken or decelerate further. It becomes clear, in this scenario, that China and its raw materials suppliers, following the boom of 2010-14, are set to endure a multi-year correction, which will bring contagion effects to developed markets and even those emerging economies which have been relatively

free from imbalances and policy errors. The spiral of commodity exporter currencies' and commodity price drops continues as supply cost curves fall, exposing new pockets of excess investment on top of those in oil, mining, and upstream sectors in China.

Thus, worryingly for international companies, we believe the risks associated with doing cross-border business in the global economy still remain elevated, which is reflected in our Global Risk Index (<https://www.cips.org/en/cips-for-business/supply-assurance/cips-risk-index/>). Of the 132 countries D&B assesses, 92 are rated worse than at the start of 2008. In contrast, only 17 economies have seen their scores improve over this period. This far into the recovery we would normally be expecting to have upgraded significantly more countries from the nadir of the global financial crisis; instead, risks remain near record highs. Dun & Bradstreet advises customers to tailor their credit sales ceilings by country, sector and company size, as local credit conditions fluctuate and remain highly differentiated. Companies exposed to large emerging markets with high corporate leverage should exert extra caution.

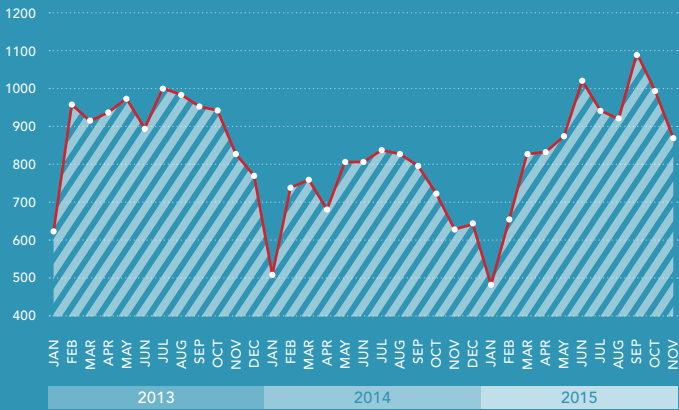
COUNTRY	BANKRUPTCY %	COUNTRY	BANKRUPTCY %
AUSTRALIA	14.17	NORWAY	-7.10
BELGIUM	-9.07	RUSSIA	-12.76
CANADA	-3.07	SINGAPORE	-4.68
CHINA	NA	SOUTH AFRICA	-4.94
DENMARK	12.87	SOUTH KOREA	-14.39
FINLAND	-13.49	SPAIN	-23.03
FRANCE	-5.21	SWEDEN	-10.07
GERMANY	-3.03	SWITZERLAND	2.21
HONG KONG	113.67	TAIWAN	-0.31
INDONESIA	NA	THAILAND	-42.60
ITALY	-1.46	TURKEY	-13.41
JAPAN	-8.57	UNITED KINGDOM	2.21
MALAYSIA	-5.32	USA	-13.83
NETHERLANDS	-24.08	VIETNAM	30.82

Oana Aristide is a Senior Economist on D&B's Advanced Analytics team. Based in the UK, she covers three Scandinavian countries as well as Romania, Japan, Malaysia, and the Philippines as a contributor to D&B's Macro Market/Country Insight Products. She has a background in central banking.

CHARTS - REST OF WORLD



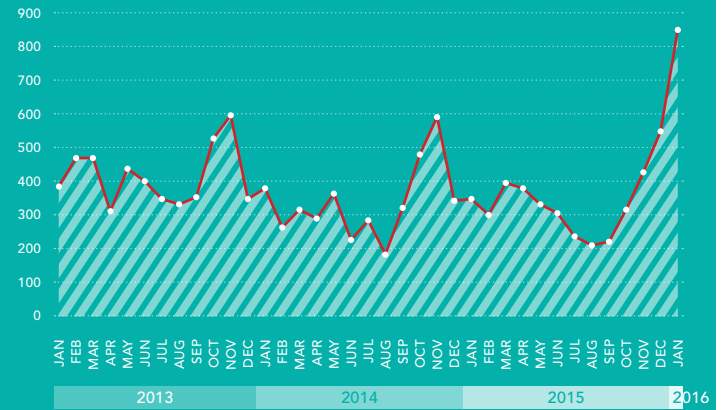
AUSTRALIA



Source: Australian Securities and Investments Commission



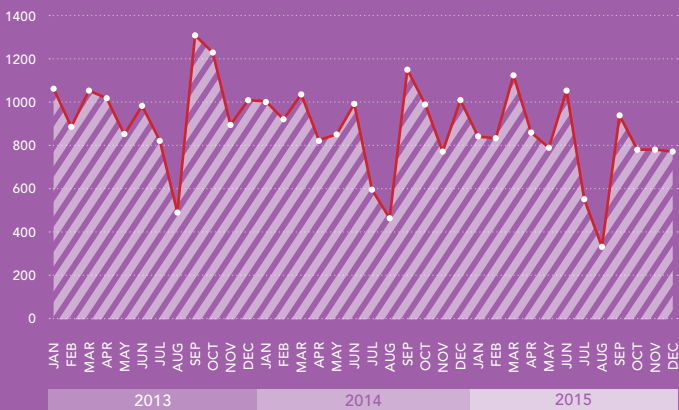
DENMARK



Source: Statistics Denmark



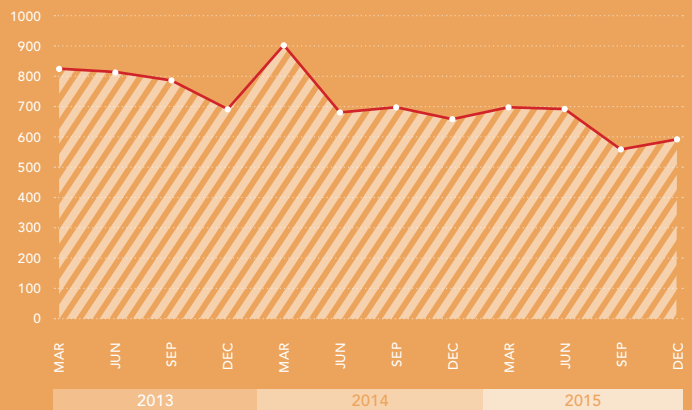
BELGIUM



Source: BelgoStat



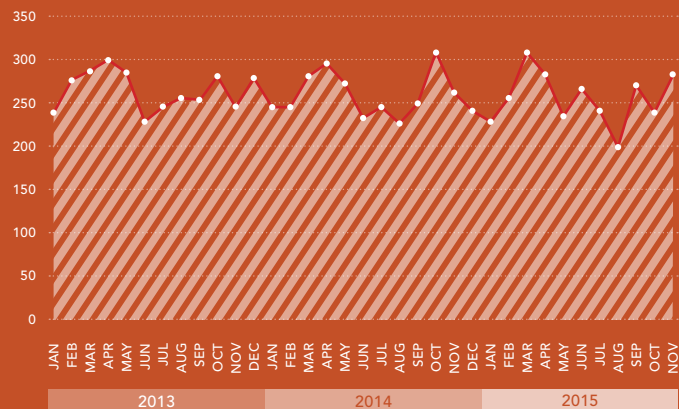
FINLAND



Source: Finland



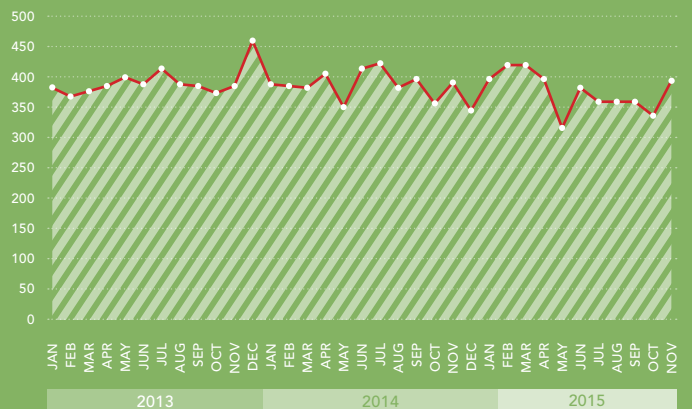
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Source: Statistics Canada

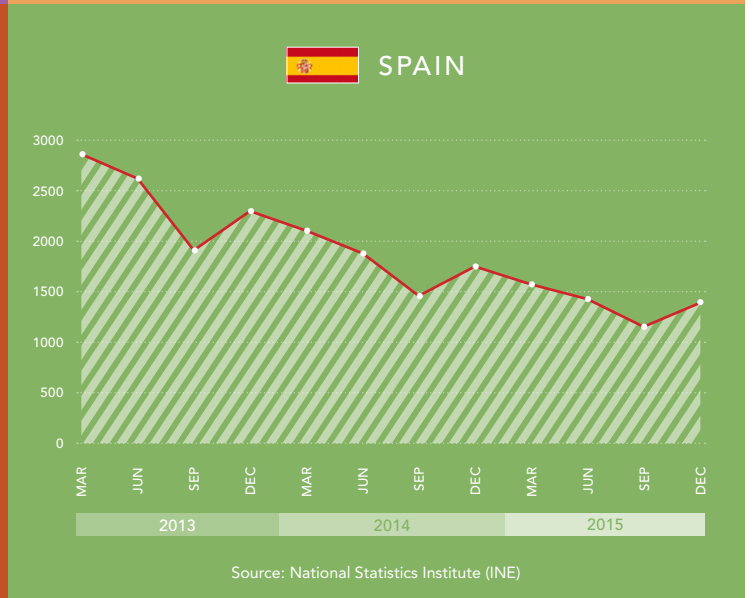
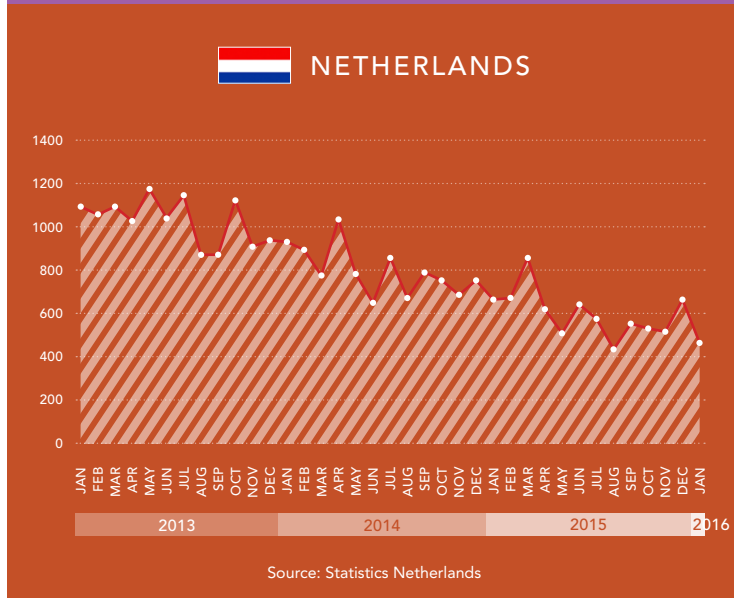
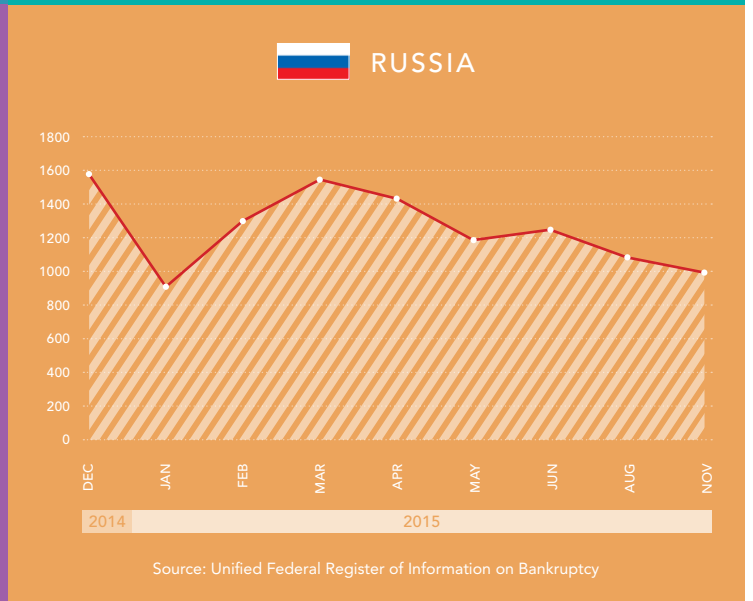
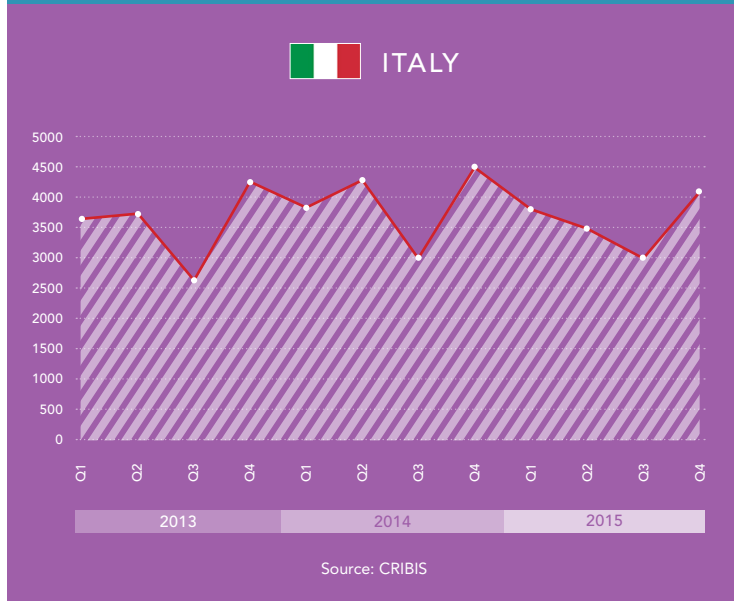
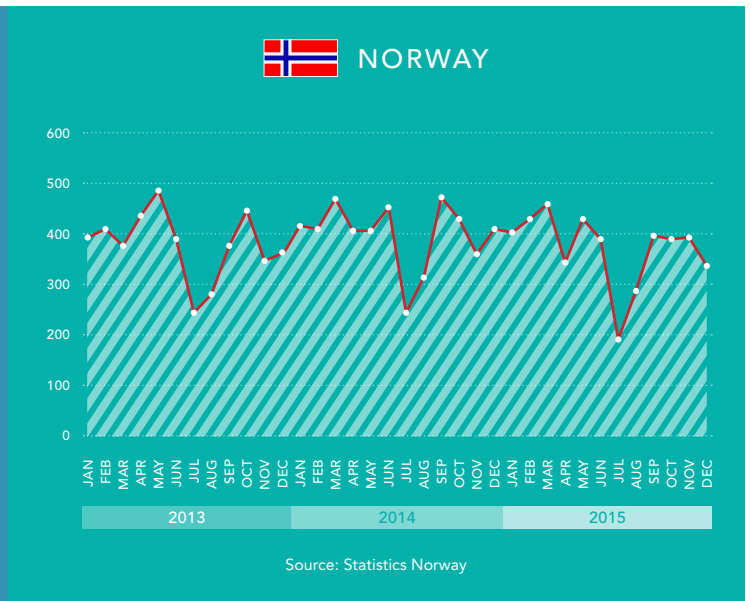
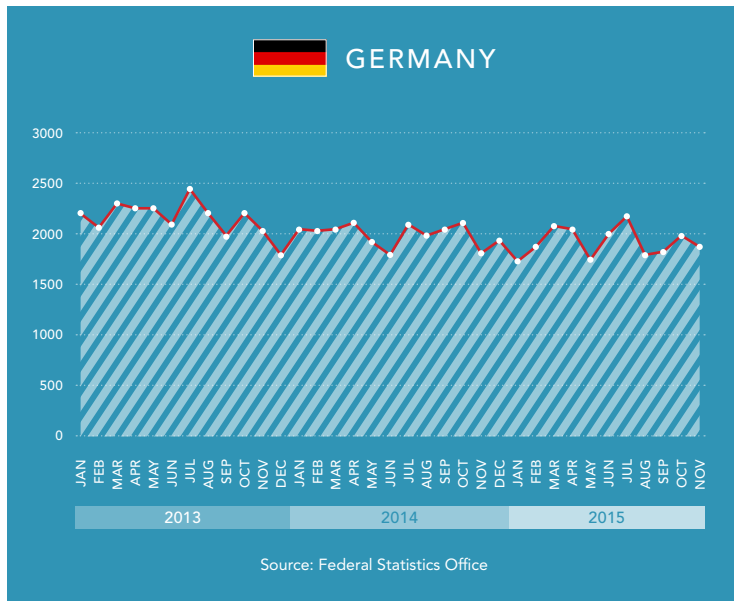


FRANCE



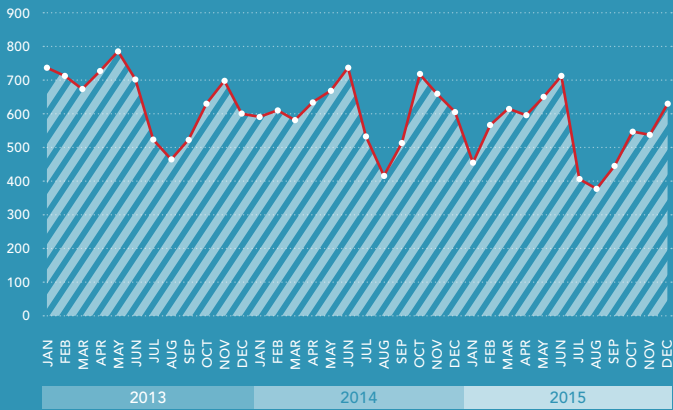
Source: INSEE, France

CHARTS - REST OF WORLD



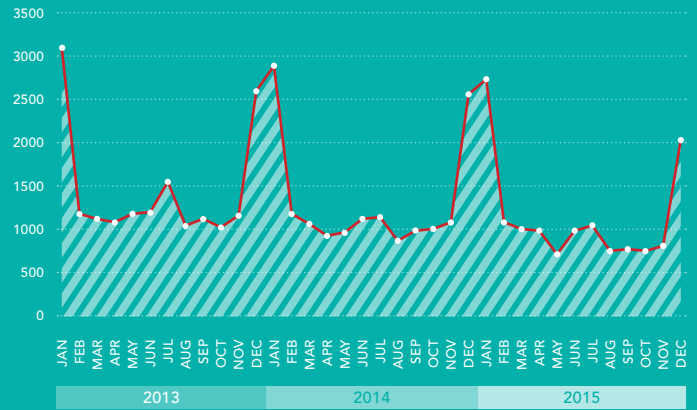
CHARTS - REST OF WORLD

 SWEDEN



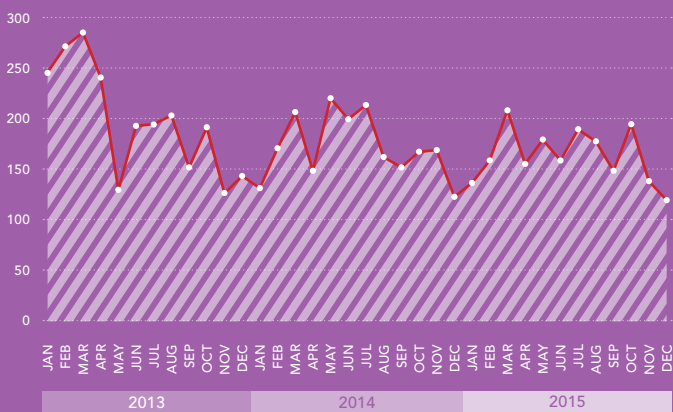
Source: Statistics Sweden

 TURKEY



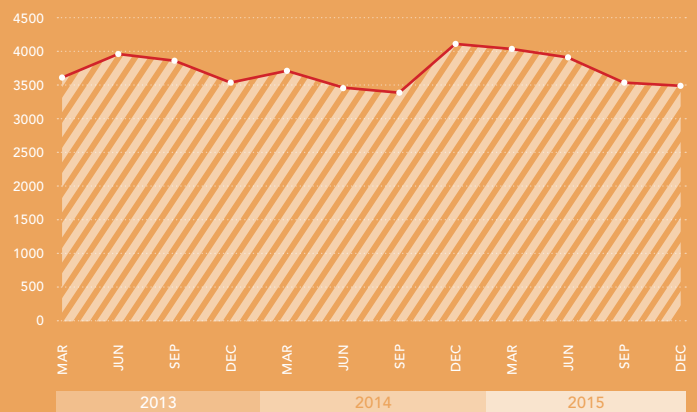
Source: TOOB, Turkey

 SOUTH AFRICA



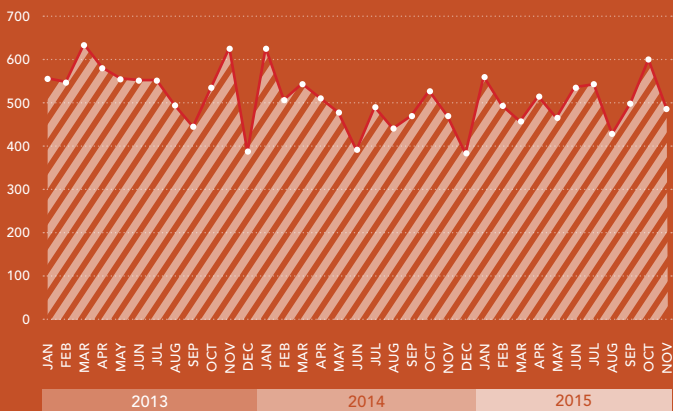
Source: Statistics South Africa

 UNITED KINGDOM



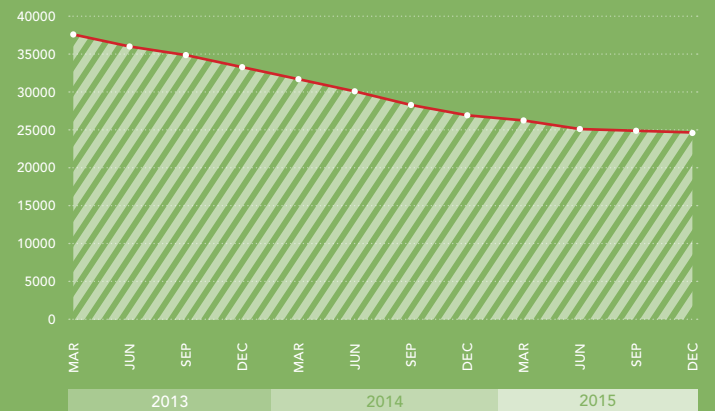
Source: Office for National Statistics

 SWITZERLAND



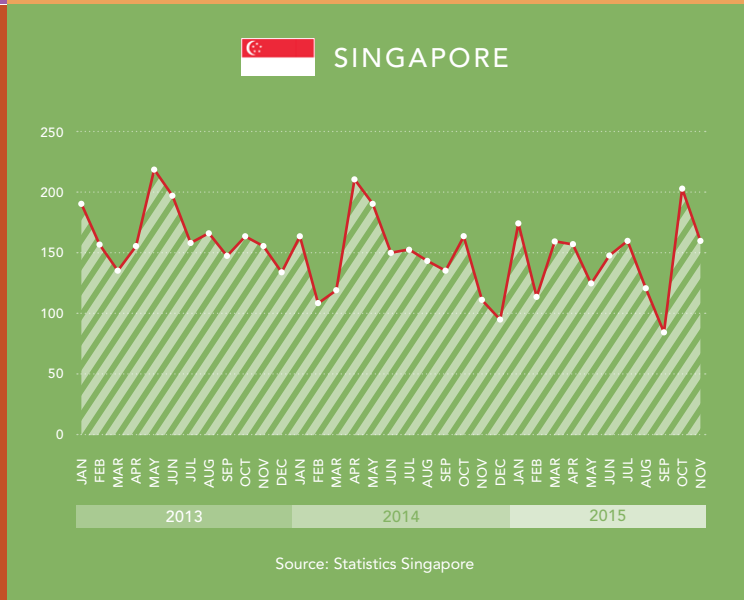
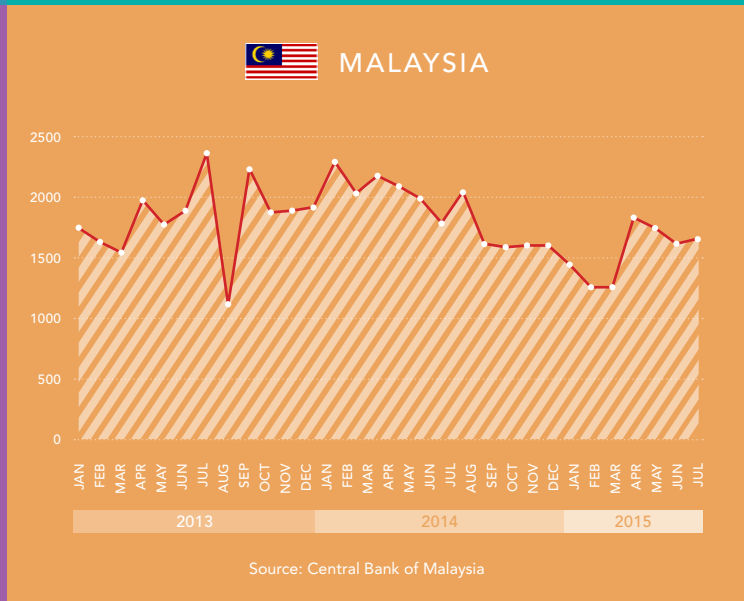
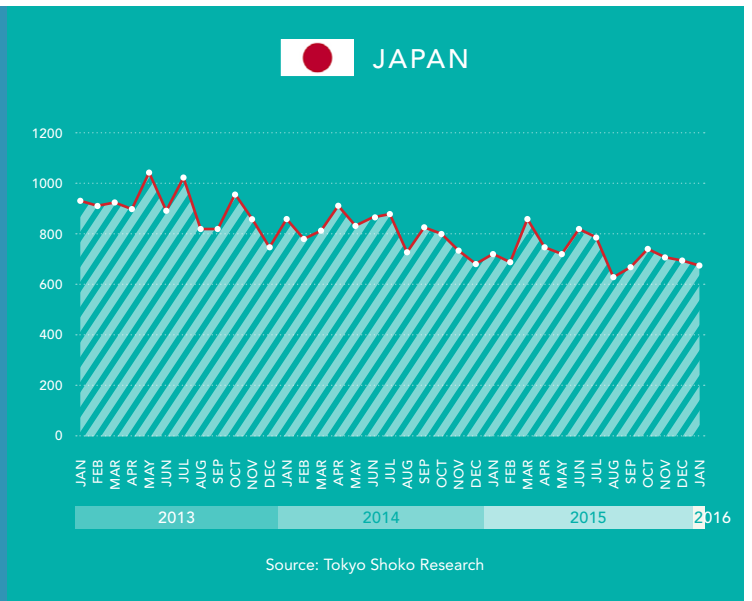
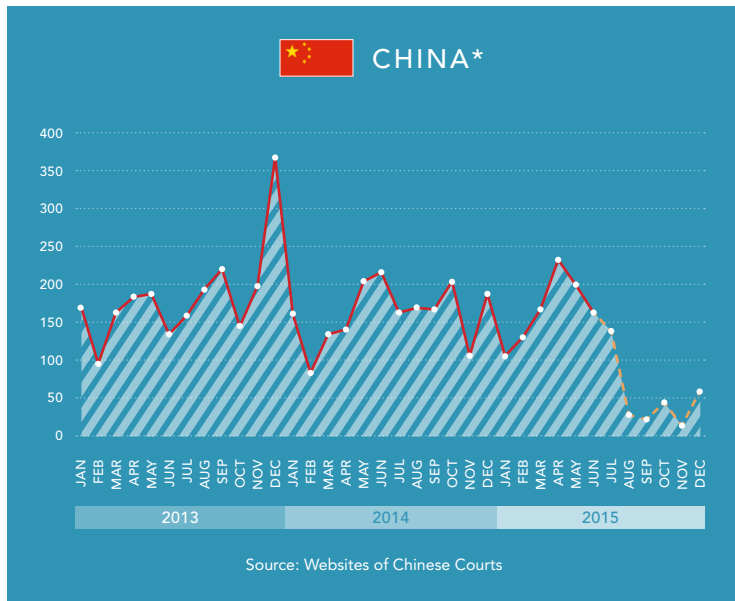
Source: Swiss Economic Institute (KOF)

 UNITED STATES

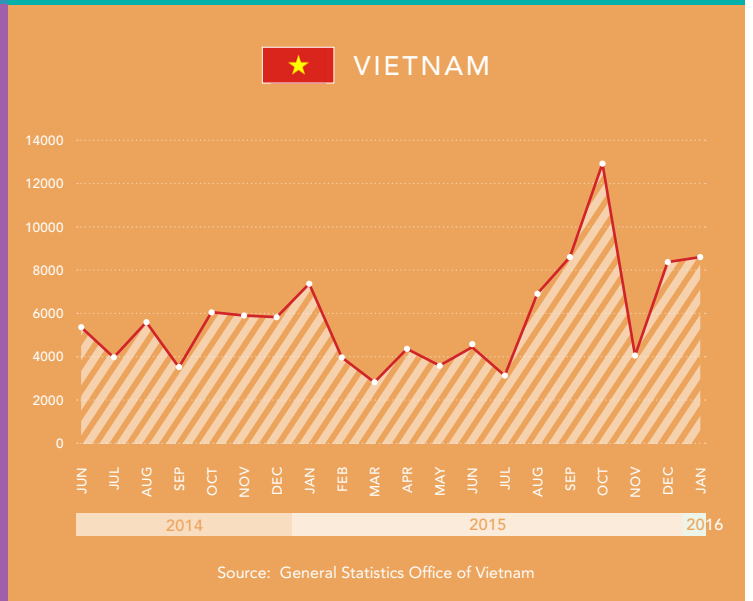
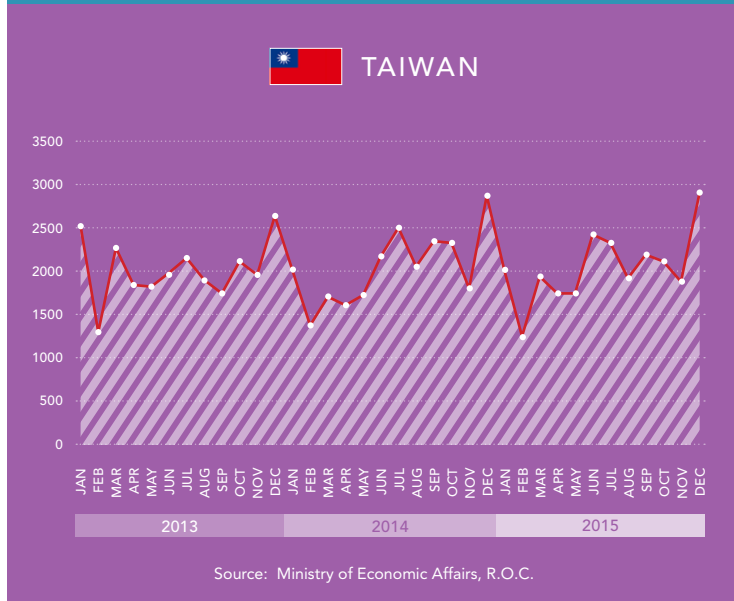
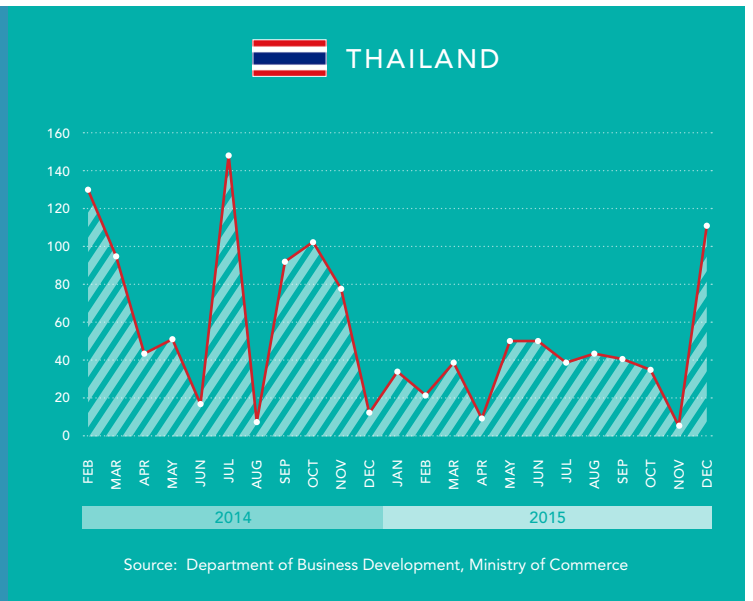
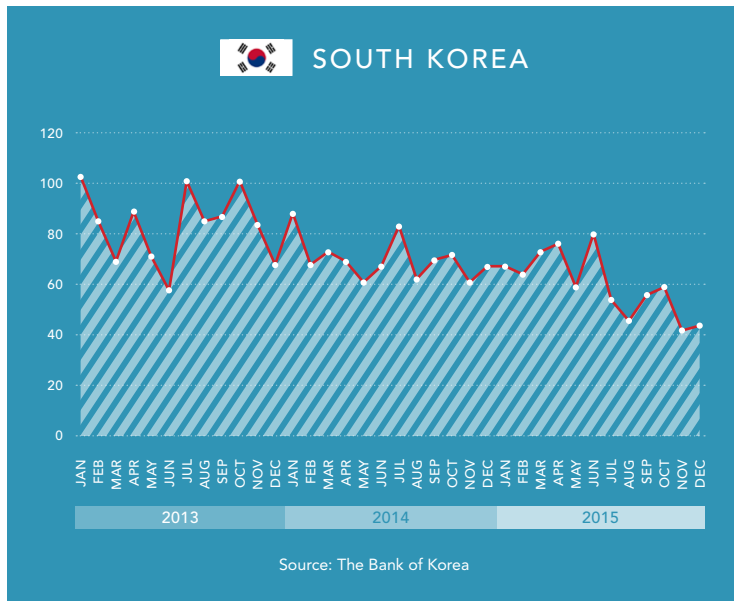


Source: Administrative Office of the U.S. Courts.

CHARTS - ASIA



CHARTS - ASIA



ALL CHARTS

Unless otherwise stated, bankruptcies refer to insolvent corporations which are unable to fulfill their debt obligations to creditors and continue with their business.

CHINA

In spite of the Bankruptcy Law enacted in China years ago since 2006, bankruptcy is still a very uncommon choice for companies to cease their business. Hence the total ses above may seem very disproportionate.

There is no centralized or official platform in China that releases bankruptcy data on a regular basis. The total bankruptcy cases are collated from various websites of judicial courts across China, based on the publicly disclosed information of local courts. There is no specific timeline stipulated for disclosure of bankruptcy after

its occurrence. It is also uncertain when a litigation record will be disclosed in any particular website after the case has been closed.

Important: Total cases from June 2015 onwards should be disregarded due to inconclusive data.

INDONESIA

For Indonesia, the bankruptcy figures are extracted from the Ministry of Justice and is only for limited companies (which are registered at the Ministry of Justice, per government regulation PP 43/2011 article 8). Most small and medium enterprises are not classified as corporations and do not have to register with the Ministry of Justice. According to the Central Statistics Agency (BPS) in 2013, there are 23,941 limited companies and 3,412,366 small and medium enterprises.



SPECIAL COMMENTARY

STATE OF NATIONWIDE CORPORATE BANKRUPTCY IN JAPAN IN 2015 (NUMBER OF BANKRUPT COMPANIES: 8,812; UNDER 9,000 FOR THE FIRST TIME IN 25 YEARS)

Companies that went bankrupt in Japan in 2015 were 8,812 (each with a total amount of debt at 10 million yen or more), bringing the total amount of debt to 2,112,382,000,000 yen.

Bankruptcies were down by 919, or 9.4% vs. PY. This continues a declining year-on-year trend that has now been ongoing for seven years, and the number of bankruptcies is below 9,000 for the first time in 25 years since 1990 (when 6,468 companies went bankrupt). In monthly terms, bankruptcies did not reach 900 in any single month, throwing the declining trend into greater relief. Factors contributing to this trend were the flexible financial support provided by financial institutions to small to medium enterprises requesting moratoria on payments, and the economic rebound driven by the improved performance of major exporters. Furthermore, cheaper resources due to declining crude oil, iron and steel-related prices contributed to mitigate the business environment in spite of the yen remaining weak.

On the other hand, the total amount of debt increased by 238,317,000,000 yen - up 12.7% - vs. PY, exceeding the previous year's figure for the first time in three years. This may stem from the fact that major bankruptcies with over 10 billion yen in debt increased two-fold, reaching 15 (against 7 last year). Among these, MARU (formerly AIJ Investment Advisors Co., Ltd.; 131.3 billion yen in debt; bankrupt in December) and Daiichi Chuo Kisen Kaisha (119.607 billion yen; bankrupt in September) drove the figure up by exceeding 100 billion yen (only one company with over 100 billion yen in debt failed in FY 2014). Note, however, that the overall ratio accounted for by companies with less than 100 million yen in debt (6,326) was 71.7%, meaning that the bankruptcies of small businesses still account for the majority.

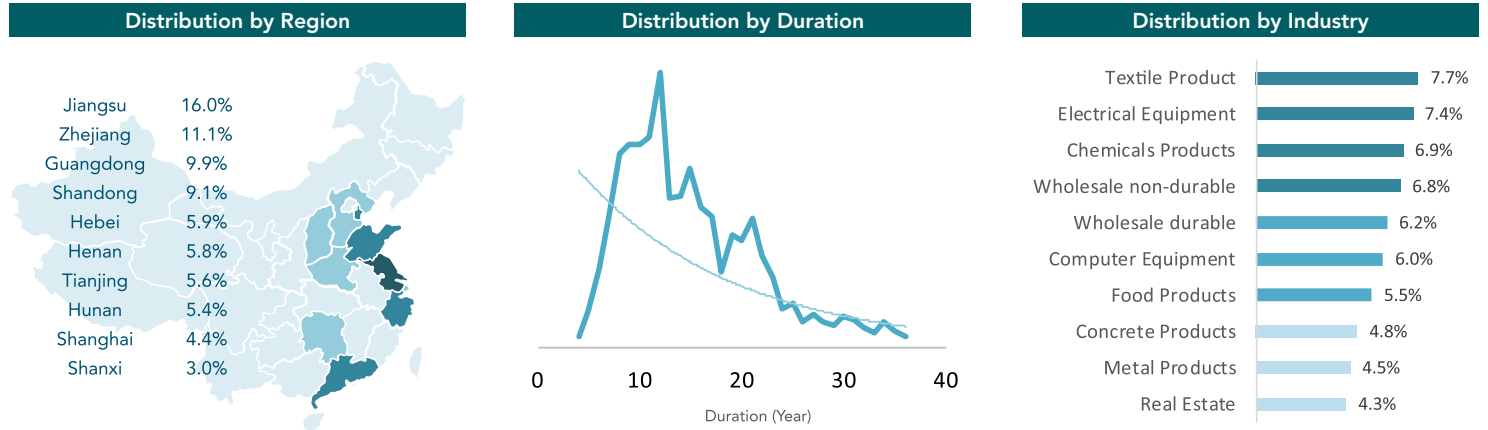
Numbers of bankruptcies in 10 individual industries all fell below the previous year's figures.

At 1,686 (down by 14.1% vs. PY), bankruptcies in the construction industry have now been declining for seven years in a row. With the exception of Tohoku and Kyushu, the number of bankruptcies fell vs. PY in seven regions out of a total of nine nationwide due to the impact of expanding public works. Furthermore, retail business bankruptcies, at 1,211 (down by 2.7% vs. PY), have also been on a declining trend for seven years in a row. Bankruptcies in the manufacturing industry and in the communications industry, at 1,290 (down by 8.0% vs. PY) and 371 (down by 5.8% vs. PY), respectively, have been on a declining trend for six years in a row; bankruptcies in the wholesale industry and in the transportation industry, at 1,375 (down by 1.3% vs. PY) and 363 (down by 10.1% vs. PY), respectively, have been on a declining trend for three years in a row. The real estate industry, the service industry, and the agriculture, forestry, fishery and mining industry, at 273 (down by 19.7% vs. PY), 2,136 (down by 12.4% vs. PY) and 68 (down by 29.1% vs. PY), respectively, have declined for the first time in two years.

Out of these, eight industries - the exceptions being the communications industry and the service industry - registered the lowest number of bankruptcies in the past 20 years since 1996, reflecting the extent of the decline in bankruptcies.

SPECIAL COMMENTARY BY HUAXIA DUN & BRADSTREET CHINA

China Bankruptcy Distribution



3212 bankruptcy cases were matched in HDBC database, and the average Paydex of the bankruptcy entity was 48, much lower than the industry average which is around 70. Bankruptcy entities also suffered from high rate of negative records in court, the average reached 5 pieces of negative record for each business entity.

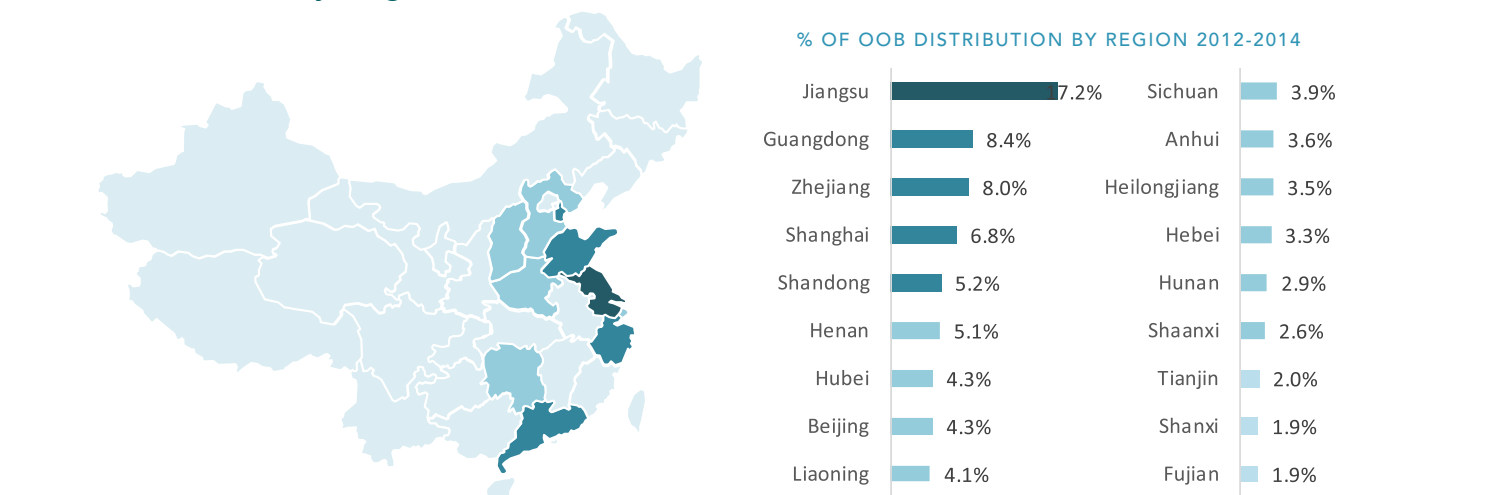
Out of Business (OOB) Analysis

China OOB Legal Entity Statistics | Data collected from Huaxia Dun & Bradstreet China (HDBC) database



- The out of business can better represent the China's economy than Bankruptcy. However, OOB data can only be collected till 2014, Since the beginning of 2015, Chinese enterprises do not participate in annual inspection but instead have online submission of annual report.
- At present, there are about 275K enterprises included in the non-normal operation list.

OOB Distribution by Region

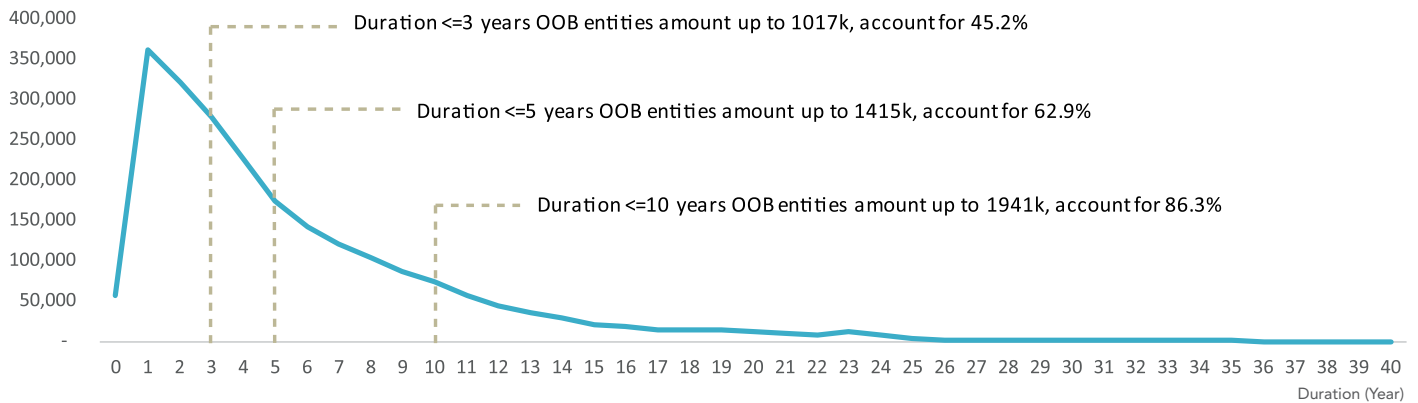


Compared with bankruptcy, regional OOB distribution trend was generally consistent with bankruptcy data, but Jiangsu province evidently stood out among the eastern coastal regions.

SPECIAL COMMENTARY BY HUAXIA DUN & BRADSTREET CHINA

OOB Distribution by Duration

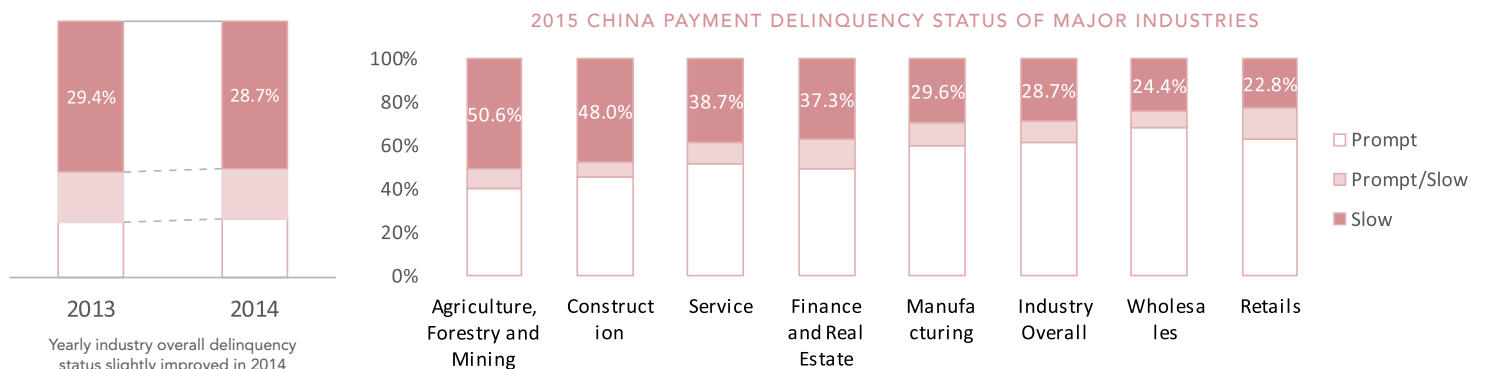
% of OOB Distribution by Duration 2012-2014 | Data collected from Huaxia Dun & Bradstreet China (HDBC) database



During the period 2012-2014, 225K of OOB entities were collected – the distribution showed that the longer the duration of business, the lower is the proportion of OOB. About 60% of OOB entities last for less than 5 years, indicating that young companies are prone to be out of business. Comparing with bankruptcy, where the concentration of duration went up to 12 years, it is much longer than that of OOB.

China payment delinquency status of major industries

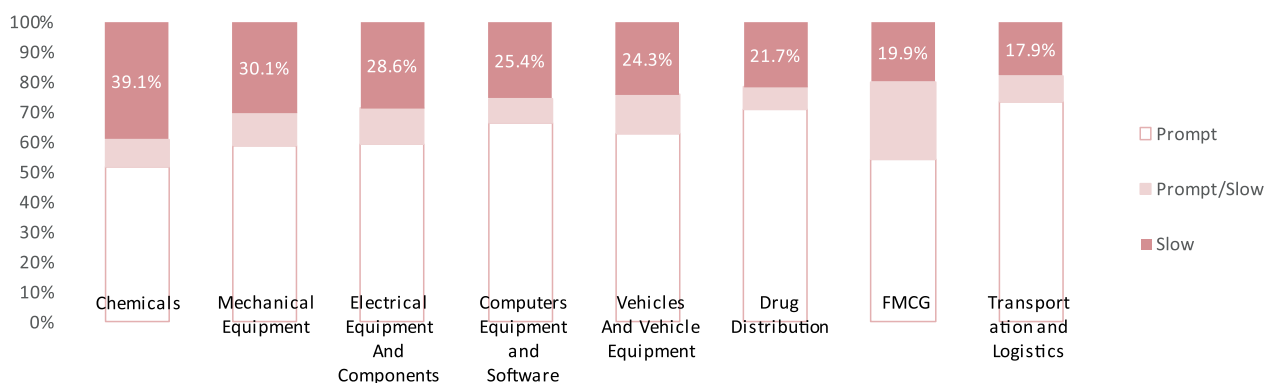
China payment delinquency status of major industries | Data collected from Huaxia Dun & Bradstreet China (HDBC) database



Depending on the proportion of the amount that were paid off on time, HDBC divided the performance into 3 types including prompt, prompt/slow and slow. The prompt ones refer to those with over (>) 90% of the payment amount paid within payment term, while the slow ones refer to those with less than (<) 50% of the amount paid on time. Prompt/slow refers to the rest.

Payment Status of Focus Industries

2015 China payment delinquency status of Focus Industries | Data collected from Huaxia Dun & Bradstreet China (HDBC) database



HDBC focused on 8 industries whose payment records are relatively sufficient with high market demand i.e. we track the payment status of these industries with continuously monitoring. 2015 payment status showed that Chemical, Mechanical Equipment and Electrical Equipment industry were prone to late commitment or delinquency payment.



Vision



Insight

Market Intelligence to Navigate Market Risk

D&B's Country Insight Solutions monitor changes in the business environment of individual countries and forecast country-wide developments which may affect the level of risk or provide opportunities in the short to medium term.

If your business trades overseas and needs up-to-date Credit, Political, Supply Chain risk, or Commercial insight, D&B's country level solutions let you integrate our leading country data, predictive analysis and commercially relevant insight in your business processes to help you deliver a competitive advantage. Click [here](#) to see how you can benefit.



Acknowledgment:

Special thanks to Huaxia D&B's Louie Lu, Thomas Tang and D&B's Advanced Analytics team Oana Aristide, and members of D&B Worldwide Network for providing data, Adisak Lertcheewanan, Fariz Fatoni, Thao Vy Nguyen Thai, Masanori Yuge and Michele Colombo. Additional data sourced from TradingEconomics.com.

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